



# AUDITOR GENERAL'S REPORT ACTION REQUIRED

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

<b>Date:</b>	June 7, 2012
<b>To:</b>	Audit Committee
<b>From:</b>	Auditor General
<b>Wards:</b>	All
<b>Reference Number:</b>	

### SUMMARY

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This report provides information regarding the implementation status of audit recommendations contained in various reports issued by the Auditor General to City divisions. On an annual basis the Auditor General reviews the implementation status of outstanding audit recommendations and reports the results of the review to Council through Audit Committee.

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

Since July 1, 2006 the Auditor General has issued various reports containing a total of 466 recommendations. Since that time eight of these recommendations have been identified by the Auditor General as no longer relevant. These recommendations are no longer relevant as reorganizations and changes in business practices and service levels have rendered them no longer applicable. Consequently, 458 of the 466 recommendations continue to have relevance.

The results of our review indicate management has fully implemented 339 or 74 per cent of the recommendations made by the Auditor General during the five year period from July 1, 2006 to June 30, 2011.

From a historical perspective, the Auditor General has issued 1,188 recommendations since January 1, 1999. Management has fully implemented 89 per cent or 1,059 of the 1,188 recommendations included in all audit reports issued since January 1, 1999.

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

## **RECOMMENDATION**

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### **The Auditor General recommends that:**

1. City Council receive this report for information.

### **Financial Impact**

The recommendation in this report has no financial impact. However, there are significant savings and additional revenues generated as a result of the implementation of various audit recommendations. Although all savings and revenues cannot be quantified, we have provided highlights below which illustrate benefits related to a few examples of recommendations that have been fully implemented.

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 City resources are adequately protected.

## **ISSUE BACKGROUND**

In accordance with the Auditor General's 2012 Work Plan, we have completed a review of the implementation status of audit recommendations issued by the Auditor General's Office. On an annual basis, the Auditor General provides 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 Council through the Audit Committee.

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, commissions and corporations. The status of recommendations related to agencies, boards, commissions and corporations is reported under separate cover.

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.

## 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 during the five year period from July 1, 2006 to June 30, 2011.

**Table 1: Status of Recommendations issued from July 1, 2006 to June 30, 2011**

Status of Recommendations	As of June 30, 2011	As of June 30, 2010
Fully Implemented	339	391
Not Fully Implemented	119	105
No Longer Relevant	8	16
Total	466	512
Fully Implemented as a percentage of total recommendations	74%	79%

As of June 30, 2010, various audit reports issued by the Auditor General since July 2006 contained a total of 328 recommendations. An additional 138 recommendations were added during the current review period bringing the total to 466 recommendations made during July 2006 to June 2011.

The results of our review indicate that management has fully implemented 339 or 74 per cent of the 458 recommendations made by the Auditor General since July 1, 2006. 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 where reorganizations and changes in business practices and service levels have rendered them no longer applicable.

### Listing of Outstanding Recommendations

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

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 implemented.

In order to provide context for recommendations included in Appendix 1 to this report, a few examples of noteworthy recommendations implemented and not fully implemented are provided below.

## **Noteworthy Recommendations Implemented**

### **1. Parks, Forestry and Recreation Division**

#### **(i) Concession Agreements Review**

The Parks, Forestry and Recreation Division has made significant progress in implementing audit recommendations contained in our Concession Agreements audit report. The Division has implemented all seven recommendations contained in the report.

The Auditor General recommended revision in billing and collection of concession costs and property taxes. The Division has implemented a new billing and collection process for property taxes that requires monthly billing of these charges instead of the existing year end billing practice. More frequent billing of concession payments has also been implemented and where applicable new contracts with vendors include terms requiring more frequent concession payments.

The new process for monthly tax billing and more frequent collection of concession payments will allow for earlier identification of outstanding amounts with potential for becoming bad debts.

#### **(ii) Parks, Forestry and Recreation Capital Program – The Backlog in Needed Repairs Continues to Grow**

In this 2009 report, recommendation 5 addressed the City’s growing state of good repair backlog, we recommended:

**“City Council request the City Manager to review the funding allocation between state of good repair projects and service improvement or growth-related projects, both at the division and city-wide levels, and take appropriate steps to develop a sustainable long-term strategy to reduce the current and projected state of good repair backlog.”**

This recommendation required the development of a long-term strategy to reduce the state of good repair backlog. Despite planned increased spending over the next few years the backlog continues to grow and is projected to increase to more than \$1.2 billion by 2021. The stated goal of the current capital budget is only to reduce the rate of growth of the backlog. As City Council is fully aware of the financial constraints restricting the full implementation of our recommendation, there is little point in our continuing to classify this recommendation as not implemented. Given these

circumstances, we are considering the recommendation fully implemented even though the repair backlog continues to grow.

(iii) Controls Over Ferry Service Revenue Need Strengthening

The objectives of our review were to determine the adequacy of controls over the administration and collection of ferry service revenues. This report included ten recommendations. One of the recommendations dealt with review of periodic comparisons between tickets sold and the number of patrons recorded as ferry passengers, and unusual deviations investigated. Ferry Services has implemented a tracking process to record variances between the tickets sold and the number of passengers recorded. Explanations for some deviations noted during our follow-up were provided by management, however given other unresolved reconciliation variances we will conduct further review in the next follow-up cycle.

**2. Revenue Services Division**

(i) Controls Over Parking Tags Need Strengthening

The Revenue Services Division implemented all the remaining five recommendations during 2011.

Our review identified continued improvement in the parking tag management process. We noted a continued decline in discretionary cancellations and cancellations due to processing delays. Overall the City experienced an annual reduction of approximately \$250,000 of cancellations in these categories from last year.

The Auditor General also recommended that the Treasurer review the parking tag collection process and prioritize receivables from individuals and businesses that have accumulated a significant number of outstanding tags. In the latter part of 2010 the Revenue Services Division in coordination with Legal Services implemented an initiative to add unpaid parking tickets to the property tax roll. Since 2010 over \$86,500 worth of unpaid parking tickets have been added to the tax rolls. This amount is expected to increase in the future with the continued follow-up by the Revenue Services Division.

(ii) Administration of Municipal Land Transfer Tax

The objective of this review was to assess the extent to which the existing control procedures ensure the effective administration and collection of the municipal land transfer tax. Our review identified areas where opportunities exist to ensure that this new tax program is effectively managed and administered.

As a result of our recommendation the Division implemented a user fee of \$150 per application in June 2011 for processing manual refunds on electronically registered

conveyances. A total of \$25,500 has been levied during 2011. The annualized revenue is estimated to be approximately \$55,000 going forward.

### **3. Corporate Finance Division, Insurance and Risk Management Review**

The objective of this audit was to review the adequacy and effectiveness of current practices for the management of the City's insurance and risk program, with a view to identifying opportunities for improvements and cost savings.

The Auditor General recommended that Corporate Finance complete the implementation of the Insurance and Risk Management staffing changes approved in the 2009 City budget to allow for more adjusting work to be done by City staff. As a result of implementing these changes, additional adjusting work is being done by City staff and the Division estimates that annual savings of \$278,000 have been realized.

### **4. City Planning Division, Community Benefits Secured Under Section 37 or 45 of the Planning Act**

The objective of this review was to assess the administration of community benefits secured under Sections 37 and 45 of the Planning Act.

The Auditor General recommended review and improvement in controls to ensure the receipt of cash and non-cash benefits from the developers agreed under sections 37 and 45 of the Planning Act.

In response to the Auditor General's recommendation, City Planning staff investigated outstanding Section 37 and Section 45 funds which were due and no record of payments existed. The investigation by City Planning staff identified one development dated back to 2004 where a negotiated cash benefit of \$120,000 was not provided. Full payment of the Section 45 obligation was submitted in April, 2012.

### **5. Facilities Management Division, Management of Energy Loans and Grants Funded by the Ontario Power Authority**

This review resulted in ten recommendations aimed to improve the controls and the effectiveness of the administration of City energy loan programs and grants administered on behalf of the Ontario Power Authority.

The Energy Efficiency Office of Facilities Management Division has implemented all but two recommendations. The two outstanding recommendations relate to the development of a City-wide carbon credit policy and City Manager's review of Sustainable Energy Funds. We are advised that these two recommendations will be implemented in 2012. Through implementing the remaining eight recommendations, the Energy Efficiency Office has improved its processes for approving, monitoring and reporting on results of loans for energy savings projects. The Energy Efficiency Office has been effective in implementing the recommendations in a short time frame.

## **Noteworthy Recommendations Not Fully Implemented**

### **1. Toronto Water, Management of Construction Contracts**

Our review of Toronto Water and Sewer Emergency Repair contracts in 2007 resulted in recommendations relating to strengthening work management processes including monitoring and documenting contractor performance issues.

Toronto Water completed development of a Contractor Performance Evaluation tool in 2011 and the tool is under pilot evaluation. Toronto Water is planning on providing training to related staff. We will review implementation of this tool in the 2013 follow-up cycle.

### **2. Technical Services Division, Management of Construction Contracts – Leaside Bridge Structure Rehabilitation Contract**

This review resulted in recommendations relating to improving controls in administration of construction contracts. The Technical Services Division has implemented all recommendations with the exception of one that relates to the development of a policy for charging an administration fee for management of construction work relating to third parties. This work is often included in the overall project tendered by the City.

The Technical Services Division has developed a draft third party engineering fee structure and a cost recovery policy for construction work administered by the City on behalf of third parties. As part of the corporate user fee report going forward to the Executive Committee to be considered with the 2012 Operating Budget, this fee has been recommended for further review during 2012 to assess its viability and impacts.

### **3. Parks, Forestry and Recreation Division, Controls Over Ferry Service Revenue Need Strengthening**

The objectives of our review were to determine the adequacy of controls over the administration and collection of ferry service revenues. This report included ten recommendations. One of the recommendations dealt with timely renewal of vendor contracts and tracking of outstanding receivables.

Our review identified one major vendor still operating without a contract. Lack of timely renewal of vendor contracts reflects inadequate contract management and monitoring controls.

### **Recommendations Reported by Management as Implemented Determined by Auditor General as Not Fully Implemented**

During this year's follow-up process we noted that 28 per cent or 47 out of 167 recommendations management reported as implemented were not fully implemented based on our assessment. It is important that management perform adequate review of

implementation status before reporting them as implemented. We do not conduct audit work on recommendations reported as not fully 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.

## **CONCLUSION**

The results of this review indicate management continues to make strides in implementing outstanding audit recommendations. In order to improve the efficiency of the follow-up process management should ensure recommendations reported as implemented are adequately reviewed before reporting them to the Auditor General as fully implemented.

## **CONTACT**

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## **SIGNATURE**

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Jeffrey Griffiths, Auditor General

10-AAS-05

## **ATTACHMENT**

Appendix 1:     City Divisions, Public Recommendations – Implemented  
                  City Divisions, Public Recommendations – Not Fully Implemented  
                  City Divisions, Public Recommendations – No Longer Relevant