



**AUDITOR GENERAL'S
REPORT
ACTION REQUIRED
with Confidential Attachment**

**Audit of Water Billing and Collection – Phase II:
Part 2 – Management of Water Supply Contract for the
Region of York**

Date:	October 13, 2016
To:	Audit Committee
From:	Auditor General
Wards:	All
Reason for Confidential Information:	This report involves the security of property belonging to the City or one of its agencies and corporations.
Reference Number:	

SUMMARY

The Auditor General's 2015 Audit Work Plan included an audit of the City's water billing and collection process. The audit was carried out in two phases:

- Phase I focused on the collection of outstanding water accounts for residential and commercial customers and was adopted by City Council on March 31, 2016.
- Phase II of our review consists of three areas: review of water consumption at properties classified as vacant land (Part 1), management of the York Region water supply contract (Part 2) and water billing processes (Part 3).

The focus of Phase II, Part 2, is on the management of the water supply contract with the Region of York for the term ending in 2025.

The final results of the water billing and collections audit will be reported at the March 2017 Audit Committee.

RECOMMENDATIONS

The Auditor General recommends that:

1. City Council adopt the confidential recommendations contained in Confidential Attachment 1 to the report (October 13, 2016) from the Auditor General.
2. City Council not authorize the public release of the confidential information in Confidential Attachment 1 which involves the security of property belonging to the City or one of its agencies and corporations.

Financial Impact

The implementation of the recommendations in this report will strengthen controls and enhance contract management processes. The extent of any resources required or potential cost savings resulting from implementing the recommendations in this report is not determinable at this time.

DECISION HISTORY

The Auditor General's 2015 Audit Work Plan included an audit of the City's water billing and collection processes. In March 2016, the Auditor General completed Phase I of her audit which focused on the collection of outstanding water accounts for residential and commercial customers. The report entitled "Audit of Water Billing and Collection – Phase I: Overdue Water Account Collections Require Strengthening" was adopted by City Council on March 31, 2016, is available at:

<http://www.toronto.ca/legdocs/mmis/2016/au/bgrd/backgroundfile-90687.pdf>

ISSUE BACKGROUND

The City of Toronto has been supplying water to the Region of York (York) since before amalgamation.

The existing contract with York was signed in early 2005 and expires in 2025. This contract provides for the supply of water to York up to a maximum of 501 million litres per day (183 billion litres a year). The maximum volume of water is calculated based on the maximum supply on a high demand day. For the year 2015, the City collected \$22.7 million from the sale of water to York.

Toronto's infrastructure and treatment capacities were planned, constructed and are maintained to ensure an uninterrupted supply of water to Toronto and York. The recovery of the City's operating and capital costs are based on the volume of water supplied to York. However, since the execution of the contract in 2005, several economic and environmental factors that impact the water pricing model in meeting the original business objectives have changed. These include the continued aging of water infrastructure and changes in consumer water consumption behaviour.

COMMENTS

In this audit, we reviewed the City's water supply contract with York and the process of determining the billing rate for the supply of water to York. We identified a number of opportunities in relation to this contract.

Our audit methodology included the following:

- Review of the water supply contract between the City of Toronto and York
- Analysis of water supply and demand forecast volumes
- Review of the City's pricing methodology for water sold to York
- Review of the effectiveness of processes and controls for billing and collection of water charges
- Review of previous audit reports and recommendations
- Interviews with City staff in the Toronto Water Division

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.

This report contains confidential information relating to the current York water supply contract. There are five audit recommendations contained in the confidential attachment to this report. Both the report and management responses to audit recommendations are included in Confidential Attachment 1.

CONCLUSION

The implementation of the recommendations contained in this report will strengthen controls and improve contract management processes.

CONTACT

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SIGNATURE

Beverly Romeo-Beehler, Auditor General

ATTACHMENT

Attachment 1 – Confidential Information:

Audit of Water Billing and Collection – Phase II: Part 2 – Management
of Water Supply Contract for the Region of York