TORONTO STAFF REPORT

February 13, 2004

To: Audit Committee

From: Auditor General

Subject: Audit Recommendations and Management Initiatives Relating to the Toronto Computer Leasing Inquiry

Purpose:

To provide City Council with information relating to various audit recommendations made prior and subsequent to the commencement of the Toronto Computer Leasing Inquiry. This report also provides information in relation to management's responses to the audit recommendations, as well as other actions initiated independently by management.

Financial Implications and Impact Statement:

There are no financial implications resulting from the adoption of this report.

Recommendations:

It is recommended that this report be received for information.

Background:

At the recent Council debate in connection with the third phase of the Inquiry, comments were made by certain Council members in relation to the need for staff to address administrative control weaknesses identified as a result of the Inquiry. The purpose of this report is to provide Council with information regarding specific audit recommendations made by the Auditor General and work conducted and in progress by City management regarding internal control issues identified by the Auditor General, the City's external auditor Ernst & Young, as well as those raised by the Toronto Computer Leasing Inquiry.

Comments:

Improvements to administrative internal controls are recommended on an ongoing basis by the Auditor General, as well as the City's external auditors Ernst & Young. In future, similar recommendations will be made by the recently established Internal Audit Division, which reports to the Chief Administrative Officer. In addition to addressing audit recommendations, management, on an ongoing basis, is developing policies, procedures and processes in a wide range of areas which will also improve controls. Certain of these initiatives relate to issues raised at the Inquiry.

The Auditor General has made a significant number of recommendations in relation to Inquiry related issues, including the following:

- the need to clarify management's responsibilities in connection with the establishment and maintenance of internal controls;

- improvements to financial reporting processes;

- improvements to internal controls relating to the selection and hiring of consultants;

- controls relating to the acquisition of computer software;

- the need to extend and formalize the preparation of business cases to support major expenditures

- improvements to contract compliance procedures;

- improvements relating to the management of computer software licenses and related maintenance costs; and

- the need to extend all such recommendations to local Boards, Agencies and Commissions.

In response to the Auditor General's recommendations included in various audit reports (Appendix 1), management has reported to the Audit Committee on the steps taken to address many of the recommendations. At the present time, it is not possible to determine whether or not each one of these recommendations has been appropriately addressed to the satisfaction of the Auditor General. A determination in relation to this will be made subsequent to the conduct of follow-up audits planned in 2004 and in subsequent years. This is an important component of the audit process and any deficiencies identified by the Auditor General as a result of these follow-up audits will be reported to the Audit Committee.

While there has been management action on many recommendations, certain of them continue to be outstanding. These are also being addressed by management. As indicated earlier, if these recommendations are not dealt with appropriately they will be reported back to the Audit Committee.

The Auditor General has submitted a report to Audit Committee in connection with an audit work plan for 2004. Projects included in the work plan will address administrative control issues and will be reported to Audit Committee. It is evident that, based on work conducted so far in 2004, further recommendations to improve internal controls will be made. Certain of these recommendations will relate to issues such as:

- Fleet Management, including vehicle utlization, fuel management controls, inventory controls and maintenance and repair approval processes;
- Database security concerns; and
- Contract Management issues.

While ongoing improvements to processes are being made, it is evident that much work remains to be done. The nature of audit work, particularly in a city the size of Toronto, is such that recommendations to improve internal controls will continue to be a reality. A key component in any audit process is the commitment of management to respond to all such audit recommendations either by directly responding to the recommendation or by implementing alternative controls which address the spirit of the recommendation.

The Chief Administrative Officer has taken independent steps to improve policies and procedures. For example:

- in 2002, a Corporate Accountability Framework, which included formal processes, procedures and business plans, was established to govern the use of consultants;

- in 2002, a report was submitted to Audit Committee on improvements recommended to Contract Management Practices;

- the management controls checklist developed by the Auditor General was introduced as one aspect of annual performance evaluations of Commissioners;

- the establishment of a City-wide Conflict of Interest policy and the integration of this policy with employee performance evaluations; and

- research and discussions with the Province in regard to the potential establishment of an Integrity Commissioner have also been made.

In addition to the above, on March 31, 2003, the Auditor General issued a report on the review of the City's procurement process. In response to this report, the City's Chief Administrative Officer has established a dedicated project manager and senior staff team to implement the recommendations contained in the Auditor General's report. Significant work is being

conducted by management on this project. Various project updates on the status of the recommendations contained in the procurement report have been submitted to Council.

The City's procurement process has received significant attention at the Inquiry and consequently it is important that it receive similar scrutiny by City staff.

Further, and prior to the establishment of the Toronto Computer Leasing Inquiry, a "Fraud and Other Irregularities" policy was developed by the Auditor General and approved by City Council. Following the approval of this policy, and subsequent to a six-month pilot project, a Fraud and Waste Hotline was established in the Auditor General's Office. The Auditor General reports out on the results of the Fraud and Waste Hotline on an annual basis.

In order to improve accountability, an Internal Audit Division was also established in the Chief Administrator's Office. The objective of the Internal Audit Division is to assist the Chief Administrative Officer and senior management in enhancing fiscal accountability, as well as improving the integrity, reliability and effectiveness of the City's administrative processes.

The Internal Audit Division performs audits of various programs and business processes, conducts special investigations, responds to requests from the Chief Administrative Officer and department heads, and provides advice and guidance to departments in the design and development of new programs, processes and systems.

Conclusions:

Ongoing work is being conducted by management in relation to the implementation of various recommendations made by the Auditor General, as well as those made by the City's external auditors Ernst & Young. Many of the internal control weaknesses identified through this process have also been the subject of deliberations at the Inquiry.

We have been advised that certain of the work being conducted by management has been completed while other work is in progress. As new issues are identified, either as a result of the Inquiry, by management or the Auditor General, these are addressed. In the context of the Inquiry, it is important to recognize that management is addressing issues as they arise and consequently are not waiting for the preparation of a final report from the Inquiry.

In spite of the work being conducted by management, as well as specific audit projects being conducted independently by the Auditor General, significant work continues to be required. In particular, follow-up audits on many of the Auditor General's recommendations will be conducted over the next year or two. In addition, the preliminary work conducted on specific projects included in the 2004 work plan indicate that further recommendations on improving internal controls will be forthcoming. The nature of an effective audit process is such that deficiencies in management processes will continue to be identified. The key component in this context is ensuring that management appropriately addresses such issues on a timely basis. Assurances that action is being taken is provided through status reports from management and follow-up audits conducted by the Auditor General.

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List of Attachments:

Appendix 1:   Summary of Inquiry Related Reports Issued by the Auditor General

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<div align="right">APPENDIX 1</div>

Summary of Inquiry Related Reports Issued by the Auditor General

1. Management Controls: A Basic Departmental Responsibility – March 30, 2001

2. Review of Departmental Purchase Orders – May 8, 2001

3. Periodic Reporting of Financial Information – June 5, 2001

4. Selection and Hiring of Professional and Consulting Services Review – June 19, 2001

5. Departmental Purchase Orders – Enforcement and Compliance Measures – Nov. 6, 2001

6. Review of the Computer Leasing Contract Between the City of Toronto and MFP Financial Services – November 29, 2001

7. Fraud Hotline – City of Toronto – January 23, 2002

8. Leasing Contract Between City of Toronto and MFP Financial Services – Councillors Computer Equipment – January 28, 2002

9. Interim Report on Oracle Database Software Acquisition – February 6, 2002

10. Processes Followed in Relation to the Upgrade to SAP Version 4.6 – February 21, 2002

11. Oracle Database Software Acquisition – Additional Information – March 8, 2002

12. Forensic Audits on Various Consulting Contracts – May 31, 2002

13. Contract Compliance Review – Viacom Outdoor Canada Inc. – November 7, 2002

14. Procurement Processes Review – City of Toronto – March 31, 2003

15. SAP Financial and Human Resources/Payroll Information Systems – Post Implementation Review – April 4, 2003

16. Contract Compliance Review – September 4, 2003