



## STAFF REPORT INFORMATION ONLY

### Auditor General's Audit Reports – Benefits to the City of Toronto – Annual Update

<b>Date:</b>	May 22, 2007
<b>To:</b>	Audit Committee
<b>From:</b>	Jeff Griffiths, Auditor General
<b>Wards:</b>	All
<b>Reference Number:</b>	

#### **SUMMARY**

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This report is in response to a request from Audit Committee and summarizes the estimated cumulative cost savings and the estimated increased revenues resulting from various reports issued by the Auditor General's Office from January 1, 2002 to December 31, 2006. This report also contains information relating to various audit reports containing administrative internal control recommendations made by the Auditor General's Office. The report shows that there is an estimated benefit to the City of \$5.02 for every dollar invested in the Auditor General's Office.

#### **FINANCIAL IMPACT**

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The recommendations in this report have no financial impact beyond the amount provided in the Auditor General's 2007 budget request.

#### **ISSUE BACKGROUND**

At its meeting of November 23, 2004, the Audit Committee:

“requested the Auditor General to provide the value added of his department 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 and represents the Auditor General's annual update on the benefits or value added to the City from the completion of the audit work plan.

In order to provide a meaningful analysis, the information in this report relates only to audits performed during the five year period from January 1, 2002 to December 31, 2006. We have eliminated the cost savings generated by the office from the date of amalgamation, January 1, 1998, through to December 31, 2001. The use of a five-year period in this report from January 1, 2002 to December 31, 2006 is consistent with the reporting of a number of large municipalities. This report also highlights various 2006 audit reports and the related estimated savings to the City.

The financial benefits to the City from audit reports issued prior to 2002, have previously been reported to Audit Committee and Council in our 2005 report and is available at:

[http://www.toronto.ca/audit/reports2006\\_sub4.htm](http://www.toronto.ca/audit/reports2006_sub4.htm)

## **COMMENTS**

### **The Auditor General's Office**

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

“To be recognized as a leading audit organization, respected by our clients and peers for excellence, innovation and integrity, in supporting the City of Toronto to become a world class organization.”

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's Office was established in order to report directly to and provide assurance strictly for City Council. The new *City of Toronto Act, 2006* has not changed this requirement.

The Auditor General has the authority to conduct financial, operational, compliance, information systems, forensic and other special reviews of City divisions and local boards (restricted definition). Under the *City of Toronto Act* local boards (restricted definition) is defined as a local board other than the Toronto Police Services Board, the Toronto Public Library and the Toronto Board of Health.

Specific responsibilities of the Auditor General include:

- conducting audit projects identified by the Auditor General, or approved by a two-thirds majority resolution of Council;

- conducting forensic investigations, including suspected fraudulent activities;
- providing assurance that the information technology infrastructure contains adequate controls and security including business continuity (emergency) planning;
- overseeing the work and the contract of the external auditors performing financial statement/attest audits of the City and its local boards;
- coordinating audit activities with the Internal Audit Division and any contracted work to ensure the efficient and effective use of audit resources;
- coordinating audit activities with the Toronto Police Services Board and Toronto Transit Commission in order to ensure the efficient and effective use of audit resources; and
- managing the Fraud and Waste Hotline Program, including the referral of issues to divisional 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
- divisional 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 2007 Audit Work Plan was submitted to the Audit Committee at its April 13, 2007 meeting. The work plan allocates audit resources to audit projects based, for the most part, on the results of a Citywide risk assessment conducted by the Auditor General's Office. The purpose of the risk assessment is to ensure that all areas of the City are

evaluated from an audit risk perspective by using uniform criteria and 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. Finally, the extent of projects included in our work plan is also a function of available staff resources.

## **Audit Recommendations**

Over the five year period commencing January 1, 2002, the Auditor General has made approximately 660 audit recommendations to management and to City Council including Agencies Boards and Commissions.

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 have identified 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 the

responsibility of management to implement recommendations. Further, 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. In 2006, the Auditor General's Office initiated and completed a formal systematic follow-up of recommendations to City divisions and Agencies, Boards and Commissions.

## **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 2002 through to December 2006, the Auditor General's Office completed over 60 performance audits, reviews and special projects. These 60 reports contained over 660 recommendations. In addition, since the inception of the Fraud and Waste Hotline in 2002, the Office has also handled almost 2,000 individual complaints.

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.

A comparison of the audit costs from 2002 to 2006 to the estimated potential savings is summarized in Table 1 below entitled "Summary – Total One-time and Cumulative Estimated Savings 2002 – 2006". Since 2002, the cumulative audit expenditure has been approximately \$13.9 million and the estimated cost reductions and/or revenue increases are in the range of \$69.8 million. Many of the cost savings are ongoing and occur on an annual basis. Our estimated cost savings are projected on a five year forward basis only.

In simple terms, for every \$1 invested in the audit process the return on this investment has been \$5.02.

These project savings are presented graphically as follows:

Table 1

**Five Year Estimated Savings Compared to Audit Costs**

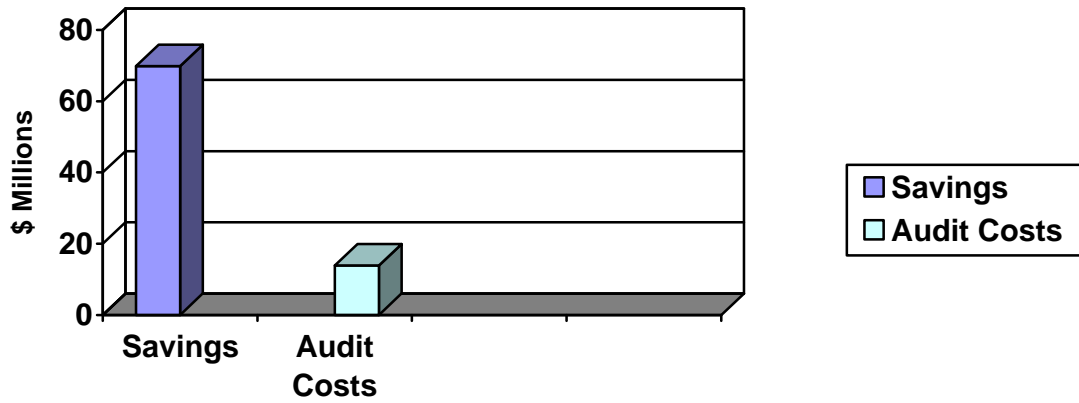


Table 2

Summary  
Total Five-Year Cumulative Estimated Savings  
2002 – 2006

ESTIMATED SAVINGS 000'S						
Year of Savings	Year of Audit Report					
	2002	2003	2004	2005	2006	Total
2002	124					124
2003	2,199	3,523				5,722
2004	2,199	1,237	2,340			5,776
2005	2,199	1,237	1,268	391		5,095
2006	2,199	1,237	1,268	2,600	410	7,714
2007	2,199	1,237	1,268	2,600	5,299	12,603
2008		1,237	1,268	2,600	5,299	10,404
2009			1,268	2,600	5,299	9,167
2010				2,600	5,299	7,899
2011					5,299	5,299
<b>Total</b>	<b>11,119</b>	<b>9,708</b>	<b>8,680</b>	<b>13,391</b>	<b>26,905</b>	<b>69,803</b>

Table 3 provides a summary of the Auditor General’s estimates of one-time and annual recurring savings generated as a result of the audit work conducted in 2006. These figures are estimates based on a range of assumptions by the Auditor General.

Table 3

Estimated Savings from 2006 Audit Reports

Year Project Issued	Project Description	One-time Savings	Ongoing Annual Savings
2006	Fraud Related Matters	\$90,000	\$39,000
2006	Management of Construction Contracts-Reconstruction Queensway Eastbound Lanes	\$70,000	\$2,000,000
2006	Review of Administration of Leases on City Owned Property		\$1,000,000
2006	Fines and Income Review – Toronto Public Library		\$200,000
2006	Management of City Information Technology Assets		\$60,000
2006	Operational Review – Toronto Fire Services	\$250,000	\$2,000,000
Total		\$410,000	\$5,299,000

**OVERVIEW OF SIGNIFICANT REPORTS ISSUED IN 2006**

**Management of Construction Contracts – Reconstruction Queensway Eastbound Lanes**

The objective of this review was to assess the adequacy of controls over the management of construction contracts. Our review focused on contract administration, processing of payments and compliance with relevant policies and procedures.

This review identified a number of areas requiring strengthened management controls and improved project management processes. This review also identified a number of opportunities and specific instances for recovery of excess payments due to errors and inadequate control over extra work orders.

Our review found errors on progress payments and inadequate planning and control over extra work orders issued under this contract that resulted in one time recoveries of \$70,000. The potential savings from improved management processes and controls over payments, and from reducing the amount of extra work orders on projects Citywide is conservatively estimated at over \$2,000,000. The \$2,000,000 relates to the impact of recommendations arising from this particular audit project will have on all other major construction projects in the City. This amount is very much an estimation.

Key recommendations include:

- the need for adequate completion and validation of inspector’s daily work reports;

- more timely billing and recovery of costs undertaken by third parties;
- more timely monitoring of independent concrete, material and compaction test reports;
- improving controls and supervision over the issuance and subsequent payment of extra work orders; and
- updating and monitoring compliance with the divisional procedures manual.

These recommendations will improve controls and enhance the overall effectiveness of contract management and payment processes.

## **Review of Administration of Leases on City Owned Property**

This review assessed whether management of leased City-owned property is maximizing rental income, and whether lease arrangements complied with the City's below market rent policy. The review focused on the administration and management of leases in two City divisions and excluded rental income earned by City Agencies, Boards and Commissions.

This report contained 25 recommendations and identified the need for better management oversight to ensure the City receives the correct rent and promptly follows up overdue accounts. The review determined that there is no accurate inventory of City leases nor is there assurance that renewals and rental terms are appropriately monitored to ensure that all rent due to the City is collected and properly accounted for. Based on the savings already achieved through the hire of one contract staff to monitor rental income from new and existing tenants, there is in our view, the potential for an additional \$1,000,000 in annual savings through improved management and controls over City leases.

Key findings from the review include:

- An accurate and complete inventory of lease agreements does not exist which makes it difficult to effectively monitor compliance with lease provisions;
- The responsibility for the management of leases often overlaps two divisions;
- Leases are not always executed and renewed on a timely basis and may cost the City additional rental income;
- Lease provisions are not always monitored and enforced and rental income is not collected;
- No structured proactive process is in place to market vacant properties. Certain properties are vacant for an inordinate amount of time and the City is losing money;
- Eligibility assessments were not completed for all below market tenants as the policy does not apply to tenants who receive below market rent for land;



- Overdue accounts are not always followed up promptly; and
- The reporting of rent in accounting records is not accurate and complete. Significant additional rent remains unpaid and may not be appropriately followed up and collected.

## **Fines and Income Review - Toronto Public Library**

The objective of this review was to assess whether the Toronto Public Library has appropriate and effective management controls over cash collection and related processes for fines and income, including information technology systems and processes relating to these areas. The review covered the following areas:

- Management and Administration of Fines and Internal Controls Over Cash
- Room Booking, Equipment Rentals and Management of Leases
- Management Control Over Photocopy Revenue
- Information Technology Environment and Controls Review

Our savings estimate of \$200,000 is again very much an approximation although we have provided specific potential savings estimates in the report. For example, the report indicates that “we estimate a reduction of two to three cents per copy from the current contract price could save approximately \$180,000 to \$270,000 annually”.

Our review identified a number of areas requiring strengthened management controls and improved system support. The review also identified several opportunities for the Library to improve collections and enhance revenues.

Key recommendations include:

- improving reporting, follow-up and monitoring of fine waivers and write-offs;
- developing processes to validate collection agency recoveries;
- more adequate recording of room rental revenues and establishing procedures for timely renewal of leases; and
- improving Information Technology general and operational controls.

These recommendations will improve management of Toronto Public Library resources and enhance service levels to patrons.

## **Management of City Information Technology Assets**

This review of the Corporate governance framework for managing information technology assets assessed the quality and effectiveness of City’s information technology asset management program and processes for the over \$110 million invested in hardware and enterprise-wide software, at over 500 locations.

The review addressed:

- inventory management disposal of hardware and software; and
- software licence management and contract management

The most significant finding was that the current decentralized control model of Corporate Governance for managing information technology assets is not cost effective and efficient and contributes to operational difficulties.

Key findings were as follows:

- A lack of coordinated planning and priority setting for information initiatives;
- Divisional information initiatives are not always aligned with the corporate business plan and strategy;
- A lack of citywide support to complete corporate information technology initiatives. Corporate projects compete with division priorities and do not always receive the resources or attention they deserve;
- A lack of effective monitoring and control of information technology. For example, maintenance fees of \$120,000 were paid over a five-year period for licenses never used and \$1.5 million was paid to a vendor for work not yet completed; and
- A lack of coordinated hardware and software acquisition and inventory management.

During the review the City Information Technology Governance and Organization Design Review was initiated to “assist in the development of an implementation and change management plan that will effectively address recommended improvements; provide well defined roles, responsibilities and accountabilities; provide a decision making framework; and successfully transform the information and technology organization.”

In December 2006, the Deputy City Manager and Chief Financial Officer officially presented the IT Governance and Transformation Project to all City staff outlining the objectives and timeline for the implementation of a new model for Information Technology with a Chief Information Officer and five new formalized IT functions. It is extremely difficult to quantify cost savings from the various recommendations. For example, efficiencies which may result from the governance review are essentially longer term. In any event, we have identified approximately \$60,000 in costs which have been eliminated from specific contracts as a result of this audit. This is the only savings we have recognized due to the difficulty in quantifying other potential savings.

## **Operational Review – Toronto Fire Services**

The objective of this review was to assess whether Toronto Fire Services has appropriate and effective management controls to ensure delivery of services that are relevant, reliable and cost effective and in compliance with appropriate policies and legislative requirements. The report contained 37 recommendations over a number of areas to:

- strengthen management control over compliance with City policies and expenditure payments;
- achieve better control over warehouse inventory;
- enhance the maintenance of fire vehicles; and
- identify opportunities for the fire prevention program to deliver its current level of service more cost effectively and with potentially fewer resources that will achieve significant savings for the City.

The review of Toronto Fire Services identified potential cost savings of approximately \$1 million if fire prevention inspectors had handheld computing capability to reduce office time and increase on-site inspection time. In addition, by centralizing the existing 18 district offices for fire prevention services there is an additional \$1 million of potential cost savings and improved efficiencies. There were other recommendations to improve procedures and controls over purchasing and contracted services that are not quantifiable.

## **Non-direct Financial Impacts of the Audit Process**

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 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.

In other cases, the impact of certain audit reports extend beyond the City itself. For example, the following three specific reports relating to the Toronto Police Services Board have had wide-ranging impacts:

- Review of the Investigation of Sexual Assaults;
- Performance Audit – The Public Complaints; and
- Follow-up Review on the October 1999 Report Entitled: Review of the Investigation of Sexual Assaults – Toronto Police Service.

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 – Toronto Police Service**

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 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 at the time was recognized by the U.S. based National Association of Local Government Auditors (NALGA) as the best Special Audit Project in North America. 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.

### **Follow-up Review on the Report Entitled: Review of the Investigation of Sexual Assaults – Toronto Police Service – October, 2004**

A follow-up audit report of the original "Review of the Investigation of Sexual Assaults – Toronto Police Service" was issued in 2005. This follow-up report evaluated the extent of the implementation of the recommendations included in the original 1999 report. This follow-up report contained 25 recommendations.

## **Performance Audit – The Public Complaints Process – Toronto Police Service – 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 Service Complaints Process. This review was headed up by Mr. Patrick J. LeSage former Chief Justice of the Superior Court of Ontario.

The report, Performance Audit – Public Complaints Process – Toronto Police Service, by the Auditor General was used as a resource for the provincially-mandated review of the police complaints system. The Auditor General met with former Chief Justice LeSage to review the contents of the audit report. Mr. LeSage’s final report was issued in 2005. Changes to the public complaints process have recently been announced.

## **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, there have been significant benefits which have accrued to the City as a result of certain of the recommendations contained in the report particularly in relation to the appointment of a Fairness Commissioner on all major contracts. The appointment of such a Commissioner has significantly improved the procurement process.

## **CONTACT**

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## **SIGNATURE**

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Jeffrey Griffiths, Auditor General

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