

Consolidated Clause in Audit Committee Report 2, which was considered by City Council on June 27, 28 and 29, 2006.

8

Outstanding Audit Recommendations - Status Report

City Council on June 27, 28 and 29, 2006, adopted this Clause without amendment.

Council also considered additional material, which is noted at the end of this Clause.

The Audit Committee recommends that City Council receive the report (June 1, 2006) from the Auditor General (noting that Appendices A, C and E are submitted under separate cover), and that discussions relating to Appendices B and D of the staff report, submitted to Members of Council under confidential cover, be held in-camera as they relate to the security of the property of the municipality or local board; Litigation or Potential Litigation; Solicitor-Client Privilege; and a matter in respect of which a council, board, committee or other body has authorized a meeting to be closed under another Act).

The Audit Committee submits the report (June 1, 2006) from the Auditor General:

Purpose:

The purpose of this report is to provide City Council with information on the status of the implementation of audit recommendations contained in various reports issued by the Auditor General.

Financial Implications and Impact Statement:

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

Recommendation:

It is recommended that this report be received for information.

Background:

In accordance with the Auditor General's 2005 Work Plan, we have completed a review on the status of the implementation of audit recommendations contained in audit reports issued by the Auditor General's Office. This review was conducted in accordance with generally accepted government auditing standards and was designed to provide reasonable assurance that management has adequately implemented recommendations previously made by the Auditor General's Office.

Comments:

At its July 2005 meeting, City Council was advised of the Auditor General's process for follow-up of outstanding audit recommendations.

In summary, the follow-up process communicated to Council requires the Auditor General to advise the City Manager of outstanding recommendations contained in previously issued reports. All such audit recommendations are recorded and tracked in a database maintained in the Auditor General's Office.

At the direction of the City Manager, division managers are required to provide a written response on the status of each one of the recommendations to the City Manager. Subsequent to review by the City Manager, this information is provided to the Auditor General.

The information provided by the City Manager is reviewed by the Auditor General in order to determine the status of audit recommendations. Specific audit work is conducted by staff of the Auditor General's Office in order to ensure that management's assertions are accurate. The results of this review are communicated to the Audit Committee.

During the past several months, the City Manager and staff have spent a significant amount of time preparing a summary on the status of each one of the recommendations made by the Auditor General. Staff in the Auditor General's Office has likewise devoted significant resources in reviewing and verifying management responses.

This review includes all recommendations contained in reports issued by the Auditor General's Office (formerly the City Auditor) from January 1, 1999 to July 31, 2005.

Since January 1, 1999, the Auditor General has issued 116 audit reports relating to City divisions containing 669 recommendations. These audit reports relate to the operations of the City only and do not include reports and recommendations relating to the City's Agencies, Boards and Commissions. We will be reporting separately on the status of recommendations relating to the Agencies, Boards and Commissions in January 2007.

The results of our review of each one of these recommendations is as follows:

Recommendations fully implemented	403
Recommendations not yet fully implemented	166
Recommendations no longer relevant	91
Recommendations requiring further audit verification	<u>9</u>
Total	<u>669</u>

(Recommendations no longer relevant generally relate to areas or City programs, which no longer exist, e.g., the 2006 Olympics and "Tradelink".)

Leaving aside the recommendations which are no longer relevant (91 recommendations) and the recommendations requiring further audit verification (9 recommendations), the results of our review indicate that management has fully implemented 403, or 71 per cent of the remaining 569 recommendations.

In terms of determining whether or not the implementation rate of 71 per cent represented a satisfactory amount, we benchmarked this level with other cities across North America. The National Association of Local Government Auditors (N.A.L.G.A.) recently conducted a benchmarking survey of North American cities, which indicates that the average implementation rate of audit recommendations is in the range of 76 per cent.

While the level of implementation is lower than the benchmark survey of N.A.L.G.A., it is important to keep in mind that the number of audit recommendations at the City is significant. The number of recommendations generally relates to the many challenges and issues presented by amalgamation on January 1, 1998.

A complete listing of the 403 recommendations implemented by divisions is included in Appendices A and B. Appendix A contains the public recommendations and Appendix B contains In-camera recommendations. With the receipt of this report, those recommendations implemented will not be reported to Council again in the future.

Appendices C and D contain a complete listing of the 166 recommendations not fully implemented, with the In-camera items included in Appendix D. It should be noted that for many of these recommendations, although divisional staff have undertaken significant work towards implementing each of the recommendations, the work has not been completed to the extent that the recommendation can be considered fully implemented.

All of the recommendations on Appendices C and D will be included in subsequent follow-up reviews until they are fully implemented.

Appendix E provides a listing of the nine recommendations which we have not had an opportunity to follow-up at this time. These recommendations will be dealt with in the next follow-up review.

In order to provide some context for the recommendations included in the appendices to this report, the following includes examples of the more noteworthy recommendations addressed in this follow-up process.

Implemented Recommendations

1. SAP Financial and Human Resource/Payroll Information System – Post Implementation Review

One of the recommendations in this report required City staff to negotiate with both SAP Canada Inc. and Oracle Corporation Canada Inc. for the recovery of excess license fees paid, as well as reductions in the annual maintenance costs of certain licenses. As a result of staff efforts following the issuance of the audit report, the City recovered a one-time payment and annual software maintenance costs were significantly reduced as of 2004. The results of the negotiations and settlement were previously reported In-camera and approved by Council in the fall of 2004.

A further recommendation contained in this report required changes that maximize the utilization of SAP. As a result, City staff has created an SAP Competency Centre designed to centralize knowledge and expertise with respect to the SAP software used by the City. The following projects were initiated or completed during 2005:

- Time Entry System replacement with SAP functionality – programming development completed and full implementation in March 2006
- SAP programming for Business Integration Project in Facilities and Real Estate and implementation in April 2006
- Server consolidation

Staff continues to work toward expanding the use of SAP. As a result of these efforts, progress on increasing the use of SAP is now coordinated so that resources are utilized where they are most beneficial for the City as a whole, thus ensuring that the City's current and future investments in SAP are efficient and effective.

2. Selection and Hiring of Professional Consulting Services Review

This 2001 report contained 17 recommendations which, for the most part, have been implemented. There is one recommendation regarding the evaluation of consultant's performance that has not been fully implemented. Although this recommendation has not yet been implemented, a process is currently being piloted in the Technical Services Division, which will satisfy the intent of the recommendation.

The City has made significant progress in reducing its reliance on consultants as illustrated by the following information compiled by the Financial Planning Division on the actual costs incurred by the City for consultants:

<u>Year</u>	<u>(\$000's)</u>
2001	\$23,702
2002	\$16,303
2003	\$18,455
2004	\$15,971

These figures show the City has reduced expenditures for consultants by approximately \$8 million per year from a 2001 base expenditure level.

3. Departmental Purchase Orders

We have issued several reports indicating non-compliance with City policies and procedures with respect to the use of departmental purchase orders (DPOs). While most of our recommendations relating to DPOs have been implemented, we continue to find inappropriate use of this process. The primary concern with the high use of DPOs is the potential that the City is not acquiring its goods and services at the best possible price.

Corrective steps have been taken by the Purchasing and Materials Management Division and City divisions including the establishment of more blanket contracts and regular monitoring of instances of non-compliance. In addition, the City Manager has involved the Internal Audit Division to assist in monitoring and resolving the issues around the use of DPOs. These measures should gradually reduce the use of DPOs in future years.

4. Procurement Processes Review – City of Toronto

The Procurement Process Review report issued in April 2003 contained 43 recommendations relating to the procurement processes in the City. The recommendations were broad reaching and it was known at the time that implementation would take an extended period of time. Since then, the Purchasing and Materials Management Division (PMMD) has taken steps to improve the policy framework that ensures effective procurement processes and proper internal controls. Audit recommendations implemented by PMMD include:

- revisions to the Toronto Municipal Code on procurement and financial control matters;
- development of policies and procedures;
- engagement of a Fairness Consultant where applicable;
- increased use of blanket contracts;
- development of templates and samples to assist staff in preparing specifications; and
- delivery of a corporate training program that focuses on promoting staff awareness of procurement related by-laws, policies and procedures, their roles and responsibilities in the procurement process, as well as consequences of non-compliance with corporate policies and procedures.

Our review found that PMMD and City divisions have fully implemented 20 of the 43 audit recommendations included in our 2003 audit report. The outstanding audit recommendations requiring further action generally relate to service level improvement and sound contract management practices, such as:

- effective procurement planning at the divisional level;
- continue to work with divisions to ensure contracts are not over-spent;
- implementation of a client based organizational model in PMMD subject to available resources;
- clear definition of the roles, responsibilities, expectations and accountability of PMMD and respective City divisions in the procurement process; and
- development of results-based performance indicators for PMMD to measure the results and effectiveness of its activities.

Staff continues to work on each of these areas.

5. Community and Neighbourhood Services – Community Services Grants Program Review

This report contained 18 recommendations, of which divisional staff report that 16 have been implemented. We have not yet had an opportunity to confirm the reported status of four of the recommendations reported as implemented and these will remain on our schedules for inclusion in the next follow-up review.

Our work on the balance of the implemented recommendations indicates that there has been significant effort placed on improving the integrity and analysis of the City's Community Services Grants Program. The improvements to the administration of this program are ongoing as evidenced by the streamlining of the process, ensuring anticipated outcomes are achieved, and the recent focus on the development of program standards and performance measures aimed at increasing consistency between grant programs. These improvements will help ensure that scarce City resources are provided to those organizations meeting the City's program requirements and delivering effective programs to the citizens of Toronto.

Recommendations Not Fully Implemented

1. Hostel Operations Review – Community and Neighbourhood Services

One of the recommendations in this report required City staff to make subsidy claims, retroactive if possible, for personal needs allowance provided in-kind for residents of shelters. Although provincial directives allow the City to claim up to \$116 per month for personal needs provided either in cash or in-kind, only cash payments are being claimed for subsidy. At the time of our report, we estimated that additional annual net subsidy revenue in the range of \$536,000 to \$991,000 could be claimed for in-kind personal needs allowance items.

Since our report was issued in late 2004, City staff has had discussions and communications with provincial staff regarding this issue. However, City staff report that they need further clarification from the Province regarding the documentation required in support of any claim for in-kind personal needs allowance items.

2. Economic Development, Culture and Tourism Department – Review of Receivables Relating to Parks and Recreation Operations and the Review of Revenue and Cash Controls Relating to the Parks and Recreation Division, North and South Districts

Our review identified concerns relating to the collection of accounts receivable for program registrations, membership fees and permits. During this follow-up process, we determined that there was still a significant amount of accounts receivable greater than 120 days old. The following shows the balances older than 120 days for these particular receivables as at the noted dates.

March 31, 2004	\$1.816 million
May 31, 2005	\$1.835 million
December 31, 2005	\$1.884 million

As noted in our report, the older an account gets, generally the more difficult it is to collect and it is important to ensure accounts are collected on a timely basis. Further efforts are required to address the significant backlog of receivables.

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

In this report, we recommended that the Human Rights Office report directly to the Chief Administrative Officer (now the City Manager). As a result of the City's administrative review, the Human Resources Division has been transferred to the City Manager's Office. However, this has not impacted the reporting relationship of the Human Rights Office, which still reports to the Executive Director, Human Resources through the Director of Employment Services. In relation to this, the comments in our 2004 report are still valid and read:

- “- The Human Rights Office is placed at a level within the corporation that is not commensurate with the degree of importance of this particular function. It lacks the visible profile to allow it to function effectively and independently in the corporation.
- Having the Human Rights Office as a part of Human Resources may create a misleading perception that the Office is not entirely independent or objective, especially on employment related matters. Such a perception may diminish the comfort or confidence of those wishing to file a complaint. As well, the public may have the impression that the Office only deals with employment issues within the City.”

We understand that this matter, along with other related issues, is subject to further review in the second half of 2006.

Conclusions:

The progress made by City staff on the implementation of audit recommendations has been significant. We also acknowledge that progress has been made on many of the recommendations which are not yet fully implemented.

There are certain recommendations which, however, require immediate attention. The implementation of these recommendations will maximise revenues and reduce costs for the City and as such their implementation should be a priority.

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(Copies of the following attachments in the report (June 1, 2006) from the Auditor General, were forwarded to Members of the Audit Committee for the meeting on June 15, 2006 under separate cover:

- Appendix A: Public Recommendations – Fully Implemented;
- Appendix B: In-camera Recommendations – Fully Implemented;
- Appendix C: Public Recommendations – Not Fully Implemented;
- Appendix D: In-camera Recommendations – Not Fully Implemented; and
- Appendix E: Public Recommendations Reported as Implemented Not Yet Verified by the Auditor General’s Office.)

City Council – June 27, 28 and 29, 2006

Council also considered the following:

Communication:

- *(June 26, 2006) from the Auditor General [Communication 16(a)].*

Re: Audit Committee Report No. 2, Clause 8, Titled “Outstanding Audit Recommendations – Status Report”

With respect to the above Clause, please find attached:

- 1. Revised Appendix B – In-camera Recommendations – Fully Implemented*
- 2. Revised Appendix D – In-camera Recommendations – Not Fully Implemented*
- 3. Addendum A to Appendix A – Public Recommendations – Fully Implemented*
- 4. Addendum C to Appendix D – Public Recommendations – Not Fully Implemented*

Appendices B and D have been revised to delete those recommendations which were originally confidential, but which were subsequently made public by City Council. The recommendations subsequently made public by City Council are now incorporated into Addenda A and C.

Addendum A

Public Recommendations – Fully Implemented

Division: City Manager’s Office

***Report Title: Review of Computer Leasing Contract between City of Toronto and MFP
Financial Services - Update***

Report Date: 05/02/2002

Recommendation

001 It is recommended that this report be received for information.

Report Title: *Review of the computer leasing contract between the City of Toronto and MFP Financial Services*

Report Date: 29/11/2001

Recommendation

- 002 *A steering committee of appropriate senior staff work with the CAO to support the development and implementation of the strategy.*
- 003 *The Chief Administrative Officer put in place stringent standardized life cycle management rules for the management of City contracts by September 2002. A central component of those rules should be a project charter template for all large acquisition and contract projects. The project charter should clearly delineate accountability for all aspects of the contract life cycle.*
- 004 *The Chief Administrative Officer, with the assistance of the City Solicitor, develop written policies and procedures on contract changes. The policies should specify when changes to existing contracts require Council approval, further financial analysis, legal review, or the issuance of a new RFP or RFQ.*
- 005 *Where possible, all future contracts be designed and negotiated to protect the City's interests should priorities or needs change. Therefore, contracts should, wherever possible, include review processes, re-negotiation windows, cancellation provisions, and full or partial exit provisions.*
- 007 *The Chief Administrative Officer, in consultation with the City Auditor, report to the Audit Committee in the spring of 2002 on a strategy to undertake ongoing 'value for money' audits of major contracts and outsourced services.*

Division: *Human Resources*

Report Title: *Fair Wage Policy and Procedures Review*

Report Date: 31/01/2001

Recommendation

- 001 *The Commissioner, Corporate Services Department and the Manager, Fair Wage and Labour Trades Office, in consultation with the City Solicitor, review the Fair Wage Policy and current procedures, and report to the Administration Committee by June 30, 2001 on the necessary amendments to the Fair Wage Policy and By-law No. 51-71, to ensure that the mandate, duties, authorities for settlements and other matters, and reporting requirements of the Fair Wage and Labour Trades Office are clearly defined.*
- 003 *The Commissioner, Corporate Services Department and the Manager, Fair Wage and Labour Trades Office, in consultation with the City Solicitor and the Director, Purchasing & Materials Management Division, report to the Administration Committee by June 30, 2001 on a proposed program infrastructure, including policies, procedures, options and resource requirements to cost effectively enforce the Fair Wage Policy, taking into account and reporting on the following matters:*

- (a) *the necessary amendments to the Fair Wage Policy, as well as standard terms and holdback provisions included in City contracts/tenders, to strengthen the City's authority in enforcing the Fair Wage Policy. Specifically, the City's rights and authority with respect to auditing payroll records, obligations of contractors and subcontractors, should be clearly defined in the Fair Wage Policy and in all contract and tender documents;*
- (b) *a policy to deal with non-compliance, including the option of increasing the administration fee to more than 10 percent of the wage discrepancies noted, and disqualification from future contract awards;*
- (c) *the roles of the Fair Wage and Labour Trades Office, Purchasing & Materials Management Division and user departments in authorizing contract awards and monitoring conformance to terms and conditions relating to fair wage matters;*
- (d) *the criteria and procedures used by the Fair Wage and Labour Trades Office to determine whether a bidder meets the Office's requirements (i.e., the basis for approving and reporting favourably on the firm recommended);*
- (e) *the feasibility of focusing enforcement of the Fair Wage Policy on certain trades, taking into account the associated risks, costs, benefits and resource implications of this option;*
- (f) *the feasibility of implementing new initiatives, including maintaining a corporate registry of non-complying contractors; validating past policy compliance history of all contractors and subcontractors; cyclical and random payroll audits on certain type or value of city contracts, including subcontractors; and the inclusion of fair wage compliance in a corporate supplier/contractor's performance evaluation report;*
- (g) *the appropriate performance indicators required to evaluate and report on the performance of the Fair Wage and Labour Trades Office with respect to the efficiency and effectiveness of enforcing the Fair Wage Policy and other services rendered.*

Division: *Pension, Payroll & Employee Benefits*

Report Title: *Employee Separation Program Payment Review*

Report Date: *12/11/2003*

Recommendation

- 002 *the Commissioner of Corporate Services ensure that, where a separation program payment is issued, all the necessary separation documents are completed, approved and forwarded to Pension, Payroll and Employee Benefits Division on a timely basis;*
- 003 *the Chief Financial Officer and Treasurer ensure that the appropriate approvals are received from Human Resources prior to processing any separation program payment; and*

Division: *Purchasing & Materials Management*

Report Title: *Chemical Pricing Investigation*

Report Date: *19/02/1999*

Recommendation

001 *It is recommended that this report be received for information.*

Report Title: *Contract Pricing Information*

Report Date: *27/04/1999*

Recommendation

001 *It is recommended that this report be received for information.*

Addendum C

Public Recommendations – Not Fully Implemented

Division: *City Clerk's Office*

Report Title: *Request for Proposal for the Acquisition of 2,000 Optical Scan Vote Tabulators and 100 Touch Screen Voting Units*

Report Date: *24/08/1999*

Recommendation

009 *The Chief Administrative Officer be directed to prepare a policy in connection with the participation of City election staff in the elections of other jurisdictions.*

010 *A standard reporting format be developed by the Chief Administrative Officer in regards to the preparation of reports which recommend the selection of suppliers responding to a request for proposal.*

Division: *City Manager's Office*

Report Title: *Review of the computer leasing contract between the City of Toronto and MFP Financial Services*

Report Date: *29/11/2001*

Recommendation

001 *The Chief Administrative Officer lead a comprehensive strategy to significantly enhance the City's business processes, accountability, transparency, and human resource competencies. That strategy should include, but not be limited to the recommendations below.*

006 *The Chief Administrative Officer and Commissioner of Corporate Services develop a contract management centre of excellence in Corporate Services I&T Division using existing funds and 2001 under-expenditures. The centre should include highly skilled technical experts and all necessary resources to assess, issue, review, manage and evaluate major contracts. The centre should include, at a minimum, expertise in financial analysis, contract law, and negotiation. The staff of the centre should have, or be working towards, nationally or internationally recognized professional qualifications in contract management. The business processes of the centre should similarly reflect or fully adopt international standards for contract management. The centre should be implemented early in 2002.*

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- *Confidential revised Appendices “B” and “D” to the report (June 1, 2006) from the Auditor General [Confidential Communication C.3(a)]. These Appendices remain confidential in their entirety, in accordance with the provisions of the Municipal Act, 2001, as they contain information related to the security of the property of the municipality or local board, litigation or potential litigation or are subject to solicitor-client privilege.*