



**AUDITOR GENERAL'S
REPORT
ACTION REQUIRED**

**Continuous Controls Monitoring Program –
City Telecommunication Expenses for 2015**

| | |
|--------------------------|-----------------|
| Date: | June 14, 2016 |
| To: | Audit Committee |
| From: | Auditor General |
| Wards: | All |
| Reference Number: | |

SUMMARY

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.

Telecommunication expenses are included in the Auditor General’s Continuous Controls Monitoring Program as expenditures are significant and a number of issues were identified during our 2014 audit of telecommunication expenses. The City currently maintains approximately 17,500 wireless phones and devices (includes pagers and data modems) and over 22,000 landlines or voice-over-internet phones (VOIP). In 2015, the total cost for landlines/VOIP and wireless phones and devices was \$12.8 million.

This report provides the results of our monitoring of City telecommunication expenses incurred from January 1, 2015 to December 31, 2015. Our analysis identified over 1,100 phones and devices meeting one or more of the pre-determined exception criteria. The exceptions were provided to management for review and comment. Management responses and actions are provided in Appendix 1.

As a result of management actions, savings of approximately \$218,300 have been identified for 2015. These savings include one time savings of \$5,600 and \$212,700 in annually recurring savings which will result in total savings of approximately \$1.06 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 will result in one time savings of \$5,600 and recurring savings of \$212,700 annually or a total of approximately \$1.06 million over the next five years. These savings are in addition to the savings reported in 2014 of \$1.5 million over five years. Savings are a result of cancelling, suspending or reassigning inactive devices, adjustments to monthly phone plans, staff reimbursement from personal use and any recoveries from billing errors.

DECISION HISTORY

In 2014, the Auditor General issued an audit report, entitled “Controls Over Telecommunication Expenses Need Improvement”. The report highlighted that telecommunication expenses were not being adequately monitored by City divisions.

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

The Auditor General’s 2015 Audit Work Plan included an ongoing project related to Continuous Controls Monitoring.

<http://www.toronto.ca/legdocs/mmis/2015/au/bgrd/backgroundfile-76340.pdf>

Telecommunication expenses were added to the Continuous Controls Monitoring Program in 2014.

<http://www.toronto.ca/legdocs/mmis/2015/au/bgrd/backgroundfile-81327.pdf>

COMMENTS

The City currently maintains approximately 17,500 wireless phones and devices (includes pagers and data modems) as well as over 22,000 landlines or voice-over-internet phones (VOIP).

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

For 2015, our continuous controls monitoring exception criteria were as follows:

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

The Auditor General's role in this process is to accumulate data and report it to management. The intent of the process is to identify exceptions for management to take appropriate action. No detailed audit work is performed on either the data or management comments.

As part of the Continuous Controls Monitoring Program, the Auditor General requested management to review 1,126 exceptions identified through our analysis. Our review of management comments indicates that for:

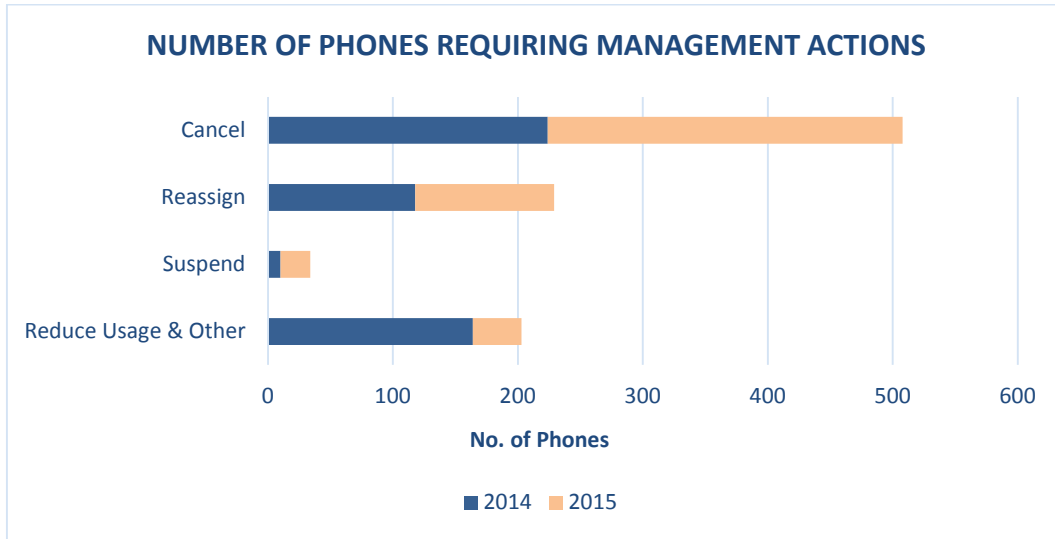
- 626 or 56 per cent of these devices, usage was deemed appropriate and did not require any management action
- 458 or 41 per cent of phones and devices, management will take action to reduce usage, cancel, suspend or re-assign phones where needed. For a small number of these phones, management requested staff to reimburse approximately \$1,750 for personal usage

In addition, there are 16 phones where usage is still under review by management. There are also another 26 phones, identified as exceptions in the Auditor General's continuous monitoring of telecommunications expenses for 2014, where management has not yet completed the cancellations.

Appendix 1 provides a more detailed summary of actions taken by management and related savings.

Management actions taken in response to exceptions identified by the Auditor General include plan changes, cancellations, suspensions and reassignment of phones and devices. Chart 1 summarizes management actions in 2014 and 2015.

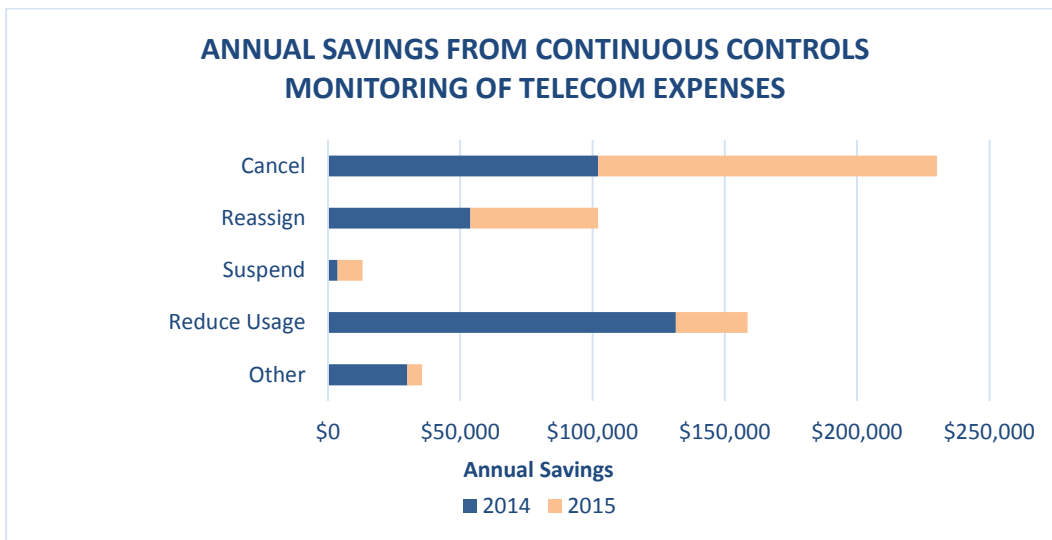
Chart 1:



**Other actions include one time reimbursements and billing error credits.*

The actions taken will result in potential annual recurring savings of \$212,700 and one time savings of \$5,600. Since 2014, a total of \$539,400 in savings have been realized from continuous monitoring of telecommunication expenses. Chart 2 summarizes the savings resulting from continuous controls monitoring during the years 2014 and 2015.

Chart 2:



**Other savings include one time reimbursements and billing error credits.*

CONCLUSION

Information provided through continuous controls monitoring has enabled management to address certain telecommunications expenses in a proactive and timely manner.

Based on the actions evidenced by management and the Information & Technology Division, the Auditor General will re-evaluate the need for monitoring of these expenses on an ongoing basis after the next cycle.

CONTACT

Ina Chan, Assistant Auditor General, Auditor General's Office
Tel: 416-392-8472, Fax: 416-392-3754, E-mail: ichan3@toronto.ca

Syed Ali, Director IT & Strategy, Auditor General's Office
Tel: 416-392-8438, Fax: 416-392-3754, E-mail: sali4@toronto.ca

SIGNATURE

Beverly Romeo-Beehler, Auditor General

Summary of Management Actions and Potential Savings, 2014-2015

| Management Comments/Actions | Number of Phones | | | Monthly Charge per Phone* (\$) | Annual Recurring Savings (\$) | | |
|--|------------------|------------|------------|--|-------------------------------|------------------|------------------|
| | 2015 | 2014 | Total | | 2015 | 2014 | Total |
| Cancel phones | 284 | 224 | 508 | \$20 - \$50 per phone depending on phone type | \$128,064 | \$102,144 | \$230,208 |
| Reassign phones | 111 | 118 | 229 | \$20 - \$50 per phone depending on phone type | \$48,240 | \$53,808 | \$102,048 |
| Suspend phones | 24 | 10 | 34 | Monthly Plan: \$20 - \$50 Suspend Cost: (\$8.50) <hr/> Net Saving: \$11.50 - \$41.50 | \$9,372 | \$3,660 | \$13,032 |
| Reduce excessive usage through plan changes and improved monitoring | 39 | 164 | 203 | - | \$27,018 | \$131,500 | \$158,518 |
| | | | | | One-Time Savings (\$) | | |
| Other - One-time recoveries including reimbursement of personal use, correction of billing errors and other one-time estimated savings. | - | - | - | - | \$5,583 | \$30,000 | \$35,583 |
| Total | 458** | 516 | 974 | - | \$218,277 | \$321,112 | \$539,389 |

* The City has various monthly service plans ranging from \$20 to \$50. Based on our analysis, we have applied the monthly cost by phone type.

** Does not include 16 phones that were pending management investigation.