

APPENDIX 1

ANNUAL REPORT

**AUDITOR GENERAL'S OFFICE –
BENEFITS TO THE CITY OF TORONTO**

January 19, 2009



Auditor General's Office

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EXECUTIVE SUMMARY

***Report requested
by Audit
Committee***

This report responds to a request from the Audit Committee that the Auditor General, “provide the value added of his department by identifying:

- a. actual dollar savings to the City;
- 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.”

***City of Toronto
Act and the
Auditor General***

The *City of Toronto Act*, section 177 provides for the appointment of an Auditor General. The *Act* further specifies that the Auditor General reports to City Council and is:

“responsible for assisting city council in holding itself and city administration accountable for the quality of stewardship over public funds and for achievement of value for money in city operations.”

***Estimated
cumulative cost
savings and
increased
revenues from
Auditor General
reports is \$5.60 for
every dollar
invested***

In general terms, in fulfilling this mandate, the Auditor General during various reviews throughout the City may identify cost savings or opportunities for cost savings. These cost savings may be one time or ongoing. In summary, this report indicates that there is an estimated benefit of \$5.60 for each dollar invested in the Auditor General’s Office. This amount represents specific savings identified and has been calculated based on actual findings and recommendations contained in individual audit reports. Details and information supporting this amount are contained in the body of the report.

***Recommendations
relating to internal
controls also
important***

The realization of savings is only one component of the role of the Auditor General. Equally important is the ongoing evaluation of internal controls throughout the City in order to ensure that the City’s resources are adequately protected. Recommendations relating to improving internal controls are an important part of the Auditor General’s work. While the benefits of such reports are significant, these benefits can not be quantified.

While the focus of this report is on actual quantifiable savings, it is important to appreciate the benefits of the audit function which are not quantifiable. Obviously, these benefits are not included in the determination of the financial benefits of the audit function to the City.

Specific examples are as follows:

(1) The Mayor's Fiscal Review Panel

Mayor's Fiscal Review Panel – opportunities for cost savings

Since the issue of our last annual cost savings report, the Mayor's Fiscal Review Panel has issued a report entitled "Blue Print for Fiscal Stability and Economic Prosperity – a Call to Action".

One of the highlights contained in the Mayor's Fiscal Review Panel report related to the need for:

"a plan for much more alignment, cooperation, and increased oversight of the 119 Agencies, Boards, Commissions, and Corporations, creating more opportunities for savings and joint initiatives."

Prior years audit reports address Mayor's Fiscal Review Panel Recommendations

This is a recommendation we are fully supportive of and, in fact, has been a concern raised in a number of previous audit reports issued by the Auditor General dating as far back as 1999.

More recently, in the Auditor General's review of the Management of Information Technology at the Toronto Transit Commission, the report makes reference to the following:

"A recurring theme in a number of audits conducted by the Auditor General's Office at the City, such as the Management of City Information Technology Assets, the Review of Fleet Operations and the Review of Facilities and Real Estate Management is the need for closer cooperation and coordination between the City and its local boards, particularly the TTC and the Toronto Police Service. For instance, during the review of the Enterprise Case and Occurrence Processing System (e-COPS) information technology project at the Toronto Police Service in April 2005, one of the recommendations contained in that report was:

The Chief of Police and the City's Deputy City Manager and Chief Financial Officer develop an ongoing protocol and working relationship in order to ensure that:

- *technology developments do not occur in isolation from each other;*
- *technology developments are in accordance with the long-term objectives of both organizations; and*
- *the purchase of any computer hardware and software is coordinated.*

While recognizing that both the TTC and the Toronto Police Service are separate legal entities there are, in our view, ongoing cost saving opportunities in developing closer relationships between the City and both of these entities, particularly in the area of information technology.”

These cost savings can not be quantified, but are likely significant

The recommendations made by the Mayor's Fiscal Review Panel validate concerns we have raised for a number of years. The Fiscal Review Panel has not quantified these potential cost savings but they are likely significant. Generally, the reason why the cost savings have not been quantified relates to the fact that such an exercise is extremely difficult and likely subjective.

(2) Prior Years Cost Savings

This report does not contain savings realized before 2004

This report represents savings identified from reports issued between 2004 and 2008. Consequently, any ongoing savings identified by the Auditor General prior to that date have not been considered in this report. Many of the savings realized prior to 2004 are of continuing benefit to the City. Certain of the recommendations made prior to 2004 include:

- the need to reduce reliance on consultants;
- the replacement of high cost consultants with permanent staff;
- the coordination of information technology development including the establishment of an SAP Competency Centre;
- the better management and coordination of software license acquisitions; and
- the better management of the City's Grants Program.

Cost savings generated from these recommendations are ongoing.

(3) Impact of Divisional Recommendations Across the City and its Local Boards

Many reports contain recommendations which pertain to specific Divisions or local boards within the City. In the case of contract audits for instance, certain of the recommendations are specific to individual contracts. While this may be the case, recommendations for one particular contract may have relevance to all contracts, not just within the Division subject to audit, but other contracts throughout the City and its local boards. In such cases, any savings realized in other Divisions as a result of specific recommendations have not been quantified.

Further, in connection with our various contract audits, we issued a further report relating to unbalanced bids. The financial impact of the recommendations in this report clearly indicate that implementing the recommendations will likely result in reduced construction costs. Again, the extent of these savings is undeterminable and consequently not reflected in this report.

(4) Certain Reports Have Benefits Which are Not Financial

Benefits other than cost savings

Certain other reports issued by the Auditor General's Office have impacts beyond cost savings. One such report is entitled "Audit of City Performance in Achieving Access, Equity and Human Rights Goals." The purpose of this report was not to identify cost savings but to provide a snapshot of how well the City is doing in meeting its access equity and human rights goals.

Finally, a major report which had minimal direct financial impact continues to have ongoing significant other benefits to the City. As far back as 1999, the Auditor General issued a report entitled "Review of the Investigation of Sexual Assaults – Toronto Police Service."

The benefits of this report were far reaching.

In addition to its impact at the City, the Royal Canadian Mounted Police indicated that they would consider the recommendations in the report in the training of its officers in sexual assault investigations. Further, this report has received other attention throughout the U.S. and, in some cases, other City's have since conducted similar audits based on the one conducted in Toronto.

Conclusion

The role of the Auditor General is not specifically to identify cost savings. Cost savings, in many cases, are a direct result of the work conducted by the Office, but of equal importance is the work conducted in connection with the ongoing evaluation of administrative controls it is important to appreciate also that reports which have no financial benefit nevertheless have significant other long-term benefits to the City.

1.0 BACKGROUND

Annual update report requested by Audit Committee

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 to the City from the completion of various audits.

Includes audits from the five-year period 2004 to 2008

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, 2004 to December 31, 2008.

The use of a five-year period in this report is consistent with the reporting of a number of audit organizations in certain large municipalities.

Previous years cost savings reported in prior years

We have eliminated the cost savings generated by the Auditor General’s Office from the date of amalgamation, January 1, 1998, through to December 31, 2003. These financial benefits to the City have been reported to Audit Committee and Council in our previous year end reports and are available at:

<http://www.toronto.ca/audit/reports2008.htm>
<http://www.toronto.ca/audit/reports2007.htm>
<http://www.toronto.ca/audit/reports2006.htm>
<http://www.toronto.ca/audit/reports2005.htm>

Includes highlights of 2008 audit reports

This report highlights various 2008 audit reports and the related estimated savings to the City.

2.0 THE AUDITOR GENERAL'S OFFICE

2.1 Mission Statement and Authority

Mission Statement – to be recognized as a leading audit organization

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.”

Audit process is an independent, objective approach to improve governance and control processes

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.

Auditor General reports to Council

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

Authority under City of Toronto Act

The *City of Toronto Act, 2006* provides the Auditor General with 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.

2.2 Responsibilities

Under Section 169 of the Toronto Municipal Code, the Auditor General is responsible for “assisting city council in holding itself and city administrators accountable for the quality of stewardship over public funds and for achievement of value for money in City operations.”

Specific responsibilities of the Auditor General include:

- Divisional audit projects***
 - conducting audit projects identified by the Auditor General, or approved by a two-thirds majority resolution of Council;
- Fraud investigations***
 - conducting forensic investigations, including suspected fraudulent activities;
- Information technology reviews***
 - providing assurance that the information technology infrastructure contains adequate controls and security including business continuity (emergency) planning;
- Audit of ABCs***
 - undertaking financial (excluding attest) compliance and performance audits and provide recommendations to City-controlled Agencies, Boards and Commissions;
 - undertaking financial (excluding attest), compliance and performance audits and provide recommendations upon request by the Toronto Police Services Board, Toronto Public Library Board and the Toronto Board of Health;
- Oversee external audit contract***
 - overseeing the work and the contract of the external auditors performing financial statement/attest audits of the City and its local boards;
- Coordination with Internal Audit Division***
 - coordinating audit activities with the City's Internal Audit Division to ensure the efficient and effective use of audit resources;
- Coordination with Accountability Officers***
 - coordinating activities with the City's three other Accountability Officers; the Ombudsman, the Lobbyist Registrar and the Integrity Commissioner; and
- Manage the Fraud & Waste Hotline***
 - managing the Fraud and Waste Hotline Program, including the referral of issues to divisional management.

2.3 Professional Standards

Audits conducted using Government Auditing 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 bound by professional organization ethics

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

2.4 Annual Audit Work Plan

Submits annual audit work plan to City Council for information

On an annual basis, the Auditor General submits an audit work plan for the upcoming year to City Council for information. The 2009 Audit Work Plan was received by City Council at its December 1, 2008 meeting. The work plan provides an overview of how resources allocated to the Auditor General's Office will be used in 2009.

Audit projects prioritized based on risk assessment

The allocation of audit resources to audit projects, for the most part, is based on the results of a comprehensive city-wide risk assessment exercise, updated annually by the Auditor General's Office. In 2007, the Auditor General also completed a detailed risk assessment for City Agencies, Boards and Commissions. 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 in order to prioritize potential audit projects.

A risk assessment exercise on the City's programs and services is underway

Best practices generally necessitate a re-evaluation of any risk assessment over a five-year period. In this context, the Auditor General's Office is currently conducting a comprehensive risk assessment of the City's programs and services which will be completed by June 2009.

When selecting audit projects, the Auditor General attempts to balance audit work that will identify opportunities for cost reductions, increased revenues, enhanced efficiency and effectiveness of municipal services, and improvements in major control systems.

Other factors impact work plan such as Hotline complaints and concerns of Council

The process for selecting audits also includes the consideration of complaints received through the Fraud and Waste Hotline Program.

The work plan consists of ongoing projects, new projects, Council requests and also includes our annual follow-up of audit recommendations.

Projects must fit available resources

Finally, the extent of audit projects included in our work plan is also a function of available staff resources.

2.5 Audit Recommendations

Over 680 recommendations the last five years

Over the five-year period commencing January 1, 2004, the Auditor General has made over 680 audit recommendations to management, including management of the City's Agencies, Boards and Commissions, and to City Council. Since amalgamation, the Auditor General has made over 1,050 audit recommendations to management, including management of the City's Agencies, Boards and Commissions and to City Council.

The Auditor General, in making recommendations, is cognisant of the cost benefit of implementing the recommendations. Careful consideration is given to ensuring that recommendations are relevant, practical and cost-effective. Consequently, there are very few instances where management is in disagreement with the recommendations.

How do audit recommendations benefit the City?

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. Audits have identified ways to:

1. increase City revenues or identify opportunities for new revenues or cost reductions;
2. better manage or utilize City resources, including the management of public funds, personnel, property, equipment and space; and
3. eliminate inefficiencies or uneconomical practices, including inadequacies in management information systems, internal and administrative procedures, 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 disposal of assets;
- ensure compliance with laws, regulations, policies, procedures or generally accepted industry standards; and
- achieve the desired program results.

2.6 Audit Follow-Up Process

Management is responsible for implementation of recommendations

Auditing by itself does not directly produce benefits to the City. 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. The Auditor General assists Council in exercising this responsibility through an annual recommendation follow-up process.

Follow-up process monitors implementation of recommendations

An audit process is not effective unless there is a monitoring process to ensure that recommendations have been implemented. The Auditor General's Office conducts a formal systematic follow-up of recommendations made to City Divisions and Agencies, Boards and Commissions. The follow-up of recommendations is an annual process incorporated in our work plan.

Annual audit follow-up process

On an annual basis, the Auditor General forwards a listing of outstanding audit recommendations to management. Management responds with information detailing the action taken on recommendations implemented as well as progress made on those not fully implemented. The Auditor General reviews information provided by management to determine the accuracy of management assertions related to each recommendation, and communicates results of the review to the Audit Committee.

Management has implemented 85 per cent of the Auditor General's recommendations

The results of our 2008 follow-up review indicated that management has fully implemented 690 or 85 per cent of the 919 recommendations made by the Auditor General from January 1, 1999 to June 30, 2007.

City ABCs have implemented 90 per cent of the Auditor General's recommendations

The Auditor General also follows up on the status of audit recommendations made to City Agencies, Boards and Commissions. City ABCs have implemented 90 per cent of the 135 recommendations contained in reports issued by the Auditor General's Office from January 1, 1999 to June 30, 2007.

3.0 COST SAVINGS AND INCREASED REVENUES

3.1 Quantifiable Financial Benefits

Audit Committee requested financial benefits

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.

Since 2004, issued over 129 reports with 680 recommendations

From January 2004 through to December 2008, the Auditor General's Office completed 56 performance audits and 73 other reviews and special projects. These 129 reports contained approximately 680 recommendations.

Since 2004, handled over 2,500 Hotline complaints

In addition, the Office has handled over 2,500 individual complaints to the Fraud and Waste Hotline Program over the same five-year period.

One benchmark of audit effectiveness is ratio of audit cost to generated cost savings

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

Cost savings over last five years are in the range of \$91 million

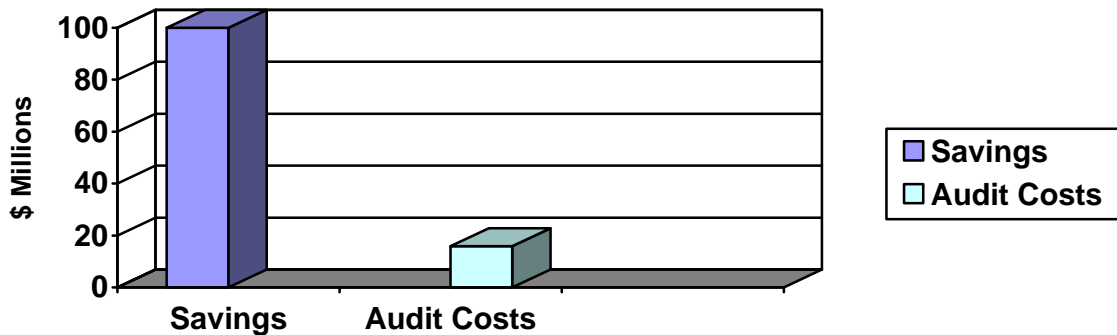
A comparison of audit costs from 2004 to 2008 to the estimated potential savings is summarized in Table 1 below entitled “Five Year Estimated Savings Compared to Audit Costs 2004 – 2008”. Since 2004, the cumulative audit expenditure has been approximately \$16 million and the estimated cost reductions and/or revenue increases are in the range of \$91 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.

Return on investment of \$5.60 for every \$1 invested on audits

In simple terms, for every \$1 invested in the audit process the return on this investment has been \$5.60. These projected savings are presented graphically in Table 1 as follows:

3.2 Table 1

**Five Year Estimated Savings Compared to Audit Costs
2004-2008**



Cumulative savings by year from 2004-2008

Table 2 provides a summary by year of the estimated cumulative savings generated as a result of the audit work conducted from 2004 through 2008 projected forward over a five year period. These figures are estimates based on a range of assumptions by the Auditor General.

3.3 Table 2

**Summary
Total Five Year Cumulative Estimated Savings
2004 – 2008**

ESTIMATED SAVINGS \$000's						
Year of Savings	Year of Audit Report					
	2004	2005	2006	2007	2008	Total
2004	\$2,340					\$2,340
2005	1,268	\$391				1,659
2006	1,268	2,600	\$410			4,278
2007	1,268	2,600	5,299	\$506		9,673
2008	1,268	2,600	5,299	4,577	\$716	14,460
2009	1,268	2,600	5,299	4,577	3,545	17,289
2010		2,600	5,299	4,577	3,545	16,021
2011			5,299	4,577	3,545	13,421
2012				4,577	3,545	8,122
2013					3,545	3,545
Total	\$8,680	\$13,391	\$26,905	\$23,391	\$18,441	\$90,808

***Savings from
2008 audit work***

Table 3 provides a summary of the Auditor General's estimates of one-time and annual recurring savings generated as a result of certain audit work conducted in 2008. These figures are estimates based on a range of assumptions by the Auditor General.

3.4 Table 3

Estimated Savings from 2008 Audit Reports Where Savings are Quantifiable

Year Project Issued	Project Description	One-time Savings	Ongoing Annual Savings
2008	The Management of Information Technology Projects – Opportunities for Improvement, Toronto Transit Commission	\$200,000	\$1,700,000
2008	Court Services Review – Toronto Police Service		\$900,000
2008	Review of the City's Attendance Management Program		\$615,000
2008	Protecting Water Quality and Preventing Pollution – Assessing the Effectiveness of the City's Sewer Use By-law, Toronto Water	\$345,000	\$300,000
2008	Fraud Related Matters	\$170,500	\$30,000
Total		\$715,500	\$3,545,000

4.0 OVERVIEW OF SIGNIFICANT REPORTS ISSUED IN 2008

The following highlighted reports and estimated savings reflect a number of the 28 reports issued by the Auditor General's Office during 2008.

Many of the recommendations from our reports concerning a specific division or project can be applied to other areas of the City. For example, audit recommendations to improve the management of TTC's information technology projects and the City's attendance management program have relevance to City Divisions and the City's major Agencies, Boards and Commissions. While the applicability of recommendations to other entities in the City are possible, none of these benefits have been quantified.

4.1 The Management of Information Technology Projects –Opportunities for Improvement, Toronto Transit Commission

The objective of our audit was to review the overall practices and processes related to the development, management and implementation of information technology projects in order to identify opportunities for improvement as well as cost savings.

Information Technology development and acquisitions at the City and the TTC requires greater coordination

The key message conveyed in this report related to the need to coordinate information technology issues with the City. The City's recent restructuring of its information technology management process and the hiring of a Chief Information Officer with overall City responsibilities provides an opportunity for the Toronto Transit Commission (TTC) to develop closer information technology relationships with the City. It is our view that a more formal structured communication and working relationship between the City and the TTC would result in cost savings.

The audit identified the need to improve project management practices and minimize the use of external consultants

Key recommendations identified in our report include the need to:

- develop sound, complete and comprehensive business cases for all projects;
- ensure that all cost estimates are evaluated thoroughly;
- develop cost estimates on sub projects within a project as opposed to developing one cost estimate on a major project;
- minimize the use of external consultants in circumstances where the work conducted by consultants could be performed by less expensive internal resources;

- better manage and evaluate consultant contract deliverables;
- more effectively manage costs and time frames; and
- set up a process for the final close out of information technology projects.

The implementation of the 15 recommendations outlined in the audit report will improve the management of information technology projects at the TTC and provide opportunities for cost savings.

Replacing consultants with TTC staff could result in annual cost savings of \$1.7 million

In response to our report, TTC management has undertaken a program to convert 40 contractor positions into regular staff positions. It is projected that this initiative will eventually result in budget reductions of approximately \$1.7 million per year.

4.2 Court Services – Toronto Police Service

Since court services was downloaded from the Province to the municipality in 1990, the cost of court services has increased from \$15.5 million in 1990 to over \$50 million in 2008.

The current funding relationship is flawed and should be changed

Our review confirmed the need for a fundamental change in the funding relationship between the City of Toronto and the Province of Ontario in relation to court security and prisoner transportation. While we have identified opportunities for efficiencies and annual recurring cost savings in the range of \$0.9 million within the jurisdiction of the Toronto Police Service, our audit noted that the Toronto Police Service under current funding arrangements has no option but to continue to operate within a system which is inherently inefficient and over which the Toronto Police Service has limited control.

The report also concluded that the current funding arrangements generally do not provide any incentive for the Province of Ontario to address many of the operational issues within its control. Changes in the funding arrangements will likely provide a catalyst for the Province to make significant changes in order to reduce the overall costs of delivering court services in the City.

The audit identified efficiencies in the deployment of resources of the Toronto Police Service

The report's five recommendations outlined the need for Toronto City Council, the Toronto Police Services Board and the Chief of Police to direct ongoing efforts to petition the Ontario Government in connection with the uploading of court security and prisoner transportation costs to the Province, and how Toronto Police Service's resources could be deployed more effectively.

As part of the audit process, the Auditor General had several meetings with staff of the Toronto Police Service and provincial officials to discuss options. The Toronto Police Services Board also continued its effort to petition the Ontario Government, as recommended in the audit report, and forwarded the audit report to the Premier of Ontario and the Honourable Chief Justice of Ontario for information.

On October 31, 2008, the Ontario Government announced its decision to remove court security and offender transportation costs from municipal budgets by 2018, and phasing in the upload of these costs starting in 2012.

4.3 Review of the City's Attendance Management Program

The overall objective of our review was to assess whether management was monitoring employee attendance, specifically the potential misuse of sick leave.

An effective Attendance Management Program over employee absences is important to identify potential incidents that may not be legitimate and are actually blameworthy, including the misuse of sick leave banks, particularly prior to retirement.

Varying levels of compliance and inconsistent divisional monitoring practices

We determined that in a third of the 143 employee absences examined from 22 divisions, management did not take appropriate action to ensure compliance with the Attendance Management policy. Few divisions are complying with the requirement to review attendance management issues on a rolling 12 month basis.

Our review found varying levels of compliance and inconsistent divisional monitoring practices indicating a need to:

- enhance awareness of the Policy through better training and communication;
- develop standardized documentation and recordkeeping practices for management and supervisory staff;
- re-emphasize requirements to provide medical certificates in support of absences due to illness; and
- expedite the availability of divisional training to staff responsible for dealing with attendance issues.

4.4 Protecting Water Quality and Preventing Pollution – Assessing the Effectiveness of the City’s Sewer Use By-law, Toronto Water

Audit of inspection and enforcement of the City’s Sewer Use By-law

The objective of this audit was to determine if Toronto Water’s inspection and enforcement activities, including mandatory pollution prevention planning, are effective in ensuring businesses meet the requirements of the City’s Sewer Use By-law.

Inspection and enforcement activities can be improved

This report contains 22 recommendations that deal with improvements to inspection and enforcement activities and pollution prevention planning. Addressing the recommendations in this report will improve staff productivity, the use of information technology, inspection and enforcements activities, and water quality in the City.

Seven companies that did not comply with the By-law received the reduced water rate

As part of our audit, we identified seven companies that were in receipt of a reduced water rate but were not in compliance with the Sewer Use By-law and were therefore, not eligible for the reduction. The annual water rate reduction for these seven companies for the period January 1, 2008 to June 30, 2008 amounted to approximately \$330,000. In total, 350 businesses received rate reductions of \$12 million for the first six months of 2008.

Interest is not charged on overdue accounts

Interest is not currently charged on overdue accounts. On a conservative basis, we estimate that interest revenue of \$150,000 could be earned annually if the City charged interest at prime rate according to surcharge agreements. If interest was charged according to the Municipal Code rate, the annual amount owing would be approximately \$463,000. For purposes of this report, we assumed savings at the midpoint between those two estimates.

Delays in setting up surcharge agreements

We identified delays in setting up surcharge agreements to recover the costs of treating certain pollutants. Although surcharge fees are retroactive once an agreement is finalized, large retroactive billings could cause collection difficulties for the City and financial hardship for companies.

4.5 Employee Benefits Review

Projected benefit cost increases are significant and unsustainable

The cost of providing benefits to City employees and retirees has risen from approximately \$146 million in 2005 to an estimated \$183 million in 2007 (a 25 per cent increase).

The purpose of this review was to assess whether cost containment opportunities exist in City sponsored employee benefit plans, to review procedures in place to manage and control services provided under the benefit administrator's contract and to determine if opportunities exist for improving future benefit administrator contracts.

Key findings from the report

Key findings from the review include:

- while the total number of plan members has remained relatively stable over the past several years, benefit cost and number of benefit claims have increased;
- the City's benefit costs increases were consistent with industry standards for health cost increases in Canada, 16 per cent for health and 10 per cent for dental, but such increases are unsustainable in the long term;
- the current design of City benefit plans provides employees with little or no financial stake in benefit decisions and as a result there exist limited incentive to obtain best value when seeking a benefit service provider; and

- benefit costs will continue to increase significantly owing to the relatively advanced age of the City's workforce. This will continue to the employee's retirement and with the end of mandatory retirement, employees working beyond age 65 will further increase the City benefit costs.

Potential opportunities to reduce costs include the following:

Caps on drug dispensing fees could save approximately \$1.2 million each year

- The City could realize an annual plan savings of approximately \$1.2 million by imposing a cap of \$8.50 on drug dispensing fees. Currently drug dispensing fees varied from \$4.12 to \$14.00 per filled prescription. City benefit plans contain no limitation or deductible as to the amount reimbursed to employees for drug dispensing fees charged by pharmacies.

Deductibles, co-insurance payments and maximum caps reduce overall costs

- The Pension, Payroll and Employee Benefits Division continue to review cost containment initiatives for the purpose of identifying potential cost reduction opportunities related to employee and retiree benefit costs. The review should include the use of drug dispensing fee caps as well as the potential for deductible and co-insurance provisions.
- Current industry best practice for containing employee benefit costs include the use of deductibles, co-insurance and maximum caps in employee benefit plans. These practices provide employees with a personal financial involvement in health and benefit decisions and create an incentive to contain costs.

4.6 Review of Affordable Housing Project at 2350 Finch Avenue West

This review was conducted at the request of City Council in 2007. The proposed housing project at 2350 Finch Avenue West, consisting of 48 residential and four commercial units, to be controlled by a community group, was one of the first projects initiated under the Let's Build Program. The project was also funded under the Canada-Ontario Affordable Housing Program. To ensure the affordability of any housing to be constructed, the City undertook to donate the land on a 50-year lease and make other contributions to the project.

Cost overruns totalling \$6.9 million

The project experienced cost overruns totalling \$6.9 million and project completion delay of over five years. The objective of this review was to determine reasons for significant project delays and cost overruns.

Design changes and project delays were the key contributors to cost overruns

Key findings from the review include:

- Appropriate documentation supporting the selection of the successful proponent was not available to determine whether or not the selected proponent was the most qualified to manage the project;
- The land donated by the City was not zoned for the required residential/commercial mixed use and obtaining the necessary approvals took six years. Site plan approval was conditional on the completion of over 60 requirements. The large number of conditions indicate poor evaluation of the proposal by the City and inadequate planning by the community group's development team;
- Design changes and delays to the project resulted in additional cost of over \$3.3 million;
- The City's role and staff resources available were inadequate to compensate for the community group's lack of experience;
- It was not possible to determine whether or not the goods and services were acquired at the lowest price because the community group did not use a competitive process to hire contractors and consultants. Further, certain contractors were hired on personal referrals provided by members of the community group;
- The construction contract was awarded by the community group without completed mechanical and electrical drawings. The final cost of these items doubled and was over \$900,000 higher than estimated; and
- The project encountered several contractor claims and liens due to payment disputes with the community group resulting in delays and extra costs of \$910,000.

Key recommendations include strengthening terms and conditions in City contracts, such as requiring proponents to follow competitive process in the hiring of contractors and consultants, and contracts to include standard performance bonds and warranties. We also recommended the respective divisions develop and implement procedures to monitor controls exercised by proponents responsible for developing affordable housing projects.

Extra costs of over \$1,100,000 for liens, delays and other related charges

The review identified costs in the range of \$1,100,000 for liens, delays and other related charges that were avoidable had appropriate project management and oversight been in place. Given that the City was not directly responsible for this project these costs were not avoided nor are they recoverable. As such we have not included these amounts in Table 3.

5.0 NON-FINANCIAL BENEFITS – HIGHLIGHTS FROM REPORTS ISSUED IN 2008

Many reports produce non-financial benefits

The purpose of any audit process is not specifically to identify cost reductions or revenue increases. In certain cases, additional costs may be required to remedy certain control weaknesses.

Better internal control and operational efficiencies have no direct financial benefit

Many of the recommendations issued by the Auditor General's Office have not resulted in direct financial benefits but have led to improvements relating to:

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

Other reports have wide ranging impacts beyond financial benefits to the City

In other cases, the impact of certain audit reports may have wide ranging impacts beyond financial benefits. For example, the following reports have benefits that are not easily measurable in financial terms:

- Disaster Recovery Planning for City Computer Facilities
- Audit of City Performance in Achieving Access, Equity and Human Rights Goals

- Managing the Risk of Overpayments in the Administration of Social Assistance
- Fleet Review – Toronto Police Service

These reports are a general sample of reports previously issued. Details of all reports are on the Auditor General’s web site:

<http://www.toronto.ca/audit/reports>

5.1 Disaster Recovery Planning for City Computer Facilities

This audit provides a snapshot of the City’s efforts and identifies what still needs to be done

Because the City’s information technology disaster recovery planning has been ongoing for a number of years, the purpose of this audit was to provide a snapshot of what the City has accomplished and what work remains to be completed in preparing contingency plans in the event of a disaster.

The City is working towards implementing a corporate oversight framework, but significant efforts are required to prepare the City in the event of a computer facility disabling disaster

We concluded that the City is not yet prepared in the event a disaster disables City information technology infrastructure. Management has directed its efforts toward strengthening the governance framework, but a number of important issues related to disaster recovery remain outstanding. Key among these issues is the coordination of disaster recovery programs with the City’s Agencies, Boards and Commissions.

Outcomes from the IT Governance and Transformation Project, such as a corporate governance model and action to consolidate computer equipment in fewer locations, will have a direct impact on disaster recovery planning for City computer facilities. Understandably, a governance exercise of this nature is complex and requires time. To date there has been limited progress in implementing a corporate framework related to the City’s disaster recovery planning process.

Our report contains seven recommendations

Our report contains seven high level recommendations relating to the development of disaster recovery plans. These recommendations center on the need to:

- develop a formal protocol with the Agencies, Boards and Commissions related to collaborating on information technology disaster recovery planning and preparedness;
- implement a City-wide business continuity planning program policy outlining roles and responsibilities, resource requirements, training requirements, simulation and plan maintenance schedules;
- provide staff with training related to information technology disaster recovery planning and preparedness; and
- ensure City-wide computer related backup and storage procedures comply with appropriate standards and practices.

Implementation of recommendations will improve management controls over disaster recovery planning

The implementation of recommendations in the report will improve management controls over disaster recovery planning for City computer facilities. With adequate planning and preparation, the City will be in a better position to minimize the negative effects of extended computer service interruptions and maintain critical public services in the event of a disaster.

5.2 City Performance in Achieving Access, Equity and Human Rights Goals

Second audit relating to access, equity and human rights

This was the second audit conducted by the Auditor General relating to access, equity and human rights. Our first audit was conducted in 2003 in response to a recommendation by the Task Force on Community Access and Equity. The Task Force recommended that the Auditor General oversee an audit on access, equity and human rights, once in each term of Council.

The overall objective of the audit was to determine the extent to which the City has achieved its access, equity and human rights goals.

Numerous new initiatives have been taken since 2003 but certain areas can be further improved

Since our last audit in 2003, the City has made progress in a number of areas and has undertaken numerous new initiatives. However, a number of areas can be further improved.

To achieve its access, equity and human rights goals, the City needs to enhance its human rights complaint management process, develop a corporate civic engagement strategy, implement a workforce survey and increase its level of diversity and human rights training. The City should also look outward to other organizations many of which have invested considerable resources and efforts in making diversity and equity part of their organizational culture.

Implementation of certain recommendations may require additional costs while other may result in cost savings

Implementation of certain recommendations in this report may require additional costs while other recommendations may result in cost savings. The extent of any resources required or potential cost savings resulting from implementing the report recommendations is not determinable at this time.

5.3 Managing the Risk of Overpayments in the Administration of Social Assistance

Management of overpayments improved since last audit in 2005

Our office conducted a review of inactive overpayments (individuals no longer receiving assistance) in 2005. Since then, a number of management initiatives in response to the 2005 audit recommendations have been implemented to improve the management of overpayments.

In 2007, Toronto Social Services provided approximately \$582 million in basic financial assistance to an average monthly caseload of approximately 75,000 active cases. During this same period \$15.2 million in new overpayments were identified, while overpayment recoveries and adjustments totalled approximately \$11.2 million.

The primary objective of this review was to assess whether the Division has adequate controls in place to ensure the effective and efficient administration of overpayments including compliance with legislative requirements and internal procedures and policies.

Improvements will result in prevention and early detection of overpayments

This audit found that Toronto Social Services has adequate processes in place to effectively administer active overpayments (individuals currently receiving assistance). By implementing the audit recommendations, the Division will achieve administrative efficiencies and improvements in the prevention and earlier detection of overpayments.

5.4 Fleet Review – Toronto Police Service

The objectives of this review were to assess the adequacy of internal controls over police fleet maintenance excluding fleet equipment maintained by the marine unit.

The following is a summary of our findings:

Certain initiatives introduced in the past have enhanced the management of fleet maintenance and store operations

- The Toronto Police Service has implemented a number of initiatives, such as consolidating garage and store facilities and reducing staff, introducing a computerized fleet management system and a “Just in Time” inventory system to enhance the cost-effective management of the police fleet and store operations.
- The current governance structure and control framework provide reasonable assurance that the police fleet and fuelling sites are managed appropriately and related legislative requirements are met.
- Police personnel interviewed indicated their current satisfaction with the number and location of fleet garage and stores. They also indicated that the service quality and response time offered by garage personnel normally meet and sometimes exceeded expectations.
- Implementation of initiatives such as making better use of current information systems and new technology, and strengthened control over inventory recording will promote cost-effective use of police resources.

The need to promote administrative efficiency and more cost-effective use of staff resources

Addressing issues identified in this review will promote administrative efficiency and more cost-effective use of staff resources.

5.5 Annual Report on Fraud & Waste Hotline

Prevention and detection, key components to manage risk of fraud, other wrongdoing

The Auditor General's Office has administered the Fraud & Waste Hotline Program since its inception in 2002. The Hotline Program is part of the City's strategy to manage the business risk of fraud and other wrongdoing. Prevention and detection remain key components in managing this business risk which results in direct financial losses and costs such as additional management resources to investigate and correct wrongdoing.

In 2008, the number of complaints reported and managed through the Program reached in excess of 600. This is the highest since the inception of the Program. While the financial benefits of the Program have been highlighted in Table 3, it is important to recognize the non-financial benefits:

1. The resolution of complaints leads to improvements relating to internal controls, policies and procedures and mitigates potential misuse of City resources.
2. The Hotline Program allows employees and the public to report complaints anonymously. This encourages the reporting of wrongdoing to help detect and stop further losses to the City.
3. The Hotline Program is a key component in deterring fraud or wrongdoing by increasing the perception of being detected.

While these non-financial benefits to the City are significant, it is impossible to quantify their value.

6.0 CONCLUSION

This report represents the Auditor General's fifth annual report on the benefits or value added to the City of Toronto based on the impact of implementing audit report recommendations.

Over the five year period commencing January 1, 2004, the estimated potential savings to the City are in the range of \$91 million compared to a cumulative audit expenditure of \$16 million. In simple terms, for every \$1 invested in the audit process the return on this investment has been \$5.60.

However, the audit process is not specifically designed to identify cost reductions or revenue increases. Many of the recommendations issued by the Auditor General's Office have led to strengthened internal controls, improvements to policies and procedures, better management and use of City resources and the elimination of operational inefficiencies.

Finally, auditing by itself does not directly produce these benefits. Management is responsible for implementing the recommendations and City Council is responsible to ensure that agreed upon changes and improvements occur. In this regard, the Auditor General's Office conducts an annual formal systematic follow-up to ensure that recommendations have been implemented.