

**APPENDIX 1**

**2011 ANNUAL REPORT REQUESTED BY  
THE AUDIT COMMITTEE**

**DEMONSTRATING THE VALUE OF  
THE AUDITOR GENERAL'S OFFICE**

**January 10, 2012**



**Auditor General's Office**

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Jeffrey Griffiths, C.A., C.F.E.  
Auditor General  
City of Toronto

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## EXECUTIVE SUMMARY

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### Annual Reporting By the Auditor General

*City Council requires Accountability Officers to report annually*

In 2009 City Council approved a report entitled “A Policy Framework for Toronto’s Accountability Officers”. The Policy Framework supports the appropriate balance of independence in the Officers’ decision making processes and accountability to Council for the management of their offices, and their performance in fulfilling their mandates. The specific requirement of the Policy Framework in regard to annual reporting to Council states that:

*“The officers will report annually to City Council on the activities of their office and discharge of their duties. Consistent with current practice, the Auditor General will report annually to City Council through Audit Committee on work conducted, savings achieved, and other matters.”*

*Auditor General provides various annual reports to Council*

Prior to the approval of the Policy Framework, the practice of the Auditor General has been to issue annual reports as follows:

- Auditor General’s Office - Benefits to the City of Toronto
- Annual Report - Fraud and Waste Hotline

In addition, the annual budget submission of the Auditor General’s Office contains significant financial and operational information on the administration of the Office.

*This report was requested by the Audit Committee in 2004*

The report entitled “Demonstrating the Value of the Auditor General’s Office” formerly entitled “Benefits to the City of Toronto” was specifically required by the Audit Committee in 2004. The Committee requested that the Auditor General provide on an annual basis 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 the specific request of the Audit Committee.

## **The Responsibilities of the Auditor General Under the City of Toronto Act**

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

The *City of Toronto Act*, 2006, Section 177 provides for the appointment of an Auditor General. Under Section 178 of the *Act*, 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.”*

### ***The Auditor General’s reviews may identify cost savings and revenue increases***

In fulfilling this mandate, the Auditor General during various reviews throughout the City including Agencies, Boards, Commissions and Corporations (ABCCs) may identify opportunities for cost savings or revenue increases. The cost savings or revenue increases may be one-time or ongoing.

### ***Recommendations relating to improving controls are important but not quantifiable***

The identification of cost savings and increased revenues is only one component of the role of the Auditor General. Equally important is the ongoing evaluation of internal controls, risk management and governance processes in order to ensure that City’s resources are adequately protected. Recommendations relating to improving internal controls and the quality of stewardship over public funds are an important part of the Auditor General’s work. However, this particular work may not lead to any quantifiable financial benefits.

## **Quantifiable Financial Benefits**

### ***Report identifies cost savings and revenue increases***

This report identifies estimated cost savings and revenue increases relating to audit reports issued during the five year period from 2007 to 2011. Cost savings and revenue increases from audit reports issued prior to 2007 are not included in this report, even though these amounts were significant.

### ***Projected savings are for five years only***

As indicated previously, cost savings or revenue increases may be one-time or ongoing. For the purpose of this report, we have projected ongoing cost savings or revenue increases for a five year time period only. In many cases, cost savings or revenue increases extend far beyond that time frame.

Since 2007, the one-time and projected 5-year cost reductions and revenue increases are approximately \$194 million as outlined in the following Summary Table.

**Summary**  
**Cumulative One-Time and Projected Estimated Savings**

<b>ESTIMATED SAVINGS \$000's</b>						
<b>Year of Savings</b>	<b>Year of Audit Report</b>					
	<b>2007 \$</b>	<b>2008 \$</b>	<b>2009 \$</b>	<b>2010 \$</b>	<b>2011 \$</b>	<b>Total \$</b>
2007	506					506
2008	4,577	716				5,293
2009	4,577	3,545	338			8,460
2010	4,577	3,545	335	443		8,900
2011	4,577	3,545	628	2,943	798	12,491
2012	4,577	3,545	922	4,943	21,629	35,616
2013		3,545	1,215	4,943	24,379	34,082
2014			1,537	4,943	25,079	31,559
2015				4,943	25,629	30,572
2016					26,079	26,079
<b>Total</b>	<b>\$23,391</b>	<b>\$18,441</b>	<b>\$4,975</b>	<b>\$23,158</b>	<b>\$123,593</b>	<b>\$193,558</b>

*Estimated \$10 savings for every dollar invested in the Auditor General's Office*

Since 2007 the cumulative costs of operating the Auditor General's Office have been in the range of \$19 million. Consequently, the return on every dollar invested in the Auditor General's Office is approximately \$10.

**Significant Financial Benefits Realized in 2011**

*Significant benefits realized in 2011 from previously issued audit reports*

In addition to cost savings/revenue increases identified in audit reports issued in 2011, significant savings were reported by management in 2011 as a result of implementing audit recommendations contained in audit reports issued prior to 2011. These savings were undeterminable at that time when the audit reports were issued and consequently were not reported previously.

On a go forward basis, we estimate that the savings identified in 2011 will benefit the City over the next five years by a total of approximately \$124 million.

The specific audit reports and their one-time and projected recurring savings realized in 2011 are outlined in the following Table.

## Estimated Savings (\$000's) Realized in 2011 From Reports Issued in 2011 or Prior Years

	2011 One-time	2012 Recurring	2013 Recurring	2014 Recurring	2015 Recurring	2016 Recurring	Total
<b>Audit reports issued prior to 2011</b>							
Employee Benefits Review, 2007		\$10,800	\$10,800	\$10,800	\$10,800	\$10,800	\$54,000
Children's Services Review, 2007	\$100	\$100	\$100	\$100	\$100	\$100	\$600
Insurance and Risk Management Review, 2010		\$337	\$337	\$337	\$337	\$337	\$1,685
Toronto Community Housing Corporation Procurement Review, 2010		\$6,000	\$6,000	\$6,000	\$6,000	\$6,000	\$30,000
Controls Over Parking Tags Needs Strengthening , 2010	\$280	\$280	\$280	\$280	\$280	\$280	\$1,680
<b>2011 Audit reports</b>							
Police Paid Duty		\$1,500	\$1,500	\$1,500	\$1,500	\$1,500	\$7,500
Red Light Camera Program		\$500	\$700	\$1,400	1,950	\$2,400	\$6,950
Remote Access to Computer Network		\$27	\$27	\$27	\$27	\$27	\$135
Parking Enforcement Review	\$180	\$990	\$2,890	\$2,890	\$2,890	\$2,890	\$12,730
Toronto Animal Services Review		\$650	\$1,300	\$1,300	\$1,300	\$1,300	\$5,850
<b>Investigations of Fraud Related Matters</b>	\$238	\$445	\$445	\$445	\$445	\$445	\$2,463
<b>Total</b>	<b>\$798</b>	<b>\$21,629</b>	<b>\$24,379</b>	<b>\$25,079</b>	<b>\$25,629</b>	<b>\$26,079</b>	<b>\$123,593</b>

Details of these audit reports and cost savings and revenue increases in 2011 are provided in the body of this report.

### Cumulative Long Term Financial Benefits

*This report does not include savings realized before 2007*

The current saving estimates are based on audit reports issued between 2007 and 2011. Consequently, any ongoing savings identified by the Auditor General prior to 2007 are not included in the current saving estimates even though many of these savings are of continuing benefit to the City. For instance, our 2001 review of selection and hiring of consultants resulted in annualized cost savings of \$2 million, and our 2006 review of Toronto Fire Services identified cost savings of \$2 million per year.

## **Significant Financial Benefits from Consolidating City Functions and Services**

***Benefits of consolidation have been raised in various studies***

Various independent studies over the past number of years including the report of the previous Mayor entitled “Blueprint for Fiscal Stability and Economic Prosperity” otherwise known as the “Mayor’s Fiscal Review Panel” have advocated the consolidation of City functions and services. Specifically the Review Panel recommended that the “*City should develop a program to require much more coordination, cooperation with shared best practices, and cost sharing between the City and the ABCCs.*”

***KPMG core service reviews recommended shared services approach***

Further, the recent KPMG LLP core service reviews very clearly advocates the need for greater alignment, co-operation and consolidation of various functions between the City and the ABCCs.

***Lack of consolidation of operations identified as a concern by the Auditor General***

The need to consolidate operations identified by both the Review Panel and KPMG reinforces issues raised by the Auditor General a number of times in previous audit reports as follows:

- Management Letter Summary – Community Centres and Arenas, 1998
- Software Acquisitions, 2002
- SAP Financial and Human Resources/Payroll Information System, Post Implementation Review, 2003
- Fleet Operations Review – Phase 1, 2003
- Fleet Operations Review – Phase 2, 2005
- Facilities and Real Estate – Maintenance and Administrative Controls Review, 2005
- The Management of City Information Technology Assets, 2006
- Toronto Police Service – Review of the Enterprise Case and Occurrence Processing System, 2006
- The Management of Information Technology Projects – the Toronto Transit Commission, 2008

- Toronto Environment Office – Review of Administration of Environmental Grants, 2011
- Toronto Police Service – Review of Integrated Records and Information System , 2011

*Cost savings are significant*

Our 2011 report entitled “Previous Audit Reports – Common Themes and Issues” reiterated the opportunity to realize savings through consolidation of City functions and services.

It is disconcerting that this issue has not received an appropriate level of attention before now as the cost savings available from this initiative are likely significant.

### **Non Quantifiable Benefits**

*Recently initiated audit monitoring process will identify financial savings*

#### **(1) Impact of Continuous Controls Monitoring**

Commencing 2011, the Auditor General implemented a continuous controls monitoring process to identify, on an ongoing basis, unusual financial transactions that warrant further examination. The process is facilitated by using specialized data extraction audit software.

*Overtime costs identified by continuous controls monitoring*

In 2011 the process was first applied to analyze employee overtime records, and identified a significant number of employees whose overtime earnings exceeded 50 per cent of their base salary. While the extent of savings directly resulting from continuous controls monitoring is difficult to quantify, continued application of this process will result in future financial savings for the City.

Since the introduction of this process, employee overtime has decreased. These reduced costs have not been accounted for in this report.

#### **(2) Impact of Divisional Recommendations Across the City and its ABCCs**

*Cost savings reflected in this report do not include benefits to the City’s ABCCs*

Many audit reports contain recommendations pertaining to specific City divisions or local boards. However, the recommendations may also be relevant to the City’s ABCCs. Where one of our reports contains recommendations that in our view are applicable to other city entities, we recommend the report be forwarded to the City’s ABCCs in order to ensure that the issues raised are addressed by them where appropriate.



The extent of any resulting benefits and cost savings at these other entities is undeterminable and consequently not reflected in this report.

### **(3) Impact of Recommendations on Corporate Governance and Oversight**

In 2011, the Auditor General issued two separate reports pertaining to the Toronto Community Housing Corporation (TCHC). In response to those reports, TCHC took the following actions:

*Actions taken by TCHC in response to audit reports*

- Developed an Enterprise Risk Management framework
- Established an ethics and compliance structure and process
- Created a Fraud Prevention Directive, and launched the “Do What’s Right” hotline – first for staff, and then for tenants starting January 1, 2012
- Revised its Directives for expenses, purchasing cards, cash advances, and its policies and procedures for procurement
- Appointed a Senior Director of Strategic Procurement, a new position, to provide procurement leadership across the enterprise.

As a result of the follow-up of certain recommendations contained in the report and in particular the review of employee related expenses, TCHC took the following action:

- Issued 55 employee “Warning Letters”;
- Suspended two employees; and
- Terminated three employees.

In addition, TCHC recovered over \$25,000 in situations where expenses were inappropriate.

*Operating environment changed*

The Auditor General reports have resulted in significant changes to the day-to-day operating environment at the TCHC. The benefits of these changes have profound and far-reaching effects that cannot be quantified in financial terms.

#### **(4) Coordination with Other External Audit Jurisdictions**

The Auditor General has a close relationship with the Provincial Auditor General and as such communication between both parties has led to mutual financial benefits not only in Toronto but across Ontario. For example, when the City became aware of the suspected abuse of the Special Needs Diet Allowance in the welfare system the City Auditor General discussed this matter with the Provincial Auditor General particularly as this matter had an Ontario wide impact. As a result, the Provincial Auditor General addressed these concerns in his audit of the Ontario Works Program and the matter was highlighted in his annual report. Following the issue of the Provincial Auditor General's annual report, the Province is reviewing the whole area of special needs diet allowance. Reduced costs throughout Ontario will likely occur as a result of this work.

#### **Conclusion**

The role of the Auditor General is not specifically to identify cost savings. Although cost savings are often a direct result of the work conducted by audit staff, of equal importance is the work conducted to safeguard City resources, address internal control weaknesses, and ensure proper use of public funds. It is also important to appreciate that certain non-financial audit reports have significant long-term benefits to the City.

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## **1.0 BACKGROUND**

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### **1.1 Annual Report Requested By the Audit Committee**

***Annual 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. Highlights of 2011 audit reports and related estimated savings to the City are included in this report.

*Cost savings estimates are based on a five-year period*

Estimates of cost savings provided in this report are based on audits performed during the five-year period from January 1, 2007 to December 31, 2011. The use of a five-year period for benefit estimates is consistent with the reporting of a number of large government audit organizations.

*Cost savings identified prior to 2007 not included in this report*

This report does not include the cost savings generated by the Auditor General's Office from the date of amalgamation, January 1, 1998, through to December 31, 2006. The financial benefits relating to these years have previously been reported to Audit Committee and Council. These reports are available at:

[http://www.toronto.ca/audit/2007/audit\\_reports\\_benefits\\_to\\_the\\_city\\_annual\\_update\\_may\\_2007.pdf](http://www.toronto.ca/audit/2007/audit_reports_benefits_to_the_city_annual_update_may_2007.pdf)

[http://www.toronto.ca/audit/2006/benefits\\_city\\_annual\\_update\\_feb2006.pdf](http://www.toronto.ca/audit/2006/benefits_city_annual_update_feb2006.pdf)

<http://www.toronto.ca/audit/2005/benefits.pdf>

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## **2.0 THE AUDITOR GENERAL'S OFFICE**

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### **2.1 The Responsibilities of the Auditor General Under the City of Toronto Act**

*Audit is an independent, objective process to improve governance and controls*

The audit process is an independent, objective assurance activity designed to add value and improve an organization's operations. The audit process assists in accomplishing this objective by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal 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* did not change this role.

***Authority under  
the 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). Local boards (restricted definition) means a local board other than the Toronto Police Services Board, the Toronto Public Library and the Toronto Board of Health. The Auditor General is able to conduct audits of these entities as long as the respective Boards approve of such audits.

Under Section 178 of the *Act*, 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 are set out in Chapter 3 of the Toronto Municipal Code which includes:

***Divisional audit  
projects***

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

***Fraud  
investigations***

- conducting forensic investigations, including suspected fraudulent activities;

***Manage the Fraud  
and Waste Hotline***

- managing the Fraud and Waste Hotline Program, including the referral of issues to divisional management;

***Audit of ABCCs***

- undertaking financial (excluding attest), compliance and performance audits and provide recommendations to City-controlled Agencies, Boards, Commissions and Corporations;
- 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 Manager’s Internal Audit Division to ensure the efficient and effective use of audit resources; and

***Coordination with Accountability Officers***

- coordinating activities with the City’s three other Accountability Officers: the Ombudsman, the Lobbyist Registrar and the Integrity Commissioner.

**2.2 Professional Standards**

***Audits conducted in accordance with Government Auditing Standards***

The Auditor General’s Office conducts its work in accordance with generally accepted Government Auditing Standards. These standards relate to:

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

These standards require that the Auditor General plans and performs audits to obtain sufficient, appropriate evidence that provides a reasonable basis for the findings and conclusions based on audit objectives.

Audit 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.

**2.3 Independent Quality Assurance Review of the Auditor General’s Office**

***Government Auditing Standards require an independent review***

A requirement of Government Auditing Standards is that audit organizations undergo an external independent quality assurance review at least once every three years. The objective of a quality assurance review is to determine whether an audit organization’s internal quality control system is in place and operating effectively. Such a review provides assurance that established policies and procedures and applicable auditing standards are being followed.

***Auditor General's  
second quality  
assurance review***

The Auditor General's Office underwent its second quality assurance review during 2009. No other audit office in Canada has undergone such a review. Two reports were issued by representatives from the Association of Local Government Auditors (ALGA), an independent professional body which conducts a significant number of quality assurance reviews throughout the U.S.

The 2009 ALGA report is available at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2009.AU11.3>

***Quality Assurance  
team provided  
commentary on  
the office***

Extracts from both reports are as follows:

*“Based on the results of our review, it is our opinion that the City of Toronto Auditor General's Office internal quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with Government Auditing Standards for audit and attestation engagements during the period January 2006 through December 2008.”*

*“Your office's policies and procedures are well written and substantially exceed the requirement under Government Auditing Standards. They also promote consistency among the work papers across audits.”*

*“The staff is highly qualified and diverse with a broad range of subject area expertise.”*

*“Your approach to the electronic automation of audit recommendation follow-up is an innovative and excellent idea, and makes the process much more efficient. Perhaps it is something you can share at an annual ALGA conference.”*

*“The internal committees that focus on quality assurance and critical issues are an excellent idea.”*

*“Your system for electronically distributing reports minimized paper consumption and is environmentally friendly.”*

## 2.4 Annual Compliance Audit

***Annual audit completed by independent audit firm***

The Auditor General's Office is required to undergo an annual compliance audit by an external independent audit firm. The annual compliance report for the year ended December 31, 2010 is available at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2011.AU3.1>

The external auditors reviewed a sample of transactions and came to the conclusion that "*As a result of applying the above procedures, we found no exceptions to the adherence to the policies, procedures and delegated authorities as they applied to our test sample.*"

## 2.5 Annual 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 2012 Audit Work Plan was received by the Audit Committee at its November 23, 2011 meeting. The work plan provides an overview of how resources allocated to the Auditor General's Office will be used in 2012.

The 2012 Audit Work Plan is available at:

<http://www.toronto.ca/audit/2011/2012workplan-nov4.pdf>

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

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. Complaints received through the Fraud and Waste Hotline Program and concerns of City Council are also considered in selecting audit projects.

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

## 2.6 Audit Recommendations

### *Provided 682 recommendations the last five years*

Since amalgamation in 1998, the then City Auditor and the Auditor General have made over 1,700 audit recommendations. Over the five-year period from 2007 to 2011, the Auditor General has made a total of 682 audit recommendations to City Divisions, Agencies, Boards, Commissions and Corporations.

### *Recommendations take into account cost of implementation*

The Auditor General, in making audit recommendations, is cognizant 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 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:

- increase 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
- eliminate inefficiencies 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 acquisitions, use or disposal of assets; and
- ensure compliance with laws, regulations, policies, procedures or generally accepted industry standards.



## **2.7 Audits Requested By City Council, Agencies, Boards, Commissions or Corporations**

### ***Reports requested by the Toronto Police Services Board***

City Council, Agencies, Boards, Commissions or Corporations may request the Auditor General to conduct reviews on areas of concern. Two recent examples are requests by the Police Services Board for a review of the police paid duty system and the police Integrated Records and Information System.

In view of the potential for cost savings and cost avoidance, the Auditor General determined that both projects should be added to his work plan.

The report on the police paid duty system was presented to the Board at its April 17, 2011 meeting, and received by the City's Audit Committee at its May 12, 2011 meeting.

The report is available at:

<http://www.toronto.ca/audit/2011/policeservice-mar23.pdf>

The report on the police Integrated Records and Information System was presented to the Board at its September 14, 2011 meeting, and received by the City's Audit Committee at its October 20, 2011 meeting.

The report is available at:

<http://www.toronto.ca/audit/2011/integrated-recordsaug26.pdf>

## **3.0 DEMONSTRATING THE VALUE OF THE AUDIT FUNCTION**

### **3.1 Quantifiable Financial Benefits**

#### ***Audit Committee requested financial benefit information***

At the request of the Audit Committee, we have estimated the extent of the quantifiable financial benefits which have resulted from the work conducted by the Auditor General's Office.

From January 2007 through to December 2011, the Auditor General's Office completed 82 performance audits providing a total of 682 recommendations. In addition, the Office has handled over 3,200 individual complaints to the Fraud and Waste Hotline over the same five-year period.

***One benchmark of audit effectiveness is ratio of audit costs to cost savings***

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

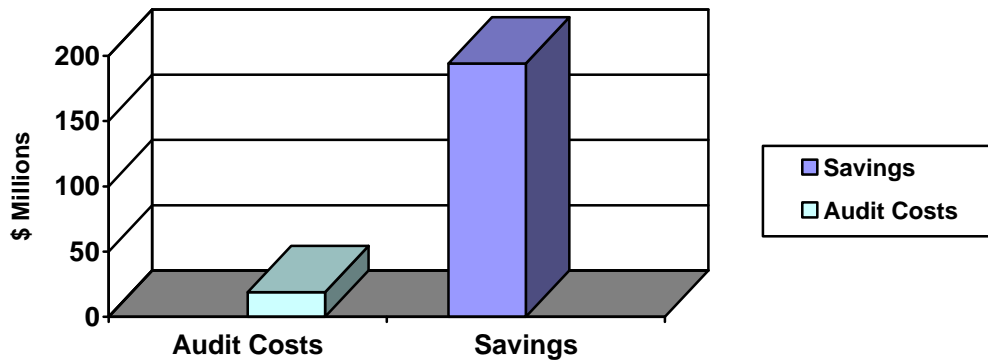
***Cost savings over last five years are nearly \$194 million***

A comparison of audit costs from 2007 to 2011 to the estimated potential savings is summarized in Table 1. Since 2007, the cumulative audit expenditure has been nearly \$19 million and the estimated cost reductions and revenue increases are approximately \$194 million. Many of the cost savings are ongoing and recur annually. The estimated cost savings are projected on a five-year forward basis only, even though the cost savings in many instances extend beyond five years.

***Estimated \$10 return on investment for every \$1 invested in the Office***

In simple terms, for every \$1 invested in the Auditor General's Office the return on this investment has been \$10.

**Table 1: Five Year Estimated Savings Compared to Audit Costs 2007-2011**



***Cumulative savings by year from 2007-2011***

Table 2 provides a summary of the one-time and five-year projected cumulative savings resulting from audit work conducted from 2007 through 2011. These figures are estimates based on a range of assumptions by the Auditor General.

**Table 2: Summary - Cumulative One-Time and Projected Estimated Savings**

<b>ESTIMATED SAVINGS \$000's</b>						
<b>Year of Savings</b>	<b>Year of Audit Report</b>					
	<b>2007 \$</b>	<b>2008 \$</b>	<b>2009 \$</b>	<b>2010 \$</b>	<b>2011 \$</b>	<b>Total \$</b>
2007	506					506
2008	4,577	716				5,293
2009	4,577	3,545	338			8,460
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2011	4,577	3,545	628	2,943	798	12,491
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***Significantly higher projected savings were realized in 2011 compared to previous years***

The 2011 one-time and five-year projected savings of approximately \$124 million are significantly higher than savings reported in previous years. This is largely due to cost savings identified by management in 2011 as a result of implementing recommendations contained in audit reports that were issued prior to 2011.

It is not always possible to quantify potential cost savings until management has fully implemented the audit recommendations. The additional savings were identified by management in 2011, and consequently these savings were not included in the Auditor General's previous annual reports. These savings are therefore added to the current year benefit estimates, and projected on a five-year forward basis consistent with our method of accounting for recurring annual savings.

***Savings realized in 2011***

Table 3 details the specific audit reports and one-time and recurring savings realized in 2011. The saving estimates are based on the amounts identified by management in implementing audit recommendations, or potential revenue increases or cost reductions identified in specific audits. In certain instances the savings were projected based on a range of assumptions. In each case, the amounts below have been estimated conservatively.

**Table 3 Estimated Savings (\$000's) Realized in 2011 From Reports Issued in 2011 or Prior Years**

	2011 One-time	2012 Recurring	2013 Recurring	2014 Recurring	2015 Recurring	2016 Recurring	Total
<b>Audit reports issued prior to 2011</b>							
Employee Benefits Review, 2007		\$10,800	\$10,800	\$10,800	\$10,800	\$10,800	\$54,000
Children's Services Review, 2007	\$100	\$100	\$100	\$100	\$100	\$100	\$600
Insurance and Risk Management Review, 2010		\$337	\$337	\$337	\$337	\$337	\$1,685
Toronto Community Housing Corporation Procurement Review, 2010		\$6,000	\$6,000	\$6,000	\$6,000	\$6,000	\$30,000
Controls Over Parking Tags Needs Strengthening , 2010	\$280	\$280	\$280	\$280	\$280	\$280	\$1,680
<b>2011 Audit reports</b>							
Police Paid Duty		\$1,500	\$1,500	\$1,500	\$1,500	\$1,500	\$7,500
Red Light Camera Program		\$500	\$700	\$1,400	1,950	\$2,400	\$6,950
Remote Access to Computer Network		\$27	\$27	\$27	\$27	\$27	\$135
Parking Enforcement Review	\$180	\$990	\$2,890	\$2,890	\$2,890	\$2,890	\$12,730
Toronto Animal Services Review		\$650	\$1,300	\$1,300	\$1,300	\$1,300	\$5,850
<b>Investigations of Fraud Related Matters</b>	\$238	\$445	\$445	\$445	\$445	\$445	\$2,463
<b>Total</b>	<b>\$798</b>	<b>\$21,629</b>	<b>\$24,379</b>	<b>\$25,079</b>	<b>\$25,629</b>	<b>\$26,079</b>	<b>\$123,593</b>

The following section provides a brief overview of each of the reports in Table 3 and the cost savings information.

**“Employee Benefits Review”, 2007**

*The report recommended that “The Director, Pension, Payroll and Employee Benefits, in consultation with senior management representatives of the City’s Agencies, Boards and Commissions, review and consider the cost-effectiveness of expanding the current City of Toronto benefits umbrella to include other City of Toronto Agencies, Boards and Commissions.”*

***Annual savings of \$10.8 million from issuing a joint RFP for employee benefit plan administration***

The recommendation was implemented as reflected in a staff report entitled “*Request for Proposal 9105-10-7033 – Provision of Administration and Underwriting Services for Employee Benefit Plans*”, presented to Council in May 2011. Staff reported that for the first time the City partnered with the Toronto Police Services Board and the Toronto Transit Commission in the issuance of a joint RFP for employee benefit plan administration and underwriting services. In the new five-year contract (2012-2016) with Manulife Financial, the City, Police Services Board, and Transit Commission will realize an estimated combined savings of \$54.1 million over five years, averaging \$10.8 million savings per year.

The audit report is available at:

[http://www.toronto.ca/audit/2007/employee\\_benefits\\_audit\\_report\\_oct2007.pdf](http://www.toronto.ca/audit/2007/employee_benefits_audit_report_oct2007.pdf)

**“Children’s Services Division – Review of the Administration of Child Care Fee Subsidy”, 2007**

The report recommended that the “*General Manager, Children’s Services Division develop a business case to consider the costs and benefits of the Division’s Operating Criteria.*”

***Over \$100,000 annual savings from replacing four consultant positions***

In response to the recommendation, staff commissioned a research study and conducted a cost analysis. Staff reported in 2011 that an annual cost savings of more than \$100,000 would be realized by replacing four consultant positions with four new quality assurance analyst positions.

The audit report is available at:

[http://www.toronto.ca/audit/2007/child\\_care\\_fee\\_subsidy\\_review\\_audit\\_report\\_jun2007.pdf](http://www.toronto.ca/audit/2007/child_care_fee_subsidy_review_audit_report_jun2007.pdf)

**“Insurance and Risk Management Review”, 2010**

***Changing insurance fronting arrangement results in \$337,500 net savings per year***

In response to the audit recommendation to review the possibilities of changing the current insurance fronting arrangement, staff reported in 2011 that the City could undertake the business of insurance solely for the purpose of self-insuring coverage. Staff estimated that the change would result in net savings of \$337,500 per year.

The audit report is available at:

[http://www.toronto.ca/audit/2010/audit\\_report\\_april26.pdf](http://www.toronto.ca/audit/2010/audit_report_april26.pdf)

### **“Toronto Community Housing Corporation – Procurement Policies and Procedures Are Not Being Followed”, 2010**

The audit report included a recommendation that the Chief Executive Officer of the Toronto Community Housing Corporation (TCHC) review opportunities to consolidate or coordinate operations with the City to achieve cost savings. During the audit, staff of the Auditor General’s Office discussed with TCHC staff the possibility of realizing cost savings through cooperative purchasing arrangements with the City.

*Annual savings between \$5 and \$7 million by obtaining goods through City Stores*

The General Manager of the TCHC advised the Board in November 2011 that, according to the results of a pilot project, an estimated annual savings between \$5 million and \$7 million could be achieved by obtaining goods through City Stores.

The audit report is available at:  
<http://www.toronto.ca/audit/2011/procurement-feb25.pdf>

### **“Controls Over Parking Tags Need Strengthening”, 2010**

In response to the audit recommendation to re-evaluate the criteria for discretionary cancellation of parking tags, staff developed Parking Tag Cancellation Guidelines that include new criteria and a requirement for formal ongoing supervisory reviews. The number of discretionary cancellations has since been reduced by 50 per cent, resulting in additional revenue of approximately \$225,000 in 2011.

*Additional \$225,000 annual revenue by tightening criteria for discretionary cancellations*

*\$55,000 worth of unpaid parking tickets have been added to property tax rolls*

In addition, the audit recommended that staff review the parking tag collection process. Staff implemented an initiative to add unpaid parking tickets to the property tax rolls. In 2011, approximately \$55,000 worth of unpaid parking tickets have been added to the property tax rolls. This amount is expected to increase in future years.

The audit report is available at:  
[http://www.toronto.ca/audit/2010/audit\\_report\\_jan27.pdf](http://www.toronto.ca/audit/2010/audit_report_jan27.pdf)

**“Police Paid Duty – Balancing Cost Effectiveness and Public Safety, Toronto Police Service”, 2011**

The Toronto Police Service operates a paid duty system whereby off-duty police officers can be hired by organizations and individuals to perform certain police duties. The purpose of the audit was to assess the operating effectiveness and efficiency of the paid duty system, and officer compliance with police paid duty policies.

A primary reason for hiring paid duty officers is to direct traffic to ensure public safety during roadway construction. Based on 2009 permit data, approximately half of over 40,000 paid duty assignments were compelled by City permit requirements. However, the effectiveness of the permit criteria in delineating the need for paid duty officers on-site is open to question.

*More effective permit criteria result in annual cost savings of approximately \$1.5 million*

In response to the audit recommendation to develop more effective permit criteria, staff developed new “Guidelines for Road Occupancy and Traffic.” Based on a preliminary estimate by staff, the new Guidelines will result in an annual savings of \$1.3 million for three City divisions in 2012. The annual savings for all City Divisions and its ABCCs is estimated at \$1.5 million in 2012 with the potential for additional savings in future years.

The audit report is available at:

<http://www.toronto.ca/audit/2011/policeservice-mar23.pdf>

**“Red Light Camera Program – Although Red Light Cameras Have Contributed to a Reduction in Accidents, Opportunities Exist to Improve Financial Results and Program Effectiveness”, 2011**

The review included an evaluation of the Red Light Camera Program's effectiveness as well as an examination of the controls over the laying of charges and collection of fines.

Certain of the issues identified as a result of the audit have clear financial impacts while some have other impacts. For issues with financial impacts it will likely take some time to achieve the full impact pending collaboration with both the Police Service and the Province. Our analysis of financial benefits recognizes the phase-in of the benefits as noted below:

***Addressing factors preventing the issuance of tickets will result in significant increased revenues***

- Increasing the frequency of the painting of stop bars at red light camera intersections will realize increased annual revenue of \$500,000 in 2012 increasing to \$600,000 in 2013;
- Addressing factors preventing the issuance of certain red light camera tickets will result in \$100,000 additional revenue in 2013 and gradually increasing to \$1.7 million in 2016 and beyond. Resolving these issues will require coordination with third parties; and
- Working with other levels of government to enable the collection of fines for red light camera tickets issued to out of province vehicles will increase revenues. As intergovernmental negotiations could be more protracted, we have estimated that the first benefits will only be achieved in 2015 and will grow to \$200,000 by 2017 and beyond.

Other issues highlighted in the audit report:

***Other issues identified***

- Exploring opportunities to reduce the growing demand red light camera tickets are having on the court system;
- The need to update the evaluation of program performance including a re-evaluation of installation locations;
- Refining the actual costs and revenues of the red light camera program reported to City Council; and
- Potential operating cost contributions by third parties benefitting from the Red Light Camera program.

***Enhanced program effectiveness will help reduce traffic accidents***

While certain of these other issues have potential for significant financial benefits, the amount of cost savings is not determinable at this point. In addition to potential financial benefits, the resulting enhanced effectiveness of the program will reduce the incidence of red light running and the related personal and financial consequences associated with serious accidents.

The audit report is available at:

<http://www.toronto.ca/audit/2011/redlightcam-aug25.pdf>



### **“Remote Access to the City’s Computer Network – The Management of the Process Requires Improvement”, 2011**

The objective of this review was to assess the effectiveness of procedures and controls over the acquisition and distribution of remote secure access tokens.

*3,000 City staff have remote access tokens*

Approximately 3,000 City staff have been issued remote secure access tokens. These tokens allow staff to access the City’s computer network from other than their normal work locations. In reviewing the management and control of these tokens, we noted the following cost saving opportunities:

*Annual savings of \$27,000 are possible*

- Improvements to managing the supply of tokens held in inventory will result in estimated savings at \$10,000 per year.
- Changing the procedures for remote access capabilities in the event of an emergency will result in estimated annual savings of \$17,000.

The audit report is available at:

<http://www.toronto.ca/audit/2011/remote-access-sept8.pdf>

### **“Toronto Police Service, Parking Enforcement Review”, 2011**

*Value of parking tags issued is approximately \$110 million each year*

The objective of this review was to assess controls over the issuance, cancellation and processing of parking tags at the Parking Enforcement Unit of the Toronto Police Service. The annual value of parking tags issued is approximately \$110 million. The primary purpose of the program is to assist in deterring illegal parking and facilitating the free flow of traffic.

Key issues identified by the review included:

- Parking tag cancellations due to parking tag errors and processing delays;
- Inadequate inventory control over printed parking tag books; and
- Inadequate tracking of parking enforcement officers’ court attendance.

***Implementation of audit recommendations has the potential to increase annual revenues by over \$2.8 million***

Implementation of audit recommendations could result in approximately \$2.8 million increased revenues and savings per year. The specific revenue increase and cost saving opportunities are:

- Estimated \$1.8 million increased revenues per year from reducing errors in parking tag issuance and delayed processing of parking tags;
- Additional \$1 million annual revenue increases to the City by enabling parking enforcement officers to enforce license renewal legislation; and
- Annual savings of \$90,000 from discontinuing the maintenance of a duplicate database for manually issued parking tags.

The audit report is available at:

[http://www.toronto.ca/audit/2011/parkingenforcement\\_review.pdf](http://www.toronto.ca/audit/2011/parkingenforcement_review.pdf)

**“Toronto Animal Services – License Compliance Targets Need To Be More Aggressive”, 2011**

***Municipal Code requires licensing***

The key objective of this review was to assess the effectiveness of administrative practices in relation to animal licenses. Animal licensing is a legal requirement for residents of Toronto who own either a dog or a cat. Animal licenses are required to be renewed on an annual basis.

***License compliance rates are low***

License fees for dogs and cats provide the major source of revenue to Toronto Animal Services. With an estimated compliance rate of 30 per cent for dogs and 10 per cent for cats, animal license compliance rates are low when compared to other jurisdictions.

***Additional \$1.3 million revenue can be achieved by improving license compliance rates***

The major challenge facing the Division is the need to increase the license compliance rates. More aggressive license compliance targets have the potential for increasing revenue by \$1.3 million annually commencing 2013. Implementation of the recommendations in this report will improve the delivery of services at Toronto Animal Services.

The audit report is available at:

<http://www.toronto.ca/audit/2011/animal-services-oct5.pdf>

### 3.2 2011 Reports With Non-Quantifiable Financial Benefits

*Audit reports identify quantifiable cost savings and non-financial benefits*

The purpose of any audit process is not specifically to identify cost reductions or revenue increases, although we often select audit projects with the intent of realizing such results.

*Better internal control and operational efficiencies may have no direct financial benefit*

Many of the recommendations 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
- financial reporting processes
- level of customer services.

Details of all reports issued in 2011 are on the Auditor General's web site:

<http://www1.toronto.ca/wps/portal/toronto/landing?vgnextoid=2cae46da08b81310VgnVCM1000003dd60f89RCRD>

Examples of 2011 non-financial audit reports with benefits that are not quantifiable are provided in the following:

#### **“311 Toronto – Full Potential For Improving Customer Service Has Yet To Be Realized”**

*City invested significant financial and human resources in establishing 311*

The audit objective was to assess the operating effectiveness and efficiency of 311 Toronto. With capital funding of \$36.3 million and five years of planning and development from 2004 to 2009, the City has invested significant financial and human resources in establishing 311 Toronto.

Based on March 2011 call statistics, 1 in 5 calls to 311 Toronto was not answered, and 1 in 10 callers waited longer than 3 minutes before their call was answered.

The varying performance level among individual contact centre staff, the high staff absenteeism rate, and the existing monitoring system, impact 311 Toronto's ability to answer calls in a timely manner and should be addressed.

***Audit identifies a number of cost saving and service improvement opportunities***

The audit identified a number of opportunities to improve operations while reducing costs. The amount of cost reduction was not quantifiable in 2011.

- Ensuring the number of 311 contact centre staff on overnight shift matches call volume;
- Reviewing the level and placement of Information Technology staff;
- Developing a business case on incorporating telephone self-serve technologies into 311 operation; and
- Incorporating a customer satisfaction survey into the 311 website to gather instant customer feedback at minimal cost.

An important non-financial benefit of the review has been the increased emphasis throughout the City on addressing employee absenteeism.

The Auditor General's report is available at:  
<http://www.toronto.ca/audit/2011/311toronto-oct17.pdf>

**“Transportation Services – Review of Winter Maintenance Services”**

***\$87 million winter maintenance costs per season***

The review focused on contracted winter maintenance services which represent approximately two-thirds of the City's winter maintenance costs. Commencing with the 2008/2009 winter season, the City entered into seven-year winter maintenance contracts with a total value of approximately \$87 million per season.

***The review highlighted areas for improvement***

The review highlighted the following areas for improvement:

- The need to analyze the costs of incremental increases in services or where levels exceed legislated requirements;
- Re-assess service standards and identify services that could potentially be discontinued or reduced;
- Develop performance measurements; and
- Consider modifications to procurement practices.

*Service level reductions could result in annual cost savings if approved by Council*

Implementing the recommendations in the report will improve the overall effectiveness of the winter maintenance program with the potential for cost savings. However, certain recommendations can only be implemented once current contracts expire in 2015. Potential service level reductions such as eliminating clearing of driveway windrows, should Council desire, could result in cost savings of approximately \$3.7 million annually.

The audit report is available at:

<http://www.toronto.ca/audit/2011/transportationapril26.pdf>

**“Toronto Environment Office – Review of Administration of Environmental Grants”**

*Audit focused on grant programs managed by the Toronto Environment Office*

The objective of this review was to assess the adequacy of controls and the effectiveness of the administration of the City's environmental grant programs. The review focused on grant programs managed by the Toronto Environment Office to support climate change, clean air, sustainable energy and other environmental initiatives.

Over four years, the Toronto Environment Office is responsible for managing \$20.9 million in grant programs. The grants programs are components of the City of Toronto's Climate Change Action Plan to reduce Toronto's greenhouse gas emissions.

The review identified opportunities to improve the monitoring of grant programs to ensure that funds are being used for the purpose intended and ensure program results are accurately reported to Council.

*Potential to reduce duplication in City environment grant programs*

Given the various environmental grant programs managed by City entities, opportunities exist to coordinate and/or consolidate the roles and responsibilities in order to avoid duplication and reduce costs.

The audit report is available at:

<http://www.toronto.ca/audit/2011/envirogrants-jan17.pdf>

## **“Governance and Management of City Computer Software Needs Improvement”**

The objective of this review was to determine the adequacy and effectiveness of controls and management of software licenses purchased to deliver City services.

*Identified opportunities to strengthen control and align City processes with best practices*

The review identified opportunities to strengthen control and align City processes more closely with software management best practices. The audit provided recommendations related to improving oversight, establishing a single authority to coordinate the City’s software program, expanding policies and procedures, improving software asset inventory control practices and strengthening control over managing software license agreements.

Implementation of audit recommendations will improve the direction, guidance and control over software licenses thereby ensuring compliance with software license provisions.

The audit report is available at:

<http://www.toronto.ca/audit/2011/governance-jan7.pdf>

### **3.3 Previously Issued Reports With Cumulative Long-Term Financial Benefits**

*This report does not include savings realized before 2007*

The saving estimates included in this report are based on audit reports issued between 2007 and 2011. Consequently, any ongoing savings identified by the Auditor General prior to 2007 are not included in the current saving estimates even though many of these savings are of continuing benefit to the City.

Examples of pre-2007 reports and potential annual recurring cost savings are:

<i>Examples of recurring annual cost savings identified prior to 2007</i>	Police Overtime Review, 2000	\$1,400,000
	Parking Enforcement Unit Review, 2000	\$1,200,000
	Selection and Hiring of Consultants, 2001	\$2,000,000
	Toronto Parking Authority, 2002	\$1,900,000
	Review of SAP Implementation, 2003	\$670,000
	Hostel Operations Review, 2004	\$810,000
	Management of Construction Contracts- Reconstruction Queensway Eastbound Lanes, 2006	\$2,000,000
	Operational Review – Toronto Fire Services, 2006	\$2,000,000

Reports issued by the Auditor General from 2007 to 2011 are listed in Exhibits 1 and 2 of this report. All reports issued by the Auditor General can be viewed at:

<http://www1.toronto.ca/wps/portal/toronto/landing?vgnextoid=0428aac904140310VgnVCM1000003dd60f89RCRD>

### **3.4 Previously Issued Audit Reports With Far Reaching But Unquantifiable Benefits**

Certain audit reports issued prior to 2011 continue to have far reaching but unquantifiable benefits to the City. Examples of these audit reports are:

- “Review of the Investigation of Sexual Assaults – Toronto Police Service”, 1999

***Far reaching  
impact on sexual  
assault  
investigative  
procedures***

The review was conducted at the request of City Council in response to the successful civil case of Jane Doe versus the Commissioners of Police of the then Municipality of Metropolitan Toronto. The audit has driven major changes to police investigative procedures for sexual assault, received significant media attention, and an unprecedented level of interest expressed by the North American audit community as well as a number of police services in both the US and Canada including the Royal Canadian Mounted Police. The Royal Canadian Mounted Police in fact indicated that they would use the report “*as a guide for investigations and training.*”

The audit report is available at:

<http://www.toronto.ca/audit/1999/102599.pdf>

- “Procurement Process Review – City of Toronto”, 2003

***Strengthened  
control over the  
City’s  
procurement  
practices***

The audit was prominent in the “Good Government” phase of the Toronto Computer Leasing Inquiry. The report contained 43 recommendations, certain of which have resulted in long-term cost savings and strengthened control over procurement practices in the City.

One of the recommendations pertained to the appointment of a Fairness Commissioner for the oversight of controversial or complex tenders (a recommendation which was reiterated by Madame Justice Bellamy in her 2005 report). The potential savings as a result of this particular recommendation are likely significant but not quantifiable.

The audit report is available at:

[http://www.toronto.ca/audit/2008/city\\_sewers\\_appendix\\_june2008.pdf](http://www.toronto.ca/audit/2008/city_sewers_appendix_june2008.pdf)



***More effective protection of water quality and pollution prevention***

- “Protecting Water Quality and Preventing Pollution – Assessing the Effectiveness of the City’s Sewer Use By-Law, Toronto Water”, 2008

The audit focus was on protecting the environment through more effective monitoring of the City’s Sewer Use By-law. Implementation of the 22 recommendations in this audit report will result in improved staff productivity and better use of information technology. The development of an overall inspection plan and review of pollution prevention plans will help ensure that the City’s environmental goals are achieved.

This audit report is available at:

[http://www.toronto.ca/audit/2009/audit\\_report\\_may22.pdf](http://www.toronto.ca/audit/2009/audit_report_may22.pdf)

***Improvements to the reporting and processing of sole source purchases***

- “Process for Non-Competitive Procurement (Sole Sourcing) Needs Improvement”, 2009

Implementation of audit recommendations in this report will improve the sole source procurement process and assist management in ensuring that all sole source purchases are reported accurately to Council, facilitate compliance with purchasing rules, and generate cost savings by minimizing non-competitive procurement.

This report is available at:

[http://www.toronto.ca/audit/reports2009\\_sub8.htm](http://www.toronto.ca/audit/reports2009_sub8.htm)

- “Toronto Community Housing Corporation – Procurement Policies and Procedures Are Not Being Followed”, 2010

“Toronto Community Housing Corporation – Controls Over Employee Expenses Are Ineffective”, 2010

***Restoring a corporate culture that values accountability***

The Auditor General completed a review of the Toronto Community Housing Corporation (TCHC) in 2010 and issued two audit reports. Implementation of the 41 recommendations in these two reports will result in strengthened management controls over the procurement process and the management of employee expenses. More importantly, the audit was the impetus for restoring a corporate culture that values public accountability, as well as fostering a closer coordination between the TCHC and the City.

These audit reports are available at:  
<http://www.toronto.ca/audit/2011/procurement-feb25.pdf>  
<http://www.toronto.ca/audit/2011/employeeexpense-feb25.pdf>

#### **4.0 FOLLOW-UP ON IMPLEMENTATION OF AUDIT RECOMMENDATIONS**

*Audit follow-up process helps City Council ensure implementation of recommended changes and improvements*

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 management's responsibility 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.

*Benefits of auditing only realized if recommendations are implemented*

Benefits of auditing only come from the implementation of audit recommendations. The Auditor General's Office conducts a systematic follow-up of recommendations made to City Divisions and Agencies, Boards, Commissions and Corporations.

*The Auditor General verifies that recommendations are implemented and reports results to the Audit Committee*

The follow-up of recommendations is an annual process incorporated in the work plan. 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. The Auditor General verifies, to the extent necessary, information provided by management and communicates results of the review to the Audit Committee.

The implementation status of audit recommendations is summarized below.

### **Implementation Status of Audit Recommendations for City Divisions**

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

The results of the 2011 follow-up review indicated that management has fully implemented 90 per cent or 942 of the 1,052 recommendations made by the Auditor General from January 1, 1999 to June 30, 2010. The 2011 follow-up review entitled "Auditor General's Status Report on Outstanding Audit Recommendations for City Divisions" is available at: <http://www.toronto.ca/audit/2011/recommendationsjune10.pdf>

### **Implementation Status of Audit Recommendations for City Agencies, Boards, Commissions and Corporations**

*City Agencies, Boards and Commissions have implemented 93 per cent of the Auditor General's recommendations*

The Auditor General also follows up on the status of audit recommendations made to City ABCCs. The results of our 2011 review indicate that City ABCCs have implemented 93 per cent or 152 of the 164 recommendations made by the Auditor General from January 1, 1999 to June 30, 2010. The 2011 follow-up review entitled "Auditor General's Status Report on Outstanding Audit Recommendations for City Agencies, Boards and Commissions" is available at: <http://www.toronto.ca/audit/2011/summaryabcjune10.pdf>

### **Implementation Status of Recommendations made By the Auditor General's Office as Part of the Operation of the City's Fraud and Waste Hotline Program**

*Management has implemented 88 per cent of the Auditor General's recommendations made as part of the City's Fraud and Waste Hotline Program*

Commencing 2010, the Auditor General implemented an annual follow-up process for recommendations resulting from investigations, special reviews, or the annual report on Fraud and Waste Hotline activities. The results of the 2011 follow-up review indicate that management has fully implemented 88 per cent or seven of the eight recommendations made by the Auditor General from January 1, 2007 to December 31, 2010. The 2011 follow-up review report entitled "Auditor General's Office – Forensic Unit Status Report on Outstanding Recommendations" is available at: <http://www.toronto.ca/audit/2011/forensicunitstatus.pdf>

## **5.0 OTHER WORK CONDUCTED BY THE AUDITOR GENERAL'S OFFICE**

### **5.1 Continuous Controls Monitoring**

#### ***New audit monitoring process to identify unusual financial transactions on an ongoing basis***

In 2011, the Auditor General commenced a continuous controls monitoring process to identify, on an ongoing basis, unusual financial transactions that warrant further examination. The process, using specialized data extraction software, was first applied to analyze employee overtime records in 2011. It will be extended to other areas such as purchasing and accounts payable in future. The extent of savings resulting from continuous controls monitoring is difficult to quantify at this point, but continued application of this process will result in future financial savings for the City. The 2001 report entitled "Continuous Controls Monitoring – Employee Overtime" is available at:

<http://www.toronto.ca/audit/2011/continuous-controls-sept23.pdf>

### **5.2 External Audit Coordination**

The Auditor General's responsibilities include the management, coordination and oversight of the external attest audits of the City, its ABCCs, as well as the Boards of Management of Community Centres and Committees of Management for Arenas.

The request for proposal for external audit services for audits from 2010 to 2014 for the City and its major ABCCs was issued in November 2009. City Council, at its February 2010 meeting, approved the selection of external auditors for the City and its major Agencies, Boards, Commissions and Corporations for audits from 2010 to 2014. The external auditors for the City Arenas, Community Centres and Miscellaneous Entities (Heritage Toronto, Yonge-Dundas Square, the Toronto Atmospheric Fund and the Clean Air Partnership) for the years 2008 to 2012 were approved by City Council in May 2008.

## **6.0 FRAUD AND WASTE HOTLINE**

### ***Prevention and detection are key to managing risk of fraud and other wrongdoing***

The Auditor General's Office has administered the Fraud and 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 indirect costs such as additional management resources to investigate and correct wrongdoing.

### ***822 complaints were received in 2011***

In 2011, the Program received 822 complaints, a 43 per cent increase from the number of complaints in 2010. Approximately 45 per cent of complaints received in 2011 included at least two or more allegations. As a result, approximately 1,700 allegations were processed by the Program staff. While the financial benefits of the Program have been highlighted in Table 3, it is important to recognize the non-financial benefits:

### ***Non financial benefits of the Hotline***

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 probability of being detected.

While these non-financial benefits to the City are significant, it is not possible to quantify their value.

The 2011 Annual Report on Fraud and Waste Hotline is scheduled to go before the February 2012 meeting of the Audit Committee.

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## CONCLUSION

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*Eighth annual  
report*

This report, requested by the Audit Committee, is the eighth such annual report. By its nature, many of the amounts categorized as cost savings or revenue reductions are estimates. However, these estimates are conservative.

Based on our analysis, over the five-year period commencing January 1, 2007, the estimated potential savings to the City are approximately \$194 million compared to a cumulative audit expenditure of nearly \$19 million. In simple terms, for every \$1 invested in the audit process the return on this investment has been \$10.

The audit process is not designed with the sole purpose of identifying 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 improvements to operational efficiency.

Finally, auditing by itself does not directly produce these benefits. Management is responsible for implementing the recommendations and City Council is responsible for ensuring that agreed upon changes and improvements occur. To assist Council in exercising this responsibility, the Auditor General's Office conducts an annual systematic follow-up to determine the implementation status of audit recommendations.

**AUDITOR GENERAL'S OFFICE  
Reports Issued in 2011**

**2011 Audit Reports:**

- 311 Toronto – Full Potential For Improving Customer Service Has Yet To Be Realized
- Toronto Police Service, Police Paid Duty – Balancing Cost Effectiveness and Public Safety
- The Deep Lake Water Cooling Project – Total City Costs and Benefits Need to be Reported
- Toronto Animal Services – License Compliance Targets Need to be More Aggressive
- Review of Infrastructure Stimulus Funding – Opportunities Exist to Improve Controls over Construction Projects
- Toronto Police Service, Parking Enforcement Review
- Continuous Controls Monitoring – Employee Overtime
- Remote Access to the City's Computer Network – The Management of the Process Requires Improvement
- Toronto Police Service – Review of the Integrated Records and Information System
- Red Light Camera Program - Although Red Light Cameras Have Contributed to a Reduction in Accidents, Opportunities Exist to Improve Financial Results and Program Effectiveness
- Disposal of Digital Photocopiers – Protection of Sensitive and Confidential Data Needs Strengthening
- Transportation Services – Review of Winter Maintenance Services
- City Planning Division – Community Benefits Secured Under Section 37 or 45 of The Planning Act
- Facilities Management Division Energy Efficiency Office - Management of Energy Loans and Grants Funded by the Ontario Power Authority
- Toronto Environment Office – Review of Administration of Environmental Grants
- Governance and Management of City Computer Software Needs Improvement
- Previous Audit Reports – Common Themes and Issues
- Protecting Whistleblowers from Retribution

### **2011 Annual Reports:**

- 2012 Audit Work Plan
- Two reports on Amendments to the 2011 Annual Work Plan
- Auditor General's Office – 2012 Budget
- Outstanding Audit Recommendations for City Agencies, Boards and Commissions
- Outstanding Audit Recommendations for City Divisions
- Forensic Unit Status Report on Outstanding Recommendations
- Auditor General's Office – 2011 Budget
- Auditor General's Office – Benefits to the City of Toronto
- 2010 Annual Report – Fraud and Waste Hotline
- 2011 Audit Work Plan

### **2011 Other Reports:**

- Amend Provincial Legislation to Improve Efficiencies and Increase Revenues
- Reporting Practices of the Auditor General
- The Audit Committee – Roles and Responsibilities



**AUDITOR GENERAL'S OFFICE  
Audit Reports, 2007 to 2010**

**2010 Audit Reports**

- Controls Over Parking Tags Need Strengthening
- Toronto Zoo Construction Contracts Review – Tundra Project
- The Auditor General's Second Follow-up Review on the Police Investigation of Sexual Assaults
- Governance and Management of City Wireless Technology Needs Improvement
- Parks, Forestry and Recreation Division – Controls Over Ferry Service Revenue Need Strengthening
- Insurance and Risk Management Review
- Parks, Forestry and Recreation – Review of Internal Controls at the East York Curling Club
- Management of Capital Project 129 Peter Street – Shelter, Support and Housing Administration, Facilities Management and Real Estate Divisions
- Police Training, Opportunities for Improvement Toronto Police Service – Follow-up Review
- Review of the City SAP Competency Centre
- Administration of Municipal Land Transfer Tax, Revenue Services Division
- Administration of Development Funds, Parkland Levies and Education Development Charges
- Employee Expenses Practices – Toronto Community Housing Corporation
- Procurement Policies and Procedures – Toronto Community Housing Corporation
- Review of the Management and Funding for Inactive Landfill Sites
- Controls Over Concession Agreements at Parks, Forestry and Recreation Need Strengthening

**2009 Audit Reports**

- Review of Management and Oversight of the Integrated Business Management System (IBMS)
- Parks, Forestry and Recreation - Capital Program - The Backlog in Needed Repairs Continues to Grow
- Review of Disposal of Surplus IT Equipment – Security, Environmental and Financial Risks
- Toronto Parking Authority Pay and Display Parking Operations – Review of Revenue, Expenditures and Procurement Practices

- Process for Non-Competitive Procurement (Sole Source) Needs Improvement
- Effectively Managing the Recruitment of Non-Union Employees in the Toronto Public Sector
- City Purchasing Card (PCard) Program – Improving Controls Before Expanding the Program
- Review of Information Technology Training
- Payment of Utility Charges

### **2008 Audit Reports**

- The Management of Information Technology Projects – Opportunities for Improvement, Toronto Transit Commission
- Disaster Recovery Planning for City Computer Facilities
- Managing the Risk of Overpayments in the Administration of Social Assistance, Toronto Social Services
- Review of Affordable Housing Project at 2350 Finch Avenue West
- Review of Court Services, Toronto Police Service
- Fleet Review – Toronto Police Service
- Protecting Water Quality and Preventing Pollution – Assessing the Effectiveness of the City’s Sewer Use By-Law, Toronto Water
- Audit of City Performance in Achieving Access, Equity and Human Rights Goals
- Managing Employee Attendance

### **2007 Audit Reports**

- Solid Waste Management Services – Review of Major Contracts
- Property Tax Appeals and Refund Processing
- Management of Construction Contracts – Leaside Bridge Structure Rehabilitation Contract
- Municipal Election 2006 – Review of Financial Filings by Members of City of Toronto Council
- Children’s Services Division – Review of the Administration of Child Care Fee Subsidy
- Toronto Water Division – Review of Wastewater Treatment Program – Phase One
- Management of Construction Contracts – Toronto Water and Sewer Emergency Repair Contracts
- Internet Usage Review
- Toronto Water Division – Review of Wastewater Treatment Program – Phase Two
- Employee Benefits Review

- Councillors Office Expenses – Councillor Ford and Councillor Holyday
- Review of City of Toronto Pandemic Planning and Preparedness
- Councillors Using Personal Funds for and Failing to Report Office Expenses - Sanctions