

TORONTO STAFF REPORT

January 7, 2005

To: Audit Committee

From: Auditor General

Subject: Auditor General's Audit Reports – Benefits to the City of Toronto

Purpose:

This report summarizes the estimated cumulative cost reductions and the estimated increased revenues resulting from various reports issued by the Auditor General's Office from January 1, 1999 to December 31, 2004. This report also contains information relating to various audit reports containing administrative internal control recommendations made by the Auditor General's Office. This information was requested by the Audit Committee at its meeting of November 23, 2004.

Financial Implications and Impact Statement:

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

Recommendations:

It is recommended that:

- (1) this report be received for information; and
- (2) in accordance with the request of the Audit Committee, this report be forwarded to the Budget Advisory Committee.

Background:

At its meeting of November 23, 2004, the Audit Committee approved the Annual Report and 2005 Budget for the Auditor General's Office and "requested the Auditor General to provide to the Budget Advisory Committee the value added of his department for the past three years by identifying:

- (a) actual dollar savings to the City of Toronto;

- (b) potential savings to the City of Toronto;
- (c) at risk dollars to the City of Toronto; and
- (d) for non-identifiable dollar activities, the impact of the audit review on those items.”

This report responds to that request.

In order to provide as complete an analysis as possible, the information in this report relates to the period January 1, 1999 to December 31, 2004. Reports issued prior to 1999 are not included in this analysis as they generally related to the financial attest audits of the amalgamating municipalities and were not operational in nature.

Comments:

The Auditor General's Office

The Mission Statement of the Auditor General's Office is:

To assist Council in fulfilling its responsibilities by conducting independent risk-based assessments of City operations and to report to Council on how well the City manages its resources and delivers services as well as to make recommendations to enhance the accountability of Council and its administration.

The audit process is an independent, objective, assurance activity designed to add value and improve an organization's operations. The audit process assists an organization in accomplishing this objective by bringing a systematic, disciplined approach in evaluating and improving the effectiveness of risk management, control and governance processes.

The Auditor General is appointed by City Council and is independent of the City Administration. The Auditor General has the authority to conduct financial, operational, compliance, information systems, forensic and other special reviews of City Departments, Agencies, Boards and Commissions.

Specific responsibilities of the Auditor General include:

- conducting of forensic investigations, including suspected fraudulent activities;
- providing assurance that the information technology infrastructure contains adequate controls and security including business continuity (emergency) planning;
- conducting special assignments identified by the Auditor General, or approved by a two-thirds majority resolution of Council;
- overseeing the work and the contract of the external auditors performing financial statement/attest audits of the City and its Agencies, Boards and Commissions;

- coordinating audit activities with the Internal Audit Division and any contracted work to ensure the efficient and effective use of audit resources; and
- managing the Fraud and Waste Hotline Program, including the referral of issues to departmental management and the Internal Audit Division.

Professional Standards

The Auditor General's Office conducts its work in accordance with generally accepted Government Auditing Standards. Audits are conducted in accordance with these standards, which relate to:

- independence;
- objectivity;
- professional proficiency;
- scope;
- performance of work; and
- departmental management.

Staff is also bound by the standards and ethics of their respective professional organizations, which include the Institute of Chartered Accountants of Ontario, the Certified General Accountants Association, the Society of Management Accountants, the Information Systems Audit and Control Association, the Association of Certified Fraud Examiners, the Institute of Internal Auditors and the Canadian Environmental Auditing Association.

Annual Audit Work Plan

The focus of audit work is based on the preparation of an annual audit work plan. The audit work plan for 2005 was submitted to the Audit Committee at its November 23, 2004 meeting. The work plan allocates audit resources to audit projects based, for the most part, on the results of the 2003 City-wide risk assessment exercise conducted by the Auditor General's Office. The purpose of the risk assessment exercise is to ensure that all areas of the City are evaluated from an audit risk perspective by using uniform criteria and also to prioritize potential audit projects.

When selecting audit projects, the Auditor General attempts to balance audits expected to yield cost reductions, increased revenue, improved services and improvements in major control systems with projects that also address broad management issues. The process for selecting audits also includes considering complaints received through the Fraud and Waste Hotline Program, as well as concerns from City Council.

Audit Recommendations

Since 1999, the Auditor General has made almost 800 audit recommendations to management and to City Council. With few exceptions, these recommendations were agreed to by management.

Recommendations resulting from reviews, investigations and audits conducted by the Auditor General's Office have benefited the City of Toronto in a variety of ways. Audit recommendations identify ways to:

- maximize City revenues or identify opportunities for new revenues or cost reductions;
- better manage or utilize City resources, including the management of public funds, personnel, property, equipment and space; and
- eliminate inefficiencies or uneconomical practices, including inadequacies in management information systems, internal and administrative procedures, organizational structure, use of resources, allocation of personnel and purchasing policies.

Audits also assist management to:

- safeguard assets;
- detect unauthorized transactions and unauthorized access to assets that could result in unauthorized acquisitions, use or disposition of assets;
- ensure compliance with laws, regulations, policies, procedures or generally accepted industry standards; and
- achieve the desired program results.

However, auditing by itself does not directly produce these benefits. Benefits only come from the implementation of audit recommendations. The responsibility of the Auditor General's Office in regard to audit recommendations is to present accurate and convincing information that clearly support the recommendations made. It is up to management to implement recommendations, while City Council is responsible for ensuring that agreed upon recommended changes and improvements occur. An audit process is not effective unless recommendations are implemented and there is a monitoring process to ensure that recommendations have been implemented. The Auditor General's Office is currently re-engineering its follow-up audit process and the revised protocol will be forwarded to the Audit Committee in July 2005.

Actual and Potential Cost Savings and Increased Revenues

At the request of the Audit Committee, attempts have been made to identify the extent of the quantifiable financial benefits which have resulted from the work conducted by the Auditor General's Office.

From January 1999 through to December 2004, the Auditor General's Office completed over 160 performance audits, reviews and special projects. These 160 reports contained over 800 recommendations. In addition, since the inception of the Fraud and Waste Hotline in 2002, the Office has also handled over 780 individual complaints.

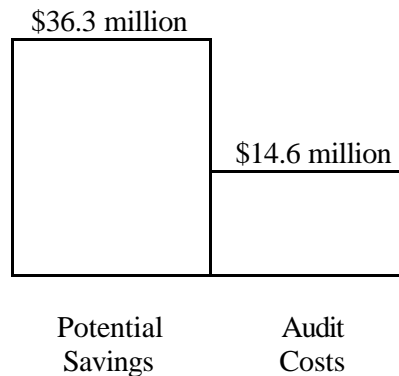
Appendix 1, “Estimated Savings from Various Audit Reports” (attached) provides a summary by year of the Auditor General’s estimates of one-time and annual recurring savings generated as a result of the audit work conducted. These figures are estimates based on a range of assumptions by the Auditor General. Appendix 2, “Summary – Total One-time and Cumulative Estimated Savings 1999 – 2004” (attached) includes a summary of these amounts.

In terms of measuring the effectiveness of an audit process, one of the benchmarks frequently used by the audit profession relates to the ratio of audit costs incurred to the estimated savings generated.

Since 1999, the cumulative audit budget has been approximately \$14.6 million. As indicated in Appendix 2, the estimated cost reductions and/or revenue increases are in the range of \$36.3 million.

A comparison of the audit costs from 1999 to 2004 to the estimated potential savings is summarized in the following table. In simple terms, for every \$1 invested on the audit process the return on this investment has been \$2.50.

Auditor General’s Office
1999 – 2004 Total Potential Savings and Revenues vs. Audit Costs



Non-direct Financial Impacts of the Audit Process

As indicated earlier, the purpose of any audit process is not specifically to identify cost reductions or revenue increases.

Many of the reports issued by the Auditor General’s Office since 1999 have not resulted in any direct financial benefits but have, in fact, led to improvements relating to:

- internal controls;
- policies and procedures;
- the use of City resources;
- operational efficiencies; and
- financial reporting processes.

These reports, while not having an immediate financial impact, may nevertheless contribute to future cost reductions or future increases in revenues. In other cases, the impact of certain audit reports extend beyond the City itself. For example, two specific reports relating to the Toronto Police Services Board in particular, have likely had wide-ranging impacts. These reports are:

- Review of the Investigation of Sexual Assaults – October, 1999; and
- Performance Audit – The Public Complaints Process – August, 2002.

In addition, the Auditor General's report entitled "Procurement Process Review – City of Toronto, March 31, 2003", was prominent in the "Good Government" phase of the Toronto Computer Leasing Inquiry.

Significant Highlights of these Reports

Review of the Investigation of Sexual Assaults – October, 1999

In 1999, the Auditor General issued a report entitled "Review of the Investigation of Sexual Assaults – Toronto Police Service". This report was prepared in response to the successful civil case of Jane Doe versus the Commissioners of Police of the then Municipality of Metropolitan Toronto. Madame Justice Jean MacFarland of the Ontario Court of Justice, in her judgement of the case, was critical of the way the Toronto Police Service investigated sexual assaults and indicated that "although the police say they took the crime of sexual assault seriously in 1985-1986, I must conclude, on the evidence before me, that they did not."

City Council, in response to the judgement of Madame Justice MacFarland, passed a number of motions, including one that directed that no action be taken to appeal Madame Justice MacFarland's decision. City Council also passed a motion requiring that the City Auditor conduct an audit regarding the handling of sexual assault cases by the Toronto Police Service.

The report was completed in 1999 and contained 57 recommendations relating to the police investigation of sexual assaults. While this report did not contribute to additional revenues or reduced costs for the City, it did serve as a catalyst towards improving the way police conduct sexual assault investigations throughout the City. In addition, the impact of this report has extended beyond the City as it has been used "as a guide for investigations and training" by the Royal Canadian Mounted Police.

This report was recognized by the U.S. based National Association of Local Government Auditors (NALGA) as the best Special Audit Project in North America in 1999. In general terms, the audit was recognized as groundbreaking in its content and was regarded as the direction to which the North American audit profession should aspire.

A further follow-up report was also issued in 2005 relating to the status of the implementation of the 1999 recommendations.

Performance Audit – The Public Complaints Process – August, 2002

An external audit of the Toronto Police Service Public Complaints Process was completed in 2002 and forwarded to the Toronto Police Services Board.

This audit included 27 recommendations in relation to the public complaints process and was conducted in the context of the Ontario Police Services Act. The Act contains specific provisions relating to the administration of the public complaints process. Based on the interviews conducted during the course of this audit, concerns were identified in relation to certain provisions in the Act. Specifically, two major issues were raised by various individuals and organizations. These were as follows:

- public complaints against police officers are presently being conducted by the police themselves. Certain individuals and organizations contended that civilian oversight provides a more thorough and objective investigation of complaints than those conducted by the police; and
- the current provincial legislation only allows the individual directly affected by the conduct of a police officer to lodge a complaint. Third-party witnesses to an event, are not permitted to file a complaint against a police officer.

One of the recommendations in the report was that the Toronto Police Services Board:

“consider the concerns raised by the general public with respect to the complaints process, specifically, the administration of the public complaints process by the police and the ability to investigate complaints filed by third parties; and

take the necessary action to deal with these issues, including communicating these concerns to the Ministry of the Attorney General for consideration and appropriate action.”

Following the issuance of the audit report, but not specifically in response to the report, the Province initiated its own separate independent review of the Police Public Complaints Process. This review was headed up by Mr. Patrick J. LeSage former Chief Justice of the Superior Court of Ontario.

The report on the Public Complaints Process by the Auditor General has been used as a resource for the provincially mandated review of the police complaints system. The Auditor General has met with former Chief Justice LeSage to review the contents of the audit report. It is anticipated that Mr. LeSage’s final report will be issued in the first quarter of 2005. This will be a Province-wide report, although it is likely that certain issues in the report will have their origin in the 2002 audit report.

Procurement Process Review

The review of the City's procurement process in 2003 served as a significant research/background paper for the "Good Government" phase of the Toronto Computer Leasing Inquiry. Details on the procurement process are contained in the Good Government Research paper as "Procurement, Volume 2: City of Toronto Recommendations". This paper points out that "it is not the intention of this assessment to repeat the extensive discussion and analysis in the Auditor General's report." The paper continues, "as noted elsewhere the Auditor General's review resulted in a comprehensive set of detailed recommendations."

In view of the prominence given to the Auditor General's report in the research paper, it is our contention that the report was useful, beneficial, informative and of significant benefit to the Toronto Computer Leasing Inquiry.

Further information on the Procurement Process Review is provided later in this report.

Other Significant Reports and Projects

In conducting audit work, we are mindful that many recommendations made in connection with specific departments may be applicable to other City departments, as well as the City's Agencies, Boards and Commissions. In this context, we attempt to leverage audit work performed by requiring that these entities review the contents of specific reports and ensure that, where applicable, relevant audit recommendations are addressed and implemented. Consequently, the extent of our audit work extends beyond the organization being audited.

Other reports issued since 1999 where there have been no direct immediate financial impacts are as follows. The description relating to each project provides narrative on the non-financial benefits.

Significant Reports Issued in 1999

Review of Reserves and Reserve Funds

This report identified the specific need for appropriate accounting policies in relation to the management of the City's reserve and reserve funds. Recommendations were made in connection with the need for consolidation of the many funds assumed on amalgamation, the proper interest allocations to reserve funds, regular reporting of transactions to Committee, and the authority for additions to and withdrawals from each fund.

Toronto Atmospheric Fund

This report contained 10 recommendations and, in general terms, identified the need for more complete financial reporting to the City. The recommendations also made reference to the need for Council approval relating to any changes to the investment policies of the Toronto Atmospheric Fund.

The audit report clarified the role between the Toronto Atmospheric Fund and the City and provided the City with meaningful information relating to its ongoing evaluation of the organization.

Expenses of Members of Council

This particular report identified a requirement for concise, consistent and fair expense policies in relation to a wide range of expenses such as business meetings, travel, printing, donations, and office space.

Payroll Review

This was a brief report identifying certain basic internal control deficiencies particularly the need to bring payroll bank reconciliations up to date.

Review of Conversion of Financial Data for Metro and All Former Municipalities

This report recommended that the Finance Department be required to develop and implement an action plan to reconcile both various suspense accounts and all bank reconciliations. The report also recommended that various inventories assumed from the amalgamating municipalities be appropriately accounted for and, where appropriate, procedures be put in place to write off inventories considered obsolete.

Radio Communication System – Toronto Police Service and Toronto Fire Services

This was a status report on the implementation of the radio communication system. The report identified the need for regular financial reporting to the Policy and Finance Committee.

Works Best Practices

This particular report addressed the use of consultants in the Works Best Practices project. The report contained six recommendations, which included the following:

- the need to establish for each consultant contract award, a performance management process, incorporating appropriate parameters and relevant, measurable and objective benchmarks; and that any future consulting contract awards recommended to the Works Committee and Council include a description of the consultant performance management criteria and process to be used;
- prior to or in conjunction with awarding any future consulting contracts, the Commissioner, Works and Emergency Services report to the Works Committee on the total cost of consulting services required for this project, including those consulting services required in the implementation of process control systems and other facilities;

- prior to or in conjunction with awarding any future consulting contracts, the Commissioner, Works and Emergency Services, clarify how the consulting services to be provided in Phase 2 of the Works Best Practices program differ from those rendered during the planning and design stage (Phase 1) as well as from those consulting services to be procured for the construction and implementation component; and
- any quality assurance activities deemed necessary in Phase 2 of the Works Best Practices program be performed either by Works staff or, if a consulting firm is used, that the firm be independent of the consulting consortium and report directly to Works staff.

Review of Metropolis Project – Toronto Police Services Board

This report contained eight recommendations including the following:

- The City of Toronto, Budget Division, clarify to all Departments, Agencies, Boards and Commissions that the Impact on the Operating Budget section of capital budget submissions be restricted to actual budget reductions;
- Where projects are approved on the basis of efficiency savings, a plan should be established outlining how staff redeployments will be achieved, and a reporting process be developed to identify such redeployments so that they may be properly reflected in future operating budgets. In the event that the efficiency savings will be absorbed by increases in service levels or demands, these increases should be clearly identified;
- Project benefits calculations/projections be reviewed by Police Services management for validity and reasonableness prior to incorporation into any report submitted to the Board and/or Council;
- Where projects and related benefits span several years, the cost savings recognized in prior years be reviewed annually to ensure that such benefits may still appropriately be included in any cumulative annualized benefits calculations;
- Clear parameters be established at the beginning of each project, identifying its scope and the benchmarks to be used in evaluating the success of the project. Such benchmarks must be relevant, objective and measurable; and
- Any cost/benefit analysis performed in support of projects should include both external as well as internal costs.

Significant Reports Issued in 2000

Review of Animal Transaction Policies at the Toronto Zoo

Recommendations were made that policies relating to the disposition of Zoo animals required updating in order to comply with the animal disposition policy of the Canadian Association of

Zoos and Aquariums. It was also recommended that a policy be developed requiring animal dispositions be made to accredited institutions only.

Review of the Eligibility of Clients Requesting Dental Services

In 2000, the Budget Advisory Committee requested the City Auditor to report “on a system of conduct for the eligibility of clients requesting dental services”. The recommendation in this report clarified eligibility requirements, established written eligibility guidelines and initiated a process in regard to the recovery of dental costs from insurance companies for those patients who have partial insurance coverage. It is not practical to quantify the financial benefit, which may have accrued to the City as a result of these recommendations.

Review of Snow Budget Over-expenditure

A review on this matter was conducted in June 2000 and resulted in 11 recommendations. The majority of the recommendations related to specific financial issues such as:

- the need to establish reporting requirements;
- the allocation of responsibility for budget monitoring; and
- the need to eliminate duplicate input data.

In addition to the above, a recommendation was made that the General Manager “conduct a review to determine the most effective mix of in-house and contracted staff that would deliver the required winter maintenance services at a minimum cost to the City”. The results from this review obviously have financial implications but at this point we have no information in relation to the cost savings which may have accrued as a result of this exercise.

Toronto Harbour Commissioners

A financial review was conducted in 2000 on the former Toronto Harbour Commissioners. The City of Toronto provided the Harbour Commissioners at that time with an annual operating subsidy of approximately \$2.6 million. The review identified certain expenditures incurred by the Harbour Commissioners that should be recovered from third parties. The recovery was in the range of \$200,000. This amount has been included in the estimate of cost savings.

Review of Food Safety Program, Toronto Public Health

This report contained 23 recommendations on the newly established food safety program. Our review identified a number of concerns:

- the number of food premise inspections was below the mandated inspection frequencies required by the Province and over one third of all food premises in the City were not inspected at all;
- management and supervisor responsibilities required improvement;
- management information systems were inadequate to support the program; and
- inconsistent inspections were being conducted throughout the City.

These recommendations were extremely important in terms of addressing shortcomings in the inspection of food premises and have contributed to what is now a publicly accepted and effective program.

Review of the City's Bank Reconciliation and Deposit Procedures

This review included recommendations pertaining to the need for timely bank reconciliations, and the need to improve bank deposit procedures. The report also identified areas where there was a need to improve supervisory review procedures.

Review of the Operations of the 2000 Municipal Election

Our review of this matter resulted in 15 recommendations relating to improvements in the election process. These recommendations were implemented and incorporated into the subsequent municipal election.

Scheduling Process Review – Toronto Emergency Medical Services

This particular review resulted in 13 recommendations. The review identified the following issues with respect to the Scheduling Unit of Emergency Medical Services:

- lack of strong mandate and clear responsibilities for the Unit;
- lack of direction, guidelines and effective supervision for the Unit;
- under-utilization of existing computer capabilities;
- duplication of effort relating to computer input;
- efficiencies in accessing management information;
- training needs of schedulers not identified nor met;
- inefficient use of staffing resources within the Scheduling Unit;
- the current information system has a slow response time and does not provide meaningful information in report format; and
- lack of coordination between the Unit and other operational units of Emergency Medical Services.

Our review also identified an opportunity to reduce the number of schedulers and make the Scheduling Unit more cost effective without compromising service and operations. We have included an estimate of the staff reductions in Appendix 1.

Review of Cash Control Practices – Toronto Zoo

Our review included an evaluation of cash control practices at the Toronto Zoo in relation to:

- admissions;
- retail sales;
- memberships;
- parking;
- rides;

- rentals; and
- education programs.

This report contained 16 recommendations in relation to required improvements over the way the Toronto Zoo processed, controlled and accounted for its cash. Based on our 2004 follow-up report, we are satisfied that the recommendations have been implemented.

Significant Reports Issued in 2001

Corporate Absenteeism / Attendance Management Review

This report contained recommendations relating to the way the City managed its employee absenteeism and attendance management. It is our view that the recommendations in the report would have contributed to the reduction of employee absenteeism and consequently the reduction of overtime throughout the City.

Fair Wage Policies and Procedures Review

The purpose of this review was to ensure that the Fair Wage Policy as adopted by City Council was effective and was being applied as intended. A significant number of recommendations were made in this regard.

Sick Leave Benefits Liability Review

This report provided information on available options and strategies that have been employed by other municipalities in relation to eliminating or reducing the liability for employee sick leave. These options included the potential to freeze and cap existing sick leave plans and replace existing sick leave plans with alternative service plans, including phased pay outs to certain employee groups.

Tipping Fees Review, Solid Waste Management Division

The purpose of this review was to identify whether or not appropriate measures were in place to control cash deposits and account for cash collected at the transfer stations and landfill sites. The implementation of the recommendations in the report would likely reduce the risk of revenue losses and enhance the safety of staff at the Keele Valley Landfill site and transfer stations.

Community and Neighbourhood Services, Community Services Grant Program

The purpose of this review was to determine the extent to which programs funded met program criteria, were properly managed, controlled and monitored. This 24-page report included 24 recommendations and has contributed to a much improved, supervised and streamlined grants application and approval process. There have also been a number of immediate financial benefits, which are included as a part of Appendix 1.

Hostel Vacancy and Bed Rates

This report reviewed the management information systems presently available to account for the hostel vacancy rates. The review also reviewed the accuracy of statistics relating to recorded vacancy rates.

Contract Management Procedures – Transportation Services Division

This report recommended enhancements to the Divisions quality assurance practices relating to contract costs and work quality of private contractors on City projects.

Commercial Garbage Collection Review

This report recommended adjustments to the garbage collection schedules and amendments to administrative procedures relating to the billing and collection process.

Permits and Lottery Licenses Review

The recommendations in this report resulted in improved internal controls and procedures over the issuance of licenses and permits and also addressed compliance issues with respect to by-laws and provincial regulations.

Management Controls: A Basic Departmental Responsibility

The purpose of this report was to increase management's awareness of their responsibility in the prevention and detection of fraud and other improprieties and to emphasise the need to continually evaluate the City's internal controls.

This report contained an Internal Control Checklist, which is being used by the Chief Administrative Officer in her performance evaluation process.

Review of Departmental Purchase Orders

This report identified control weaknesses in the Departmental Purchase Order process and recommended a number of areas for improvement. The recommendations also identified potential areas where procurement of goods and services could be conducted more efficiently, effectively and at less cost.

Building Division Review

The recommendations in this review, for the most part, focussed on improvements to administrative procedures within the Urban Development Services Department.

Significant Reports Issued in 2002

Leasing Contract Between the City of Toronto and MFP Financial Services – Councillor’s Computer Equipment

This report was one of a series of reports relating to the financial arrangements between the City and MFP Financial Services. The impact of certain of these reports has been evident throughout the Toronto Computer Leasing Inquiry and needs no further elaboration.

Contract Compliance Review – Viacom Outdoor Canada Inc. (formerly Mediacom)

This report contained 12 recommendations and identified issues in connection with the management of this particular contract. In particular, the City was not taking advantage of free advertising space, which was available under the provisions of the contract. More importantly was a recommendation requiring the Chief Administrative Officer ensure that the issues and recommendations identified in this report be reflected in the City’s contract management framework and that the framework and related requirements be communicated to applicable City staff and mechanisms be developed to ensure compliance.

Follow-up Review – Food Safety Program, Toronto Public Health

This report was a follow-up review of the report issued in 2000. In general, the report found that the recommendations made in 2000 had been implemented although there were a number of areas that required additional attention.

Toronto Parking Authority – An Assessment of the Adequacy and Effectiveness of Financial and Administrative Controls

This report contained 15 recommendations relating to administrative controls at the Parking Authority. Many of the recommendations related to the requirement that documentation in support of various expenditures should be properly approved and authorized.

Forensic Audits on Various Consulting Contracts

This review was initially presented to the Audit Committee in Camera but has since been the subject of the Inquiry relating to the City’s use of external consultants. Specifically, the review related to contracts with two U.S. companies called Beacon Software Revenue Systems LLC and Remarkable Software Inc. The findings in this report have been subsequently corroborated by the Inquiry’s Commission Counsel.

Toronto Parking Authority – Use of Courtesy Envelopes

The major recommendation contained in this report related to the modification of its current courtesy envelope program. It was also suggested that improvements were required in monitoring and collection of outstanding receivables.

Toronto Public Library – Review of Year-end Spending, Fleet Maintenance, Use of Consultants and Budgets for Maintenance and Repairs

Improvements in relation to fleet maintenance and consulting contracts were recommended and implemented by the Toronto Library Board.

Various Reports relating to the MFP Review

During 2003, a number of public and in Camera reports were prepared in relation to MFP. Many of the issues raised in these reports have been the subject of deliberations in the Toronto Computer Leasing Inquiry proceedings.

Revenue Controls Review – Toronto Police Service

This report recommended improved controls in the area of revenue administration and cash collections.

Significant Reports Issued in 2003

Fleet Operations (Phase One)

This report contained 10 significant recommendations mainly relating to the management of the City's fuel sites and usage. Recommendations were made in connection with the need to better manage vehicle acquisitions and disposals and the potential of pooling underutilized vehicles.

Employee Separation Program Payment Review

This report identified a need to develop procedures in connection with the potential recovery of severance payments from terminated employees in certain circumstances.

Contract Compliance Review

This review identified the need for improvements in the way the City's safety footwear contract is managed. Recommendations in this report were relevant in the management of other contracts throughout the City.

SAP Financial and Human Resources/Payroll Information Systems – Post Implementation Review

This 44-page report contained 14 specific recommendations on a wide range of concerns. Many issues of concern were identified during this review including the following:

- the cost to implement SAP was significantly higher than reported;
- the City had purchased licenses in excess of its requirements;
- maintenance fees were being paid on unused licenses; and
- proposed savings were not being realized.

Procurement Process Review

A report was issued in 2003 in connection with the procurement process at the City. This report contained 43 recommendations, certain of which will result in long-term cost savings to the City. The recommendations were generally focussed at the administrative level in terms of improving policies, procedures, clarifying roles and streamlining a process which was regarded as obstructive to the effective management of departments.

In addition, one of the recommendations in the report related to the potential of closing down one or more of the City operated Stores. The City operated Stores rationalization study presently underway is an area where significant cost savings may be achieved.

Significant Reports Issued in 2004

Information Technology Reviews

The Auditor General has conducted various information technology reviews over the past number of years. Reviews have been conducted on the CLASS Recreation Registration and Permitting System and the Toronto Maintenance Management Application System – 2004, Oracle database, Windows NT and assessments have been made on the City's Information Security Framework. Our reviews in general terms indicated that security, including unauthorized access, is an issue that needed to be addressed. Our recommendations have led to improvements in security controls both at the departmental level and at the Corporate level and have raised management's awareness that steps have to be implemented to minimize the potential disruption of business operations from unauthorised access to the City's computer systems.

The potential financial risks to the City in regard to computer security are immense and the recommendations made by the Auditor General in this regard have assisted in minimizing this risk.

Review of the Implementation of Recommendations of the Final Report on the Task Force on Community Access and Equity

The objective of this review was to determine the extent to which the City had achieved its access, equity and human rights goals. This was done by assessing the City's progress in implementing the recommendations of the Task Force on Community Access and Equity. The review resulted in 15 recommendations relating to the implementation process.

Payroll Processing Review – Phase One

This extremely important report contained 18 recommendations and has been one of a number of reports issued on the payroll function since 1999.

This review included an evaluation of the effectiveness of internal controls in payroll processing. Our conclusions in regard to this review were that certain system and departmental controls

required improvement. The recommendations will enable City departments to more effectively manage and control payroll costs, the most significant expenditure component of the City's budget.

Receivables Review – Parks and Recreation Operation, Economic Development, Culture and Tourism Department

This review is one of a number conducted on the cash operations in the Economic Development, Culture and Tourism Department since amalgamation.

Our review indicated that there continues to exist a need for a control and accountability framework to ensure that effective and consistent financial policies and internal control procedures exist and are carried out at all Parks and Recreation facilities. Our recommendations in relation to the management of receivables will improve the collection practices and internal controls relating to cash management and will minimize the risk of revenue losses.

Hostel Services Operations Review – Community and Neighbourhood Services

This report contained 25 recommendations including:

- potential changes to subsidy agreements with the Province;
- the need to accelerate certain financial information systems;
- the need to establish standard procedures; and
- the need to establish centralized policies and procedures with respect to personal needs allowances.

The report also identified the potential for additional provincial subsidy. Details are provided in Appendix 1.

The Migration of the SAP Financial and Human Resources/Payroll System to the City's Agencies, Boards and Commissions

This report contained information relating to the migration of the SAP Financial and Human Resources/Payroll System to the City's Agencies, Boards and Commissions. It was recommended in the report that the Chief Financial Officer and Treasurer initiate a process whereby all information technology acquisitions throughout the City, including the Agencies, Boards and Commissions, should be effectively planned and coordinated. It was also suggested that such a process take into account the potential of establishing a Corporate governance model which provides the appropriate level of authority for initiating, coordinating and approving technology investments at the City's Agencies, Boards and Commissions.

Toronto Emergency Medical Services Operational Support Review – Works and Emergency Services Department

This report contained 16 recommendations including the following:

- the need to comply with City policies;
- the need to improve inventory control practices; and
- the need to review certain practices.

Further details on this report are provided in Appendix 1.

Ongoing Reports or Projects

Various Management Letters Relating to Community Centres and Arenas

Management letters have been issued to Community Centres and Arenas since amalgamation relating to a wide range of issues. Certain of these issues included:

- requirements for year-end financial statements;
- requirements for standardized policies and procedures;
- the need for timely bank reconciliations;
- the need for Finance Department staff to review financial statements;
- the need to prepare fixed asset ledgers; and
- procedures relating to the administration of payroll.

Various Management Letters Relating to Business Improvement Areas

Management letters have been issued to various Business Improvement Areas since amalgamation identifying the requirement that they take steps to recover Goods and Services Tax. In view of the fact that there are over 40 Business Improvement Areas in the City, it is not practical to quantify the extent of these recoveries. In addition, recommendations have also addressed the need that the Chief Financial Officer and Treasurer during the review of the annual budget submissions take into account any surplus funds carried forward from prior years.

Cash Controls Reviews – Parks and Recreations Division

Since amalgamation, a number of cash control reviews have been conducted in the Parks and Recreation Division of the Economic Development, Culture and Tourism Department. These reports have resulted in a significant number of recommendations in relation to improving cash handling controls, the need to emphasize supervisory review and oversight and the need to develop comprehensive consistent procedures.

Investment Policy Compliance

The Investment Policy Compliance review is an annual evaluation of the investment function to ensure compliance with legislative requirements and to assess the policies and procedures over investments. More recently, our recommendations that the City manage the investment functions of Agencies, Boards and Commissions will likely increase the overall rate of investment returns

available. The extent of the increase in investment income, which may accrue as a result of these recommendations, is not determinable.

Canadian National Exhibition Association Annual Fair Review – 1998 – 2003

For the years 1999 through to 2003 inclusive, the Auditor General provided assistance to the Canadian National Exhibition Association during its Annual Fair. This assistance included the establishment and management of an effective internal audit process over cash collection, and attendance and concession revenues. This assistance is currently being provided on a limited basis by staff from the Internal Audit Division of the Chief Administrator's Office.

Conclusions:

This report identifies \$36.3 million of cost savings and increased revenues attributable to reports issued by the Auditor General's Office for the period from January 1, 1999 through to December 31, 2004. The total cost to operate the Auditor General's Office since that time has been \$14.6 million. This amounts to \$2.50 in savings for every \$1 of audit cost.

This report also provides significant details on many other projects completed since January 1, 1999. As indicated in the body of this report, it is not possible to quantify any direct financial savings from the recommendations relating to these particular projects. Nevertheless, the ongoing impact has been significant in terms of protecting the City's resources.

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Appendix 1: Estimated Savings from Various Audit Reports
Appendix 2: Summary – Total One-time and Cumulative Estimated Savings 1999 - 2004

APPENDIX 1

Estimated Savings from Various Audit Reports

The following amounts are conservative estimates only and are likely underestimated. However, the basis for each calculation has been provided. These amounts relate to major reports only and do not include savings attributable to less significant reports. Details pertaining to fraud related matters have previously been reported to the Audit Committee.

<u>Year Report Issued</u>	<u>Project Description</u>	<u>One-time Savings</u> \$	<u>Ongoing Annual Savings</u> \$
1999	Fraud Related Matters	87,000	87,000
1999	Review of Parking Tag Operations		1,210,000
	Total Savings	\$87,000	\$1,297,000

The savings related to the review on Parking Tag Operations are a result of a report entitled “Review of Parking Tags Operations” and are based on a report submitted to the Administration Committee in March 2001 by the Chief Financial Officer and Treasurer. Savings were specifically independently identified by the Chief Financial Officer and Treasurer as follows:

-	improved collection rates	\$600,000
-	collection of out of Province parking tags	110,000
-	use of collection agencies	<u>500,000</u>
	Total Savings	<u>\$1,210,000</u>

<u>Year Report Issued</u>	<u>Project Description</u>	<u>One-time Savings</u> \$	<u>Ongoing Annual Savings</u> \$
2000	Fraud Related Matters	150,000	150,000
2000	Review of Parking Enforcement Unit		1,200,000
2000	Review of Police Overtime		1,400,000
2000	Toronto Harbour Commissioners	200,000	
2000	Toronto Emergency Medical Services		250,000
	Total Savings	\$350,000	\$3,000,000

The savings in connection with the review of the Parking Enforcement Unit are estimated to be in the range of \$1,200,000. Our review identified approximately 5.5 per cent of parking tags issued (123,000 tags) with a value of \$2.4 million were not processed due to reasons classified as “officer controllable.” The introduction of appropriate performance indicators, in our view, would reduce these spoiled tags significantly. If the percentage of unspoiled tags were reduced to 3 per cent, the increased revenue would be approximately \$1.2 million.

The report entitled “Review of Controls Relating to Overtime and Premium Pay at the Toronto Police Services” in early 2000, contained 16 recommendations. In particular, the review

identified the need for improved management information and specifically suggested the generation of management exception reports such as:

- officers with more than one court appearance on the same day;
- officers with an inordinate amount of overtime;
- officers attending court off duty more than a specified number of times;
- officers taking lieu time and attending court on the same day;
- officers attending court while on vacation; and
- the number of officers who attend court and actually testify as witnesses.

In addition, further recommendations were made in relation to:

- improvements in the scheduling of court time for police officers; and
- appropriate levels of overtime authorization.

Again, it is extremely difficult to estimate the savings which have accrued as a result of this report. Actual overtime decreased in 2000 from \$31,504,000 in 1999 to \$26,832,000 in 2000 subsequent to the issuance of our report. The actual decrease in one year was almost \$4.7 million. While this decrease was due to improved management by the Toronto Police Service, it is our view that certain of this decrease was due to the recommendations contained in the Auditor General's report. It is not unreasonable to estimate on a conservative basis an annual savings of, 30 per cent of the reduced overtime costs. This amount would be in the range of \$1,400,000 on an annual basis.

In regard to the report entitled "Scheduling Process Review – Toronto Emergency Medical Services", our report concluded that there were opportunities to reduce staff. On a conservative basis, we have estimated a reduction of four staff at an average cost of \$62,500 for a total savings of \$250,000

<u>Year Report Issued</u>	<u>Project Description</u>	<u>One-time Savings</u> \$	<u>Ongoing Annual Savings</u> \$
2001	Fraud Related Matters	126,000	126,000
2001	Selection and Hiring of Consultants		2,000,000
2001	Community and Neighbourhood Services Grants Program		275,000
	Total Savings	\$126,000	\$2,401,000

The report on the Selection and Hiring of Consultants contained 17 recommendations. These recommendations included the following:

- the need for proper and detailed business cases specifically identifying the justification for consultants;
- the need to ensure that the engagement of all consulting services are in accordance with City policies;

- the need for improved accounting;
- the need to ensure that all staff have an appropriate level of training in regard to project management;
- the need to ensure that steps are implemented in regard to performance measures and deliverables; and
- the need to reduce the reliance on external consultants.

At the time the audit report was prepared, consulting costs for 1999 were in the range of \$159 million. Even allowing for Y2K consulting costs of \$70 million, the amount was still significant.

The Chief Administrative Officer has established specific policies and controls in relation to the hiring of consultants. Consulting contracts in 2003 are in the range of \$9.6 million for the operating program and \$31.3 million in the capital program.

It is our estimate that the audit report contributed to this reduction by approximately \$2,000,000 per year.

Our work on the various grant programs recommended increased monitoring of grant applications, a thorough review of financial statements, and the identification of surplus and reserve funds. We have identified a number of agencies where, due to the closer attention being paid to the areas identified in the audit report, grant amounts have been reduced by approximately \$275,000

<u>Year Report Issued</u>	<u>Project Description</u>	<u>One-time Savings</u> \$	<u>Ongoing Annual Savings</u> \$
2002	Fraud Related Matters	99,000	99,000
2002	Contract Compliance Review		100,000
2002	Toronto Parking Authority		1,900,000
2002	Forensic Audit	25,000	100,000
	Total Savings	\$124,000	\$2,199,000

The Contact Compliance Review relates to the availability to the City of free advertising space previously not utilized. We estimate the value of this to be in the range of \$100,000.

In regard to the Toronto Parking Authority, the \$1,900,000 is an amount provided by the President of the Toronto Parking Authority in relation to changes suggested to the Courtesy Envelope Program.

Savings from the Forensic Audit relates to recoveries of consultant out-of-pocket expenses and the work previously being conducted by the consultants, subsequently transferred to City staff.

<u>Year Report Issued</u>	<u>Project Description</u>	<u>One-time Savings</u> \$	<u>Ongoing Annual Savings</u> \$
2003	Fraud Related Matters	101,000	67,000
2003	Procurement Process Review		500,000
2003	In Camera Review	3,375,000	670,000
2003	Contract Compliance Review	\$47,000	
	Total Savings	\$3,523,000	\$1,237,000

The procurement process review contained 43 recommendations, many of which were administrative in nature. In particular, one of the recommendations was as follows:

The Chief Financial Officer and Treasurer, in his report to the Administration Committee on the rationalization of all City Stores, take into account:

- (i) what materials, supplies and equipment should be stocked in City Stores, including those operated by departments;
- (ii) the impact of the use of procurement cards and the increased use of blanket contracts to supply goods currently stocked by City Stores;
- (iii) the impact on staff levels;
- (iv) the opportunity costs of land and buildings on which current Stores are located, as well as excess inventory costs; and
- (v) the overall benefits and cost savings resulting from the rationalization of the City Stores operation.

The cost savings from this recommendation has the potential to be significant.

The Materials Management Unit of the Purchasing Division provides inventory management, stores and distribution, and delivery services across the City. The Unit, with a \$2.1 million operating budget and a complement of 39 staff, operates 9 warehouses (down from 11 warehouses at amalgamation) across the City. In addition to the 39 Stores staff, three inspectors from the Standards and Specifications Unit of the Purchasing Division are directly involved in the City Stores operation, performing quality control inspections testing of goods stocked in City warehouses. With the closure of the North York Store in 2003, the number of Stores operated by the Purchasing Division will be reduced to eight, and the total staff complement will be reduced to 38.

The warehouses, some of which are co-located with other departmental operations, maintain approximately \$4 million worth of inventory on an ongoing basis, and stock over 11,000 different items, ranging from office stationary to equipment parts. In 2002, the Unit processed approximately 108,000 requisitions for the supply and delivery of \$8.9 million of materials and supplies. According to the Purchasing Division, the need for the warehousing of items is

determined and requested by departments, and the warehousing arrangement provides convenience to departments and a reduction in administrative costs by reducing the volume of invoices to be processed.

Not including the opportunity costs associated with funds tied up in land, buildings and inventory, it costs over \$2 million to manage receipts of \$8.5 million and the delivery of \$8.9 million of materials and supplies. The current activity levels do not appear to justify the City's investment in the Stores operation. It should also be noted that there are over 80 other locations, managed by City departments, which also stock various materials and supplies.

Specific information relating to a previously issued in Camera report is confidential. However, based on our analysis, we anticipate one-time savings of \$3,375,000 and ongoing savings of \$670,000 resulting from issues raised in the report.

<u>Year Report Issued</u>	<u>Project Description</u>	<u>One-time Savings</u> \$	<u>Ongoing Annual Savings</u> \$
2004	Fraud Related Matters	213,000	137,000
2004	Hostels Operations Review	530,000	810,000
2004	Toronto Emergency Medical Services Review	127,000	131,000
	Total Savings	\$870,000	\$1,078,000

A review was conducted on the operations of the City Hostels Program in 2004. This review contained 24 recommendations. One of the recommendations suggested that there was the potential of increasing annual subsidy claims from the Province in the range of \$800,000. There is also the potential of recovering \$500,000 from prior years. This amount has not yet been finalized. In addition, there is a one-time GST recovery of \$30,000 and ongoing annual recurring GST recoveries of \$10,000 per annum.

In regard to Toronto Emergency Medical Services Review, a one-time recovery in relation to GST overpayments of \$127,000 is likely. In addition, there will be annual recurring savings of \$31,000.

In regard to other potential savings, we have estimated approximately \$100,000 relating to reduced costs for:

- Cellular Telephones
- Uniforms
- Business Expenses
- Oxygen Purchases

Summary
Total One-time and Cumulative Estimated Savings
1999 – 2004

Potential Savings 000's							
Year	1999	2000	2001	2002	2003	2004	Total
1999	87	1,297	1,297	1,297	1,297	1,297	6,572
2000		350	3,000	3,000	3,000	3,000	12,350
2001			126	2,401	2,401	2,401	7,329
2002				124	2,199	2,199	4,522
2003					3,523	1,237	4,760
2004						870	870
Total	87	1,647	4,423	6,822	12,420	11,004	36,403

In addition, on a go forward basis, we have identified in 2004 additional ongoing annual savings commencing in 2005 of \$1,078,000.