



**AUDITOR GENERAL'S
REPORT
ACTION REQUIRED**

**Continuous Controls Monitoring – 12 Month Review of
City Telecommunication Expenses, 2014**

Date:	May 29, 2015
To:	Audit Committee
From:	Auditor General
Wards:	All
Reference Number:	

SUMMARY

Continuous Controls Monitoring Program

Since 2011 the Auditor General's Work Plan has included a project in relation to continuous controls monitoring of selected City expenses. The objective of the Continuous Controls Monitoring Program is to provide periodic reports to management which assist in proactively monitoring financial transactions, detecting unusual expenses and identifying areas where internal controls could be strengthened.

The Continuous Controls Monitoring Program involves the ongoing and regular identification of transactions exceeding predetermined criteria. The objective is to provide periodic reports to management to assist in proactively monitoring financial transactions, detecting unusual expenses and identifying areas where internal controls could be strengthened.

Program evolution

- 2011 - initiated continuous monitoring of employee overtime and mileage reimbursements
- 2012 - program expanded to include standby pay
- 2013 - initiated review of staff absenteeism for selected ill, ill dependent leave and bereavement leave
- 2014 - initiated review of telecommunication expenses

Telecommunication expenses are included in the Auditor General's Continuous Controls Monitoring Program as significant funds are involved and a number of issues were identified during our 2014 audit of telecommunication expenses. Our 2014 audit report on telecommunication expenses is available at:

<http://www.toronto.ca/legdocs/mmis/2014/au/bgrd/backgroundfile-70658.pdf>

This current report provides the results of our review of City telecommunication costs incurred from January 1, 2014 to December 31, 2014.

The City maintains approximately 15,000 wireless phones and devices and over 24,000 landlines or voice-over-internet phones (VOIP).

Our continuous controls monitoring criteria was based on the following criteria:

- Data usage charges exceeding \$750 per year
- Roaming charges over \$500 per year
- Annual texting and airtime charges in excess of \$100 each
- International and Directory Assistance calls over \$50 during the year
- Active phones with no call activity during the year
- Users with multiple active telecommunication devices
- Costs incurred on inactive phones

The exception criteria are reviewed on an ongoing basis and revised based on improvements in controls and the number of exceptions noted in each monitoring cycle.

Our analysis identified over 1,000 phones meeting one or more of the criteria noted above. The exceptions were provided to management for review and comment. Management responses and actions are provided in Table 1 below.

As a result of management actions, savings of \$320,000 have been identified. These savings include \$290,000 in annually recurring savings which will result in recurring savings of approximately \$1.5 million over a 5-year period.

RECOMMENDATION

The Auditor General recommends that:

1. City Council receive this report for information.

Financial Impact

As a result of ongoing monitoring of information provided by the Auditor General, management actions have resulted in one time savings \$30,000 and recurring savings of \$290,000 annually or a total of approximately \$1.5 million over the next five years.

Savings are a result of cancelling inactive devices, adjustments to monthly phone plans and staff reimbursement for personal use of telecommunications devices.

DECISION HISTORY

The Auditor General's 2014 Audit Work Plan included an ongoing project related to Continuous Controls Monitoring. The Auditor General's work plan is available on the City website at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2013.AU13.4>

COMMENTS

The use of continuous controls monitoring was initiated in early 2011. Since then, the Auditor General has provided management with periodic exception reports for review and comment based on selected criteria. The Auditor General has also provided periodic continuous controls monitoring reports to City Council through the Audit Committee.

Initial expenses selected for the application of continuous controls monitoring were employee overtime and mileage reimbursements. The original intent was to gradually expand the program to other areas within the City and its agencies and corporations. Currently, the program includes:

- City staff overtime, meal and mileage expenses
- Selected staff absenteeism types
- Telecommunication expenses
- TTC staff overtime, meal allowance and mileage expenses
- TTC staff absenteeism

In 2014, telecommunication expenses were added to the continuous monitoring program. Telecommunication expenses were selected for continuous monitoring upon completion of an audit of City telecommunication expenses and controls. The report highlighted that telecommunication expenses were not being adequately monitored by City divisions.

As part of the Continuous Controls Monitoring Program, the Auditor General requested management to review approximately 1,000 exceptions identified through our analysis. Management responses indicate that for about half of these devices, usage was appropriate. Management actions taken related to the remaining 50 per cent of usage have resulted in significant cost savings.

Table 1 provides a summary of actions taken by management and related savings.

Table 1: Summary of Management Comments and Potential Savings

Management Comments/Actions	Number of Phones*	Monthly Charge per Phone* (\$)	Savings (\$)	Auditor General Comments
Phones cancelled for various reasons such as no activity or incorrect allocation	224	\$20 - \$50 per phone depending on service plan	\$102,144	Annual recurring savings
Inactive phones or phones incorrectly allocated re-assigned to other users	118	\$20 - \$50 per phone depending on service plan	53,808	Conservative estimate of 50% of annual costs based on management comments
Reduction in excessive usage due to plan changes and improved monitoring, (net of increased cost of new plan)	164	--	131,500	Annual recurring savings - Management took note of excess usage. In most cases plans were changed to meet current needs.
Phones moved to "suspend" status for various reasons	10	\$20 - \$50 \$8.50 \$12.50 - 42.50	3,660	Annual recurring savings based on the difference between the regular monthly rate and the "suspend" rate
Other – Recoveries including reimbursement of personal use, correction of billing errors and other one-time estimated savings	--	--	30,000	One-time savings includes reimbursements and estimated savings on various phones.
Total	516	--	\$321,112	

* The City has various monthly service plans ranging from \$20 to \$56. Based on our analysis, we have applied 60 per cent of phones at \$50 and 40 per cent at \$20 for monthly plans.

Based on information provided by management, savings of approximately \$320,000 have been realized. These include \$290,000 in recurring savings and approximately \$30,000 in one time savings.

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.

CONCLUSION

Information provided through continuous controls monitoring has enabled management to address certain telecommunications expenses in a proactive and timely manner. An overall savings of \$320,000 has been identified for the year ended December 31, 2014.

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SIGNATURE

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