



**STAFF REPORT
ACTION REQUIRED
Confidential Attachment**

Auditor General's Status Report on Outstanding Audit Recommendations for City Divisions

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| Date: | June 1, 2009 |
| To: | Audit Committee |
| From: | Jeff Griffiths, Auditor General |
| Wards: | All |
| Reason for Confidential Information: | This report involves the security of property belonging to the City or one of its agencies, boards, and commissions. |
| Reference Number: | |

SUMMARY

This report provides information regarding the implementation status of audit recommendations contained in various reports issued by the Auditor General to City divisions. The report is the fourth such annual report issued by the Auditor General related to follow-up on management efforts to implement outstanding recommendations.

Management has made significant progress on implementing outstanding audit recommendations. Further, we noted that management continues to make progress on many recommendations not yet fully implemented.

Since January 1, 1999 the Auditor General has issued various reports containing a total of 1,012 recommendations. Since that time 125 of these recommendations have been identified by the Auditor General as no longer relevant. These recommendations are no longer relevant because of changes such as re-organization, modification, reduction or termination of the service provided by the affected division. Consequently, of the 1,012 recommendations made, 887 continue to have relevance.

The results of our review indicate management has fully implemented 790 or 89 per cent of the recommendations made by the Auditor General from January 1, 1999 to June 30, 2008.

Continued efforts to implement outstanding recommendations will provide additional benefit to the City through cost savings, additional revenue and enhanced service delivery.

RECOMMENDATIONS

The Auditor General recommends that:

1. The City Manager direct senior management to review documentation supporting the implementation status of all audit recommendations prior to the submission of information to the Auditor General's Office.
2. City Council not authorize the public release of Confidential Attachment 1.

FINANCIAL IMPACT

The recommendations in this report have no financial impact.

ISSUE BACKGROUND

In accordance with the Auditor General's 2008 Work Plan, we have completed a review of the implementation status of audit recommendations issued by the Auditor General's Office. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

On an annual basis, the Auditor General transmits 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. The results of this review are communicated to the Audit Committee. This review includes recommendations included in reports issued by the Auditor General from January 1, 1999 through June 30, 2008.

The results of this review relate only to City divisions reporting to the City Manager and do not include reports and recommendations relating to the City's agencies, boards and commissions. The status of recommendations related to agencies, boards and commissions is reported under separate cover.

COMMENTS

Results of the Auditor General's Review

Table 1 below contains cumulative results for all recommendations contained in reports issued by the Auditor General's Office from January 1, 1999 to June 30, 2008.

Table 1:

Percentage of Recommendations Implemented Since Inception of the Follow-up Process

| Status of Recommendations | As of June 30, 2008 | As of June 30, 2007 |
|--|------------------------|------------------------|
| Fully Implemented | 790 | 698 |
| Not Fully Implemented | 97 | 119 |
| No Longer Relevant | 125 | 119 |
| Total | 1,012 | 936 |
| Fully Implemented as a percentage of total recommendations | 89% | 85% |

As of June 30, 2007, various audit reports issued by the Auditor General contained a total of 936 recommendations. An additional 76 recommendations were added during the current review period bringing the current period total to 1,012 recommendations.

The results of our review indicate that management has fully implemented 790 or 89 per cent of the 1,012 recommendations made by the Auditor General since January 1, 1999. The percentage shown for fully implemented recommendations is a percentage of total recommendations excluding those no longer relevant.

Recommendations no longer relevant relate to areas or programs that have changed in a manner that make the recommendation no longer applicable due to reorganization, modification, reduction or termination of service provided by the affected division.

Listing of Outstanding Recommendations

A complete listing of the recommendations implemented, not fully implemented and those no longer relevant is included in Attachments 1 and 2.

Confidential Attachment 1 contains a confidential recommendation verified to be fully implemented.

Attachment 2 contains public recommendations verified to be either fully implemented, not fully implemented or no longer relevant.

Upon receipt of this report, recommendations reported as implemented or no longer relevant will not be reported to Council in the future. All recommendations reported as not fully implemented will be included in subsequent follow-up reviews until fully implemented.

In order to provide context for recommendations included in the appendices to this report, a few examples of noteworthy recommendations implemented and not implemented are provided below.

Noteworthy Recommendations Implemented

1. Children's Services Division – Review of the Administration of Child Care Fee Subsidy

Council approved a policy to ensure that child care subsidy is granted on a first-come first-serve basis. At the time of the 2007 audit, the responsibility for placing a child in a vacant subsidized child care space was performed by individual case workers in various district offices. As part of the Divisional organizational review and in response to the recommendations made in the audit report, Children Services centralized the wait list management and subsidy allocation function. This enables the Division to more effectively manage and monitor the wait list and to ensure the allocation of subsidized child care spaces are granted in accordance with Council's direction.

2. Management of Construction Contracts - Toronto Water & Sewer Emergency Repairs

Our review of Toronto Water & Sewer Emergency Repair contracts in 2007 resulted in a number of recommendations relating to the re-validation of payments for emergency repair contracts for 2006 and 2007, and award and management of these contracts. Management implemented the majority of the recommendations and re-validation of payments relating to 2006 and 2007 emergency repair contracts resulted in identifying over payment of \$150,800. These overpayments are being recovered from the contractor's holdback amounts retained as part of the agreement.

Management has also taken several steps to improve the tender award and contract management process. These steps include revised contract specifications with more flexible terms of service, improvement in the estimation of quantities, a shift from a single service provider to multiple vendors and strengthening of procedures for contractor payments which are now based on work detailed in City's inspector reports rather than relying on contractor invoices.

3. Toronto Water – Wastewater Treatment - Phase 2

In accordance with the recommendation made in this audit report, beginning in 2009, all capital budget submissions that impact ongoing energy usage require estimated energy consumption data in business case information. Capital

decisions that consider energy consumption could help the City in reducing its energy usage and in meeting its greenhouse gas emission reduction targets.

Noteworthy Recommendations Not Fully Implemented

1. Contract Management Procedures – Transportation Services Division

Our review in 2001 identified that district offices applied different contract management policies and procedures of the former municipalities. We recommended the establishment of a quality assurance program, as well as project inspection and quality assurance guidelines and standards for managing contracts in the district offices.

In this follow-up process, we noted that full implementation of this recommendation remains outstanding, and the current framework does not offer the assurance level necessary for ensuring consistency and effectiveness in managing contracts. Progress has been slow in harmonizing site visit and supervisory review protocols and practices, and the extent of contractor performance management remains to be inconsistent across four districts. The divisional Field Services Manual, scheduled for completion and implementation in September 2009, is intended to provide guidelines for improving management of road maintenance contracts.

2. Municipal Elections 2006 – Review of Financial Filings by Members of City of Toronto Council

In 2007, the Auditor General's Office conducted a review of financial filings by members of City of Toronto Council at the request of City Council. This review identified several inconsistencies and errors in the financial filings by members of the Council. These inconsistencies and errors, on the most part, were due to manually driven filing process and lack of clarity in treatment of nomination fees. The Auditor General recommended that City Council pursue certain amendments to the Municipal Elections Act 1996, with the Province. The recommended amendments included provisions requiring members of the Council to file their financial statements electronically, provision for corrections after the filing of financial statements and treatment of nomination fees in the financial statements.

A significant amount of resources were expended in developing the electronic filing system. This system was recommended by the Toronto Elections Finance Review Task Force to increase openness and transparency in elections campaign. The use of this system by members of the City Council will provide efficiency in the filing process and resolve inconsistencies and errors that were noted during our last review. While City staff have taken-up these issues on the directive of City Council with the Province, the final resolution is still pending. The resolution of these issues are important and will be beneficial for the future elections.

3. Operational Review - Fire Services Division

Our audit report issued in January 2006 identified a number of concerns including the need for strengthened control over compliance with City policies and expenditure payments, improved efficiency and cost effectiveness in delivering the fire prevention program, a more proactive and structured fire vehicles maintenance program, and better control over warehouse inventory.

This follow-up review found that the Fire Services Division has implemented less than 50 per cent of our audit recommendations over the past three years. In particular, little progress has been made to enhance the fire prevention and the fleet maintenance programs. More senior management attention is required to ensure timely implementation of audit recommendations in these two programs.

During this review period, we were provided information on a significant number of recommendations which staff had indicated were implemented. Our subsequent verification of managements' assertion in fact very clearly indicated that the recommendations were not implemented.

Our review process includes verification of implemented recommendations. We do not conduct audit work on recommendations not implemented. A significant amount of work is required to verify implementation of recommendations and in circumstances where recommendations are obviously not implemented it is a significant waste of audit resources.

It appears based on our analysis that the information provided to the Auditor General is not reviewed or validated by senior management. It is important that staff not indicate recommendations are implemented when they very clearly are not.

CONTACT

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SIGNATURE

Jeffrey Griffiths
Auditor General

08-AAS-05

ATTACHMENTS

Attachment 1 - Confidential Information:

Auditor General's Status Report on Outstanding Audit

Recommendations for City Divisions – Confidential Recommendations

Attachment 2: - City Divisions, Public Recommendations – Fully Implemented

City Divisions, Public Recommendations – Not Fully Implemented

City Divisions, Public Recommendations – No Longer Relevant