

# **AUDITOR GENERAL'S REPORT**

**2016 Annual Report**

**Demonstrating the Value of  
the Auditor General's Office**

**March 13, 2017**

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**Beverly Romeo-Beehler, CPA, CMA, B.B.A., JD, ICD.D, CFF**  
**Auditor General**



## AUDITOR GENERAL'S MESSAGE



We strive to make a difference in the lives of Torontonians. Our audits provide City management and City Council with an objective assessment of how taxpayers' money is spent. Together with my staff, we have built a strong framework to ensure our work is objective, transparent, and provides great value to taxpayers. My Annual Report captures some of our accomplishments and the impact of our work.

Some of our audit findings can be quantified and translated into a return on investment. In 2016, a return of \$7.4 was generated for every dollar invested in the Office. Looking at this another way, the immediate savings of \$20.2 million realized in 2016 and 2017 is enough to fund about 2,000 subsidized child care spaces, 800 emergency shelter beds, or other important City services.

Savings can only be realized because of management's continued commitment to effectively implementing our recommendations.

Equally important are the non-quantifiable benefits achieved through the audit process, including improvements to internal controls, governance, operational efficiency and effectiveness, and customer service.

Looking ahead, we will be broadening the scope of investigations by the Forensic Unit, enhancing performance audits through data analytics, streamlining the audit recommendation follow-up process, and growing our internal leaders.

Finally, I would like to take this opportunity to commend my staff and City staff for their hard work and dedication. Your work makes a difference.

Sincerely,

Beverly Romeo-Beehler, CPA, CMA, B.B.A., JD, ICD.D, CFF  
Auditor General

### BY THE NUMBERS

- \$7.4 return on investment for every dollar invested in the Office
- \$160.5 million in one-time and projected five-year savings since 2012
- 14 performance audit reports containing 135 recommendations and 12 confidential recommendations
- 5 Continuous Controls Monitoring reports
- 552 complaints, containing almost 900 allegations processed by the Fraud and Waste Hotline
- 165 audit recommendations were reviewed for their implementation
- \$5 million annual Office budget

## **OUR MANDATE**

In 2002, City Council approved an independent Auditor General's Office for the City of Toronto. The Auditor General's primary role is to assist Council in holding itself and the administration accountable for the way public funds are used.

## **OUR MISSION**

To be recognized as a leading audit organization, respected by our clients and peers for integrity, excellence and innovation, in supporting the City of Toronto to become a world class organization.



Behind every Auditor General is a great team.  
We are honoured to serve the City of Toronto.

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## EXECUTIVE SUMMARY

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### **Auditor General's authority is prescribed in the City of Toronto Act**

In May 2002, City Council approved an independent Auditor General's Office for the City of Toronto. The *City of Toronto Act, 2006* subsequently formalized the establishment of the Auditor General.

Per 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 Chapters 3 and 192 of the Toronto Municipal Code. The Code requires that the Auditor General report annually to Council on the activities of the Office and the savings achieved.

This annual report accordingly provides information on the Auditor General's Office 2016 activities, quantifiable financial and non-financial benefits.

### **2016 Accomplishments**

### **Issued 14 audit reports and processed 552 complaints in 2016**

- Completed and issued 14 performance audit reports providing 135 recommendations and 12 confidential recommendations.
- Processed 552 complaints, consisting of approximately 900 allegations, through the Fraud and Waste Hotline.
- Completed and issued five Continuous Controls Monitoring reports to the City and the Toronto Transit Commission.
- Conducted an annual follow-up on the implementation status of 165 audit recommendations issued to City divisions, agencies and corporations. Three reports were issued on the follow-up results.

- Reengineered the annual recommendation follow-up process to enhance efficiency and better facilitate staff in implementing audit recommendations.
- Held three information sessions with Transportation Services Division and Engineering & Construction Services Division management and staff to enhance their awareness of unbalanced bidding.
- Ongoing management, coordination and oversight of financial statement audits conducted by external firms.

**Return on Investment for the Office**

**Auditor General audits may identify cost savings and revenue increases**

In fulfilling her mandate, the Auditor General performs various audits of City divisions, agencies and corporations, often identifying opportunities for cost savings and revenue increases.

The return on investment for the Auditor General’s Office is based on estimated cost savings and revenue increases as a result of previous and current year audit reports and fraud investigations conducted by the Office. 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. Refer to Exhibit 3 for examples of previous audits and how they have provided savings to the City.

**Projected savings are for five years only**

Cost savings or revenue increases may be one-time or ongoing. For the purpose of this report, the estimated cost savings or revenue increases are conservatively projected on a five-year forward basis only, even though the cost savings in most instances will extend beyond five years.

**Estimated \$7.4 savings for every dollar invested in the Auditor General’s Office**

From 2012 to 2016, the one-time and projected five-year cost savings and revenue increases, net of implementation costs, total approximately \$160.5 million. The total cost of operating the Auditor General’s Office for this period was \$21.7 million. The return on every dollar invested in the Auditor General’s Office was approximately \$7.4.

## **Financial Benefits Realized in 2016**

### **\$54.4 million total savings realized in 2016**

The total savings realized in 2016 amounted to \$54.4 million. These savings were realized from eight previously issued audit reports, four audit reports issued in 2016, Continuous Controls Monitoring, and investigations of fraud related matters.

To clarify, savings from the eight previous audit reports had not been included in previous Auditor General's annual reports as these savings were not determinable at the time the reports were issued.

### **Savings from 2016 Audits**

#### **\$4.25 million savings over 5 years from the Cleaning Services Audit**

In 2016, the audit of City Cleaning Services identified opportunities to reduce cleaning costs. The implementation of our audit recommendations will result in savings of at least \$4.25 million over the next five years. These savings were achieved primarily at Toronto Police facilities. Once our recommendations have been implemented across all cleaning contracts and at all City facilities, these savings are likely to increase. Any additional savings will be reflected in our future Annual Reports.

#### **\$1 million in cost avoidance and recovery of duplicated HST from LTD Benefits Audit**

The Phase Two audit of the City's Long-Term Disability (LTD) benefits resulted in five-year savings over \$1 million. These savings came about as a result of incorrect LTD entitlement calculations and duplicated HST errors that would have gone unnoticed had it not been identified by the audits. Abstracts of these individual audits are provided in Section 3.2 of this report.

#### **Savings estimate is conservative**

Other 2016 audits also identified cost saving opportunities. However, to ensure our annual savings estimate is conservative and achievable, these potential savings are not included in the current year savings calculation. These potential savings will be recognized after the audit recommendations have been implemented.

With respect to savings from Fraud and Waste Hotline related matters, the amounts of one-time cost recovery and avoided future loss identified in 2016 are shown in Table 2. Section 3.3 highlights the full financial impact of the Fraud and Waste Hotline Program.

### **Non-Quantifiable Benefits**

**Recommendations related to improving controls are important but benefits may not be quantifiable**

A number of 2016 audit reports have led to improved internal controls, improved governance, increased operational effectiveness and efficiency, and better customer service. These benefits are difficult to quantify in monetary value even though they add significant value to City operations and services.

### **Potential Future Cost Savings**

**Savings from audit of employee extended health benefits will be assessed in future years**

The audit of the City's employee extended health and dental benefits identified a number of issues related to the benefits plan design and potential misuse of benefits. Immediate attention from City staff was required for findings related to potentially excessive claims for controlled substances, erectile dysfunction drugs, as well as unusual claim patterns. The potential savings will be assessed in 2017 during the recommendation follow-up process.

**Potential revenue increase from audit of water billing and collection**

The 2016 audit of water billing and collection noted that the City lost property tax revenues from properties that were incorrectly classified as vacant lands. The potential lost revenue from all properties that were incorrectly classified could not be precisely quantified at the time of our audit but the City-wide impact could be significant.

Abstracts of these individual audits are provided in Section 4 of this report.

### **2017 and Ahead**

**Looking forward**

The Auditor General will continue to take a risk-based approach when selecting and conducting audits. The Office presented its 2017 Work Plan at the October 28, 2016 Audit Committee meeting. The 2017 Audit Work Plan includes audit projects selected based on a balancing of audit priorities and audit resources.



A revised 2017 Work Plan is being submitted to the Audit Committee's March 2017 meeting as a result of a temporary increase to the Auditor General's operating budget approved by City Council in February 2017.

In addition to conducting performance audits and operating the Fraud and Waste Hotline, the Auditor General's Office will:

**Highlights of 2017 initiatives**

- Continue to enhance and incorporate data analytics in our audit procedures.
- Enhance staff training and succession planning through a series of in-house learning sessions, acting positions, rotation of special duty assignments, and individual job coaching.

**Conclusion**

The role of the Auditor General is to assist City Council in holding itself and City administrators accountable for ensuring the quality of stewardship over public funds and for achievement of value for money in operations. The Auditor General selects projects based on risk, and frequently a by-product of the audit work is identifiable cost savings.

This report shows that the cost savings from recent audits and investigations equate to a \$7.4 return on investment for every dollar invested in the Auditor General's Office. Cost savings only reflect the quantifiable financial benefits of the Auditor General's work. Equally important is the work conducted to safeguard City resources, address internal control weaknesses, and ensure proper use of public funds. Many non-financial audit reports have significant and long-term benefits to the City.

# 1. THE AUDITOR GENERAL'S OFFICE

## 1.1 Mandated Responsibilities of the Auditor General

### City Council approved an independent Auditor General's Office in 2002

In May 2002, City Council approved an independent Auditor General's Office for the City of Toronto in conjunction with the implementation of a new audit framework. The *City of Toronto Act, 2006* (the *Act*) subsequently formalized the establishment of the Auditor General. Section 177 of the *Act* requires that "The City shall appoint an Auditor General".

### Responsibilities under the City of Toronto Act

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."*

### 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."*

The Auditor General is primarily responsible for the following:

- Financial (excluding attest), compliance and performance audits of divisions, and certain agencies and corporations
- Operating the Fraud and Waste Hotline
- Conducting investigations into fraud and other wrongdoing
- Overseeing the external financial attest audit contract
- Coordinating with the City's Internal Audit Division and other Accountability Officers

Refer to Exhibit 1 for a list of specific responsibilities of the Auditor General as set out in Chapter 3 of the Toronto Municipal Code.

## 1.2 Professional Standards

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

An audit process is an independent, objective assurance activity designed to add value and improve an organization's operations. To accomplish this, auditors apply a systematic and disciplined approach when conducting audits in order to evaluate and improve the effectiveness of risk management, internal controls, and governance processes.

### **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
- 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 Chartered Professional Accountants of Canada, the Information Systems Audit and Control Association, the Association of Certified Fraud Examiners, and the Institute of Internal Auditors. Details of staff qualifications are available on the Auditor General's Office website:

<http://www1.toronto.ca/wps/portal/contentonly?vgnextoid=68f289b44e713310VgnVCM1000003dd60f89RCRD&vgnextchannel=06e3e03bb8d1e310VgnVCM10000071d60f89RCRD>

### 1.3 Independent Quality Assurance Review of the Auditor General's Office

**Government Auditing Standards require an independent review**

Government Auditing Standards require that audit organizations performing audits in accordance with Generally Accepted Government Auditing Standards undergo an external independent quality assurance review 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.

**Auditor General's Office received the highest rating of compliance available**

The Auditor General's Office underwent its fourth quality assurance review in 2015. The Office received the highest level of compliance available in the external quality assurance review program.

The results of the 2015 External Quality Assurance Review are available at:  
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.AU4.9>

### 1.4 Annual Compliance Audit

**Annual audit completed by independent audit firm**

The Auditor General's Office is also required to undergo an annual compliance audit by an external independent auditor engaged by the City Manager's Office. The annual compliance report for the year ended December 31, 2015 was presented to the Audit Committee at its July 4, 2016 meeting.

The external auditor 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."*

The report issued by the independent external auditor is available at:  
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.AU6.21>

## **2. 2016 ACCOMPLISHMENTS**

### **2.1 Performance Audits and Recommendations**

#### **Issued 14 performance audit reports in 2016 providing 135 recommendations**

In 2016, the Auditor General issued 14 performance audit reports providing 135 recommendations and 12 confidential recommendations, five Continuous Controls Monitoring reports, and 13 other reports. Exhibit 2 provides a list of reports issued in 2016.

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

The Auditor General, in making audit recommendations, is cognizant of their implementation cost and benefit. Careful consideration is given to ensuring that recommendations are relevant, practical and cost-effective. Consequently, there are few instances where management disagrees 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, develop new revenue streams, and reduce operating costs
- better manage or utilize City resources, including the management of public funds, personnel, property and equipment, and
- eliminate inefficiencies in management information systems, internal and administrative procedures, use of resources, allocation of personnel and purchasing procedures.

Audits also assist management to:

- safeguard assets
- detect unauthorized acquisition, use or disposal of assets, and
- ensure compliance with laws, regulations, policies, procedures or generally accepted industry standards.

Exhibit 3 provides examples of how the implementation of audit recommendations resulted in financial benefits to the City in a variety of ways.

## 2.2 Operation of the Fraud and Waste Hotline

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

The Auditor General's Office has been administering the Fraud and Waste Hotline Program since its inception in 2002. The Auditor General's Forensic Unit is dedicated to managing the Hotline Program and is responsible for conducting investigations and providing oversight over management-led investigations.

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 may result in direct financial losses and indirect costs such as additional management resources to investigate and mitigate wrongdoing.

### **552 complaints were received in 2016**

In 2016, the Hotline Program received 552 complaints, consisting of approximately 900 allegations.

### **Hotline Program has both financial and non-financial benefits**

Ultimately, the effectiveness of the Hotline Program should not be gauged by the number of complaints received in any given year, but on the action taken to investigate, manage and reduce the risk of fraud and other wrongdoing.

While the financial benefits of the Hotline Program are highlighted in Section 3.3, it is important to recognize the non-financial benefits:

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

- Deterrence of fraud or wrongdoing
  - Tips remain the most common method for detecting fraud as reported in the *2016 Report to the Nations on Occupational Fraud and Abuse*, issued by The Association of Certified Fraud Examiners, a global professional organization
- Strengthened internal controls
- Improvements in policies and procedures
- Increased operational efficiencies
- Complaint data used to identify trends, address risks, and make action-oriented recommendations to management

- Use of complaint data trends to inform audit work plan. Examples of audits include:
  - *Management of the City's Long-Term Disability Benefits, Phase One: Improving City Management to Address Growing Trends in Long-Term Disability Benefits, 2015*
  - *Management of the City's Long-Term Disability Benefits Phase Two: The Need for a Proactive and Holistic Approach to Managing Employee Health and Disability, 2016*
  - *Management of the City's Employee Extended Health and Dental Benefits, Phase One: The City Needs to Ensure Adequate Detection and Review of Potentially Excessive and Unusual Drug Claims, 2016*

### **2.3 Continuous Controls Monitoring**

**Continuous Controls Monitoring process to monitor financial transactions on an ongoing basis**

The objective of the Auditor General's Continuous Controls Monitoring (CCM) Program is to provide management with periodic reports that assist in proactively monitoring financial transactions, detecting unusual expenses and identifying areas where internal controls could be strengthened. Exception reports are produced using specialized data extraction software.

**Five CCM reports issued in 2016**

In 2016, the Auditor General issued the following five CCM reports relating to:

- City accounts payable
- City employee overtime, standby pay and mileage expenses
- City telecommunication expenses
- City staff absenteeism
- TTC employee overtime and absenteeism

The CCM reports are available at:

<http://www1.toronto.ca/wps/portal/contentonly?vgnextoid=f303c8cdd3f03510VgnVCM10000071d60f89RCRD>

The Auditor General plans to extend the CCM Program to include other areas including purchasing card expenses at the City and its major agencies and corporations.

## 2.4 Follow-Up on Implementation of Audit Recommendations

### **Value of audit process depends on implementation of audit recommendations**

The responsibility of the Auditor General is to present accurate and convincing information clearly supporting recommendations made. Management's responsibility is to implement agreed upon audit recommendations. The value gained from the audit process is derived from timely implementation of audit recommendations.

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.

The Auditor General's Office conducts a follow-up of outstanding recommendations made to City divisions, agencies and corporations on an annual basis and this process is included in the Auditor General's annual work plan.

### **Results of recommendation follow-up are reported to the Audit Committee**

Each year, the Auditor General forwards a list of outstanding audit recommendations to management. Management responds with information detailing actions taken on recommendations implemented. The Auditor General verifies information provided by management and communicates follow-up results to the Audit Committee.

### **New follow-up process to be piloted beginning in 2017**

Beginning in 2017, the Office is piloting a new process that dedicates a small number of staff to perform follow-ups throughout the year. Follow-up results for each City Cluster will be separately reported to the Audit Committee. The new follow-up reporting process is designed to enhance the Auditor General's Office work efficiency by allowing audit staff to continue focusing on audit work throughout the year.

Refer to Exhibit 4 for the implementation status of audit recommendations for City divisions, agencies and corporations, and recommendations made through the operation of the Fraud and Waste Hotline Program.



### 3. FINANCIAL BENEFITS

#### 3.1 Return on Investment

At the request of the Audit Committee and in accordance with the Toronto Municipal Code, we have estimated the quantifiable financial benefits resulting from audits and investigations conducted by the Auditor General's Office.

**Issued 75 audit reports and handled 3,228 complaints to the Hotline over the past 5 years**

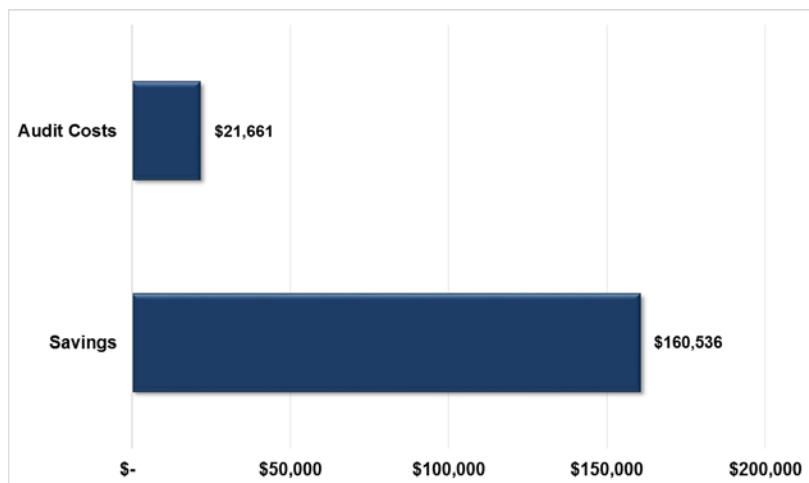
From January 2012 to December 2016, the Auditor General's Office completed 75 performance audits providing a total of 751 recommendations. The Office also handled 3,228 individual complaints to the Fraud and Waste Hotline over the same five-year period.

The Auditor General has been using the ratio of audit costs incurred to the estimated potential savings generated as a means of assessing the return on investment.

**Cost savings over last five years are approximately \$160.5 million**

A comparison of five-year audit costs (2012 to 2016) to the estimated potential savings is shown in Figure 1. Since 2012, the cumulative audit expenditure was approximately \$21.7 million and the estimated cost reductions and revenue increases are approximately \$160.5 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 most instances will extend beyond five years.

Figure 1: Five-Year Audit Costs Compared to Estimated Potential Savings (\$millions), 2012 to 2016



**Estimated \$7.4  
return on  
investment for  
every \$1 invested  
in the Office**

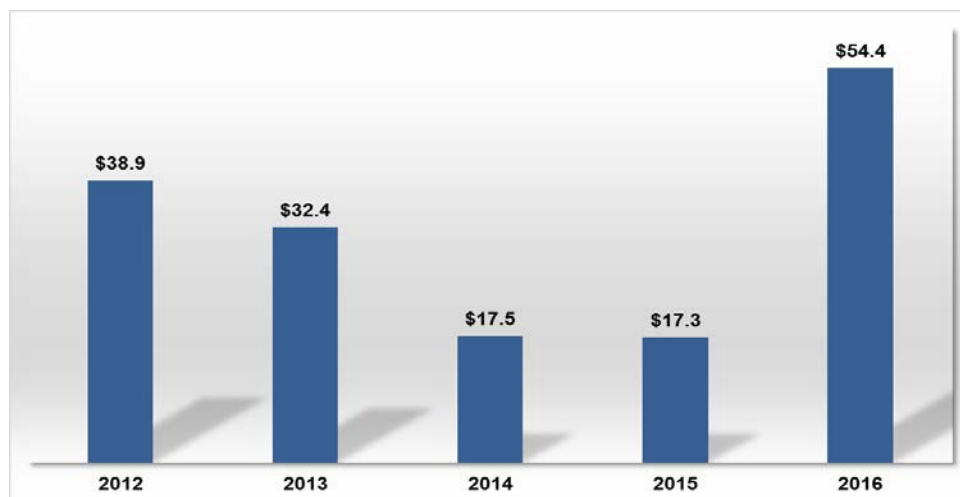
In simple terms, for every \$1 invested in the Auditor General's Office the return on this investment has been approximately \$7.4.

Table 1 provides a summary of the one-time and five-year projected cumulative savings resulting from audit work. Figure 2 depicts the year to year variation in estimated savings.

**Table 1: Summary - cumulative One-Time and Projected five-Year Estimated Savings, 2012 to 2016**

ESTIMATED SAVINGS \$000's						
Year of Savings	Year of Annual Report					
	2012 \$	2013 \$	2014 \$	2015 \$	2016 \$	Total \$
2012	5,747					5,747
2013	7,670	453				8,123
2014	7,570	5,227	1,776			14,573
2015	7,560	6,370	3,173	4,044		21,147
2016	7,920	6,565	3,141	3,189	11,849	32,664
2017	2,461	6,788	3,141	3,032	8,385	23,807
2018		7,041	3,141	3,032	9,839	23,053
2019			3,095	3,032	9,872	15,999
2020				921	9,907	10,828
2021					4,595	4,595
<b>Total</b>	<b>\$38,928</b>	<b>\$32,444</b>	<b>\$17,467</b>	<b>\$17,250</b>	<b>\$54,447</b>	<b>\$160,536</b>

**Figure 2: Cumulative One-time and Projected five-Year Estimated Savings (\$millions) by Year, 2012 to 2016**



## Shared Services Project

**The Auditor General has repeatedly emphasized the importance of consolidating operations**

Part of the savings realized in 2016 was a result of implementing the Auditor General's previously issued recommendations by the City's Shared Services Project. Over the years, the benefits of consolidating various administrative and operational functions throughout the City and its agencies and corporations has been raised many times by the Auditor General.

**A report summarizing common themes was issued in 2011**

To reiterate the importance of joining forces, in 2011, the Auditor General also issued a report summarizing the common themes which have surfaced repeatedly over the years.

The common themes audit report is available at:  
<http://www.toronto.ca/legdocs/mmis/2011/au/bgrd/backgroundfile-42381.pdf>.

The City Manager's Shared Services Project was launched in 2014 based on City Council's direction to implement recommendations from the KPMG Shared Services Efficiency Study.

**Consultant's study recognized previous Auditor General's recommendations**

KPMG's 2013 report recognized that the City Auditor General's recommendations "*formed the basis for a wide-ranging review to describe the manner in which the City and its agencies could share business support services*" and, that "*Toronto's Auditor General has also put forward suggestions for a shared service approach...His conclusions were based on previous audit results submitted to Council.*"

A copy of KPMG's final report on the Shared Services Efficiency Study is available at:  
[https://www1.toronto.ca/City%20of%20Toronto/City%20Manager's%20Office/Strategic%20&%20Corporate%20Policy/shared\\_services\\_ses.pdf](https://www1.toronto.ca/City%20of%20Toronto/City%20Manager's%20Office/Strategic%20&%20Corporate%20Policy/shared_services_ses.pdf)

**Shared Services working groups facilitated the compilation of City-wide efficiencies**

In recent years, Shared Services working groups facilitated the compilation and quantification of City-wide efficiencies. An update report on the Shared Services Project was adopted by Executive Committee in January 2017. This report originally highlighted that \$37 million in efficiencies were identified. Since the issuance of the report, the Shared Services Committee revised its internal estimates to reflect updated information, as well as projections to fiscal 2021.

The Shared Service Update is available at:  
<http://www.toronto.ca/legdocs/mmis/2017/ex/bgrd/backgroundfile-98583.pdf>

**\$20.1 million in savings are the result of past Auditor General's recommendations**

Based on the updated savings estimates, approximately \$20.1 million in savings are attributable to past Auditor General's recommendations. These savings are over a period of five years. Details on the collaborative efforts made to achieve these savings are explained in the following section.

**3.2 Financial Benefits Realized in 2016**

Table 2 lists the specific reports and one-time and recurring savings realized in 2016. These include reports issued prior to 2016 but savings were not realized until 2016, as well as savings from reports or investigations issued in 2016.

**\$54.4 million of savings realized in 2016**

The total savings realized in 2016 amounted to \$54.4 million. A brief explanation of each audit report and estimated savings are provided after Table 2.

The savings 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 listed in Table 2 have been estimated conservatively.

**Additional savings from eight previously issued audit reports**

In 2016, additional savings were noted from eight previously issued audit reports. These additional savings were not included in the Auditor General's previous annual reports, and are therefore added to the current year benefit estimates. Consistent with our method of realizing

recurring annual savings, the new annual savings identified are projected on a five-year forward basis. These audit reports and saving estimates are detailed in Table 2.

It is not always possible to quantify all potential cost savings when audit reports are issued. Among the 14 performance audit reports issued in 2016, a number of them have identified opportunities for cost savings or increased revenues.

**Savings estimates are conservative and achievable**

However, to ensure our annual savings estimates are conservative and achievable, these potential savings are not included in the current year savings calculation. These potential savings will be realized when management has fully implemented the audit recommendations.

**Table 2: Estimated Savings (\$000's) Recognized in 2016**

<b>Audit reports issued prior to 2016</b>									
		<b>2016</b> One-time	<b>2017</b> Recurring	<b>2018</b> Recurring	<b>2019</b> Recurring	<b>2020</b> Recurring	<b>2021</b> Recurring	<b>Total</b>	<b>Pg #</b>
1	Management of the City's Long-Term Disability Benefits, Phase One: Improving City Management to Address Growing Trends in Long-Term Disability Benefits, 2015	-	\$1,900	\$1,900	\$1,900	\$1,900	\$1,900	<b>\$9,500</b>	19
2	Review of Toronto Transit Commission Non-Revenue Vehicle Fuel Card Controls Need Immediate Improvement, 2015	\$188	\$133	\$133	\$133	\$133	-	<b>\$720</b>	19
3	Toronto Police Service - Parking Enforcement Review, 2011	\$2,240	\$2,240	\$2,240	\$2,240	\$2,240	-	<b>\$11,200</b>	20
4	Insurance and Risk Management Review, 2010	-	\$216	\$239	\$262	\$286	\$311	<b>\$1,314</b>	21
5	Controls Over Parking Tags Need Strengthening, 2010	-	-	\$1,421	\$1,421	\$1,421	\$1,421	<b>\$5,684</b>	21
6	The Management of IT Projects - Opportunities for Improvement - Toronto Transit Commission, 2007	\$6,779	\$2,474	\$2,474	\$2,474	\$2,474	-	<b>\$16,675</b>	22
7	Management of City Information Technology Assets, 2006	\$100	\$10	\$10	\$10	\$10	\$10	<b>\$150</b>	23
8	Procurement Processes Review, 2003	\$247	\$247	\$247	\$247	\$247	-	<b>\$1,235</b>	24
<b>2016 Audit reports</b>									
9	Management of the City's Long-Term Disability Benefits Phase Two: The Need for a Proactive and Holistic Approach to Managing Employee Health and Disability	\$693	\$50	\$60	\$70	\$81	\$51	<b>\$1,005</b>	24
10	Audit of City Cleaning Services Part 1: Opportunities to Control Costs, Improve Productivity and Enhance Quality of Cleaning Services Part 2: Maximizing Value from Cleaning Contracts	-	\$850	\$850	\$850	\$850	\$850	<b>\$4,250</b>	25
11	Audit of Toronto Transit Commission Materials and Procurement Department, Phase One: Improving Controls to Safeguard Inventory	\$324	-	-	-	-	-	<b>\$324</b>	26
12	Audit of Water Billing and Collection Phase I: Overdue Water Account Collections Require Strengthening	\$1,000	-	-	-	-	-	<b>\$1,000</b>	27
<b>Continuous Controls Monitoring reports</b>									
13	CCM Program, 12-Month Review of City Telecommunication Expenses for 2015	\$218	\$213	\$213	\$213	\$213	-	<b>\$1,070</b>	28
<b>Investigations of Fraud Related Matters</b>									
	2016 Cost Recovery and Loss Prevention	\$60	\$52	\$52	\$52	\$52	\$52	<b>\$320</b>	28
<b>Total 2016 and 5-Year Savings</b>		<b>\$11,849</b>	<b>\$8,385</b>	<b>\$9,872</b>	<b>\$9,872</b>	<b>\$9,907</b>	<b>\$4,595</b>	<b>\$54,447</b>	

The following section provides a brief overview of each of the reports in Table 2 and the cost savings information.

### **1. Management of the City's Long-Term Disability Benefits, Phase One: Improving City Management to Address Growing Trends in Long-Term Disability Benefits, 2015**

**Changes to the LTD plan will reduce costs**

As a result of our audit recommendations, management implemented changes to the Long-Term Disability (LTD) plan.

As part of the Collective Agreements negotiation, the LTD benefits were reduced from 75 to 70 per cent of the pre-disability earnings effective March 2016 for union employees, and January 1, 2017 for non-union employees. The salary threshold for employees returning to work was also reduced from 75 to 66 2/3 per cent of pre-disability salary.

**\$9.5 million in savings over the next five years**

City staff estimated that these changes will generate about \$1.9 million in annual savings, or \$9.5 million over the next five years.

The audit report is available at:

<http://www.toronto.ca/legdocs/mmis/2015/au/bgrd/backgroundfile-84556.pdf>

### **2. Review of Toronto Transit Commission Non-Revenue Vehicle Fuel Card Controls Need Immediate Improvement, 2015**

**Previous audit report recognized the merits of collaboration**

In its 2015 audit, the Auditor General recommended that the TTC *"work with the City of Toronto Fleet Services Division to determine the feasibility and merits of utilizing the City's fuel supply system, including the City operated fuel stations..."* It was evident that a collaborative approach, if effectively executed, could yield savings. Our recommendation facilitated the importance of coming together and exploring opportunities for efficiencies.

**TTC's use of the City's fuel management system will result in \$720,000 in savings over five years**

Beginning in 2016, the TTC's use of the City's fuel management system resulted in one-time savings of \$55,000 by avoiding the purchase of a database licence, server hardware, and other implementation costs. The TTC will also avoid annual recurring maintenance costs of \$133,000. In total, the TTC will save approximately \$720,000 over five years.

The Shared Service Update also reported that economies of scale were achieved from the joint purchase of fuel between the City and the TTC. The move to a different type of diesel fuel also contributed to additional savings. Since we cannot reasonably distinguish the savings from joint fuel procurement and savings as a result of using a lower cost fuel, we have not recognized any savings related to bulk fuel purchases between the City and the TTC.

The audit report is available at:

[http://www.ttc.ca/About\\_the\\_TTC/Audit\\_Committees/Audit\\_Committee\\_Meetings/2015/February\\_19/Reports/AGs\\_Report\\_Review\\_o1.pdf](http://www.ttc.ca/About_the_TTC/Audit_Committees/Audit_Committee_Meetings/2015/February_19/Reports/AGs_Report_Review_o1.pdf)

### **3. Toronto Police Service - Parking Enforcement Review, 2011**

**Parking Enforcement Officers did not have authority to issue tickets for expired licence plates**

Historically, only uniformed police officers had the legislative authority to issue tickets for expired license plates. Furthermore, revenue from these tickets resided with the Province.

*Recommendation #8 required "the City Manager, in consultation with the City Solicitor and the Chief of Police, consider initiating a request to the Province to amend legislation to allow parking enforcement officers the authority to issue tickets for expired licence plates. Any amendments to legislation provide for a revenue sharing arrangements with the City."*



**\$11.2 million in new revenues over five years**

This recommendation was implemented in 2014 and the City is now entitled to keep all revenues associated with expired licence plate parking tags issued by Parking Enforcement Officers. Based on the average past three years' worth of issued tickets, we estimate that the City will increase its annual revenues by approximately \$2.2 million. In total, it is estimated that the City will generate additional revenues of \$11.2 million over the next five years.

The audit report is available at:

<http://www.toronto.ca/legdocs/mmis/2011/au/bgrd/backgroundfile-42375.pdf>

**4. Insurance and Risk Management Review, 2010**

In our 2010 audit, Recommendation #20 stated that *"the Director, Corporate Finance, in consultation with appropriate senior management, consider the cost effectiveness of consolidating the current City of Toronto insurance program to include certain other City Agencies, Boards, Commissions and Corporations."*

The audit report is available at:

<http://www.toronto.ca/legdocs/mmis/2010/au/bgrd/backgroundfile-30571.pdf>

**TPA will save over \$1.3 million over the next five years by being insured under the City's insurance policy**

According to the Shared Service Update report, the Toronto Parking Authority (TPA) will negotiate a comprehensive partnership agreement with the City before the TPA insurance policy expires in 2017. By being insured under the City's insurance policy, the Shared Services working group estimated that beginning in 2017, the TPA stands to save \$216,000 to \$311,000 annually. This translates to \$1.3 million in insurance cost savings over five years.

**5. Controls Over Parking Tags Need Strengthening, 2010**

At the time of our original audit, Provincial legislation required the physical placement of parking tags on an offender's vehicle or by direct hand delivery in order to be enforceable. The City could not pursue payment of tags not directly served to offenders.

**Foregone revenue from drive-away vehicles**

Drive-away vehicles were the largest parking tag cancellation types each year. Based on benchmarking of practices at other municipalities, our audit recommended that the City request the Province to amend the legislation to allow parking tags to be mailed directly to registered vehicle owners. The Provincial legislation was changed in July 2015.

**Parking tags can now be mailed directly to offenders**

City Council approve a new Administrative Penalty System in 2016, which allowed for the processing and mailing of tickets to the owners of vehicles that drive away before a ticket can be served. The planning and development for this component is underway and it is anticipated that these mailings will begin by the end of 2017.

**\$1.4 million in new annual revenues to the City beginning in 2018**

Using the average number of drive-away tickets that were cancelled in the past three years, we estimate at the very least, an annual \$1.4 million increase in revenues to the City beginning in 2018. To be conservative, our savings estimate is based on a 50 per cent collection rate even though the collection rate for parking tags has historically been approximately 80 per cent.

The audit report is available at:

<http://www.toronto.ca/legdocs/mmis/2010/au/bgrd/backgroundfile-27126.pdf>

**6. The Management of IT Projects - Opportunities for Improvement - Toronto Transit Commission, 2007**

Recommendation #2 in the Auditor General's report requested that the TTC consult with the City to determine whether there were *"opportunities to take advantage of available SAP applications. Further, that the City and the TTC ensure that the benefits and advantages accruing to the City as a result of the establishment of the SAP Competency Centre are shared with the TTC."*

The audit report is available at:

<http://www.toronto.ca/legdocs/mmis/2008/au/bgrd/backgroundfile-11802.pdf>

**Leveraging the City's relationship with SAP will save the TTC \$16.7 million over five years**

In 2015, the TTC leveraged the City's relationship with SAP to obtain special pricing for components of their SAP implementation. Using the City's discount, the TTC saved approximately \$4.3 million in the one-time purchase of SAP licences as well as \$2.5 million in annual maintenance and subscription fees. Combined one-time savings in 2016 is approximately \$6.8 million and annual recurring savings of \$2.5 million beginning in 2017. In total, the TTC stands to save almost \$16.7 million over five years.

## **7. Management of City Information Technology Assets, 2006**

Recommendation #1 requested that *"The City Manager give consideration to extending the terms of reference of the upcoming Information Technology Governance and Organization Design Review to include the City's Agencies, Boards and Commission"*.

**Exhibition Place will avoid \$150,000 in costs for the use of the City's document management system**

The audit highlighted opportunities for cost savings and efficiencies through the consolidation and better coordination of information technology activities between the City and its agencies and corporations.

The audit report is available at:

<http://www.toronto.ca/legdocs/2006/agendas/committees/au/au060222/it003.pdf>

In 2014, the Exhibition Place began using the City's document management system and will save \$150,000 over five years. The system is used to track hard copy files from creation to destruction or transfer to the archives.

We were not aware of this specific cost savings until reviewing the Shared Services results this year. In keeping with our savings calculation, a one-time \$100,000 purchase cost reduction is recognized in 2016. In addition, the Exhibition Place will continue to achieve annual savings of \$10,000 in recurring maintenance costs.

## **8. Procurement Processes Review, 2003**

**Several audit reports have been issued highlighting the importance of consolidating procurement processes**

Over the years, the Auditor General has issued many reports related to the procurement of goods and services, and highlighted the benefits of consolidating or coordinating these operations in order to achieve cost savings.

An audit report on a comprehensive review of the City's procurement processes was issued in 2003 and is available at:

[http://www.toronto.ca/audit/2003/procurement\\_appendix\\_a\\_final\\_march31\\_2003.pdf](http://www.toronto.ca/audit/2003/procurement_appendix_a_final_march31_2003.pdf)

**Joint procurement will result in efficiencies of \$1.2 million over five years**

The 2016 Update on the Shared Services Project reported that the number of joint contracts increased from 15 in 2010 to 388 as of August 2016. Sharing the procurement of common goods and services between the City and the various agencies and corporations will result in recurring savings of approximately \$247,000 annually or \$1.2 million over the next five years. These amounts represent the time saved by the respective agency and corporation had they otherwise continued to independently procure their contracts.

## **9. Management of the City's Long-Term Disability Benefits Phase Two: The Need for a Proactive and Holistic Approach to Managing Employee Health and Disability, 2016**

**\$430,000 can be avoided from overpayments to certain seasonal employees**

As part of the audit, we reviewed Long Term Disability (LTD) benefit payments to seasonal employees. We noted that the base salary used to determine LTD entitlements for certain seasonal employees was not calculated correctly, resulting in an overpayment of approximately \$1.4 million. Although the City may not be able to recover the entire overpayment, an additional \$430,000 in future costs over the life of these specific claims can be avoided.

**Correction to calculation will prevent \$150,000 in overpayments over five years**

In addition, the identification of the base salary calculation error will also prevent the City from continuing to apply the wrong calculation method in future new claims. This will avoid future LTD overpayments of approximately \$150,000 over the next five years based on the projected number of new cases.

**\$240,000  
recovered from  
duplicated tax  
charges**

Our review also found that HST charges for certain external services were duplicated in Manulife's invoices and monthly statements. As a result of our finding, the City has recovered approximately \$240,000 for overpaid taxes, and will avoid approximately \$183,000 in duplicated HST charges in the remainder of 2016 and over the next five years of the contract (2017-2021).

The combined five-year savings of our audit findings is over \$1 million.

The audit report is available at:

<http://www.toronto.ca/legdocs/mmis/2016/au/bgrd/backgroundfile-97412.pdf>

## **10. Audit of City Cleaning Services, 2016:**

### **Part 1: Opportunities to Control Costs, Improve Productivity and Enhance Quality of Cleaning Services**

### **Part 2: Maximizing Value from Cleaning Contracts**

#### **Audit Objective**

The objective of this audit was to assess whether cleaning services provided by the Facilities Management Division were effective, efficient and economical. Cleaning services are provided at corporate facilities for certain divisions, agencies and corporations, through in-house staff and from competitively awarded contracts.

#### **Corporate cleaning standards reduces costs for both in-house and contracted cleaning services**

The audits identified opportunities to reduce costs by applying industry and corporate cleaning standards to both contracted and in-house cleaning services. In a report to the Government Management Committee to award a recent Custodial Services contract, City staff stated that the latest procurement for such services included language to address all Auditor General recommendations.

The staff report is available at:

<http://www.toronto.ca/legdocs/mmis/2016/gm/bgrd/backgroundfile-97731.pdf>

**\$850,000 in annual savings will likely increase in future years**

The implementation of the recommendations in both audit reports on cleaning services reduces the costs for both in-house and contracted cleaning services. The 2017 annual savings reported by staff is estimated at \$850,000 and will primarily be realized at Toronto Police facilities. Once the new cleaning standards are fully implemented across all contracts and at all City facilities, including agencies and corporations, annual savings to be achieved in future years will likely increase.

The audit reports are available at:

<http://www.toronto.ca/legdocs/mmis/2016/au/bgrd/backgroundfile-94477.pdf>

<http://www.toronto.ca/legdocs/mmis/2016/au/bgrd/backgroundfile-94618.pdf>

### **11. Audit of Toronto Transit Commission Materials and Procurement Department, Phase One: Improving Controls to Safeguard Inventory, 2016**

#### **Audit Objective**

The objective of this audit was to assess controls over inventory transactions, safeguarding of inventory, and the accuracy and reliability of inventory records.

**Inventory was not recorded in the system and goods received were not distributed for operational uses**

In our review of inventory receipt records, we noted that 83 orders of goods had no subsequent system records showing they had been placed into storage. Although they had been received at the warehouses, since the locations of these 83 orders were not recorded in the inventory system, they could not be distributed for operational use. The total value of these orders was about \$367,000.

**One-time savings of \$324,000**

As a result of our audit, TTC management staff conducted a review and advised that 75 orders valued at approximately \$324,000 were located in the warehouses. Staff updated the inventory records so that these goods can now be available for operational use.

The audit report is available at:

<http://www.toronto.ca/legdocs/mmis/2016/au/bgrd/backgroundfile-94504.pdf>

## **12. Audit of Water Billing and Collection – Phase I: Overdue Water Account Collections Require Strengthening, 2016**

**Improvement needed in collection efforts of high risk delinquent water accounts**

The audit identified a number of water accounts for which little to no payment was received. Several accounts had accumulated balances over a long period of time. We noted that recovery efforts, including proactive review, follow-up, and reporting of delinquent accounts were inadequate.

**Audit facilitated immediate implementation of Council directive**

One of our audit recommendations required the follow-up of past due accounts and implementation of a City Council directive for transferring outstanding condominium water bills to the tax accounts of individual unit owners.

**\$1 million recovered from implementation of recommendation**

At the time of our audit, as of December 31, 2015, over \$4.5 million in accounts receivable were past due for water service provided to condominiums. Upon subsequent follow-up, staff advised that as of December 31, 2016, this amount decreased to \$3.5 million. This represents a one-time recovery of \$1 million from customers.

Management advised that a total of 13 condominium properties with water arrears were removed from the list of outstanding accounts, through payments made by condo corporations, by transferring arrears to unit-holder property tax accounts, or through negotiated settlements.

**Future recurring savings are expected**

We anticipate future recurring savings from the implementation of our audit recommendation, and the savings amounts will be reported in future annual reports where appropriate.

The audit report is available at:

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

### **13. Continuous Controls Monitoring Program - City Telecommunication Expenses for 2015**

Telecommunication expenses were included in the Auditor General's Continuous Controls Monitoring Program in 2014 due to the significant amount of funds involved and a number of issues identified during our 2014 audit of telecommunication expenses. In 2015, the total cost for landlines/VOIP and wireless phones and devices was \$12.8 million.

**Our data mining noted over 1,100 exceptions**

Our analysis of billing records identified that over 1,100 phones and devices were under-used or did not use the most cost-effective plans.

**Addressing our exceptions will result in savings of \$1 million over 5 years**

In response to the Auditor General's findings, management undertook corrective actions including plan changes, cancellations, suspensions and reassignment of phones and devices. These actions resulted in approximately \$213,000 in recurring annual savings and total savings of approximately \$1.07 million over a five-year period. These savings are in addition to the five-year \$1.5 million of savings previously reported in 2014.

The report is available at:

<http://www.toronto.ca/legdocs/mmis/2016/au/bgrd/backgroundfile-94468.pdf>

### **3.3 Financial Impact of the Fraud and Waste Hotline Program**

**2016 quantifiable financial benefits included one-time cost recovery and prevention of future losses**

Without the Hotline Program, certain losses from incidents of fraud and waste might not have been identified or recovered.

The savings included in Table 2 reflect the resolution of complaints reported to the Hotline Program from all sources, other than complaints reported by divisional management.



An increasing number of complaints are referred by divisional management to the Hotline Program. To be conservative, any associated savings and losses from complaints identified by divisional management and then referred to the Hotline Program are tracked separately and are not included in the Auditor General's 2016 savings calculations.

**\$320,000 in total five-year savings from Fraud and Waste Hotline investigations**

The one-time cost recovery and annual savings as a result of complaints reported to the Hotline Program from sources other than referrals from divisional management is approximately \$60,000 and \$52,000 respectively. Over five years, the City will save approximately \$320,000.

#### **4. NON-QUANTIFIABLE BENEFITS**

**Audit reports identify 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 immediate or 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
- quality and effectiveness of customer service

**Certain financial benefits are not determinable at the time of report issuance**

In addition, certain audit reports contain recommendations that can potentially lead to financial savings, but the extent of the savings is not determinable until the recommendations are implemented by management.

The following are examples of 2016 audit reports for which the benefits are either non-financial in nature or the financial benefits were not determinable at the time the reports were issued.

## **Management of the City's Employee Extended Health and Dental Benefits, Phase One: The City Needs to Ensure Adequate Detection and Review of Potentially Excessive and Unusual Drug Claims**

In 2015 the City spent \$116 million to provide extended health benefits to 80,059 eligible employees, retirees and family members, including \$60 million for drug benefits. From 2011 to 2015, the City spent more than a quarter of a billion dollars for employee drug benefits.

### **Drug benefits was the focus of this audit**

This audit focused on drug benefits. The objective was to assess the cost effectiveness, administration services effectiveness, and monitoring of the City's employee drug benefits.

The audit identified a number of issues related to the benefit structure and potential misuse of benefits:

### **No coverage limits on many drugs**

- A number of claimants received reimbursements for two or more years' worth of controlled substances within a year. Many of these substances are considered to be of a high risk of abuse and diversion.

- The City's benefits plans do not have an annual maximum limit on many drugs, creating the opportunity for abuse. For example, 37 individuals were reimbursed more than \$3,000 in erectile dysfunction drugs in 2015. The City's total reimbursement for erectile dysfunction drugs in 2015 was \$1.9 million.

### **Same prescription was filled at different pharmacies on the same day**

- A series of unusual claims and dispensing patterns was observed, such as individuals claiming the same prescription opioids from multiple pharmacies on the same day, individuals dispensed at least 30 tablets of controlled substances from different pharmacies within seven days, and individuals making multiple claims for the same drug on the same day from different pharmacies.

**Savings will be quantified in the 2017 follow-up audit**

The audit report contained 18 recommendations. A number of these recommendations may result in one-time overpayment recoveries and recurring cost savings. To ensure our annual savings estimates are conservative and achievable, these potential savings are not included in the current year savings calculation. The potential savings will be assessed in 2017 during the recommendation follow-up process.

The audit report is available at:  
<http://www.toronto.ca/legdocs/mmis/2016/au/bgrd/backgroundfile-97612.pdf>

**Improving the Tendering Process for Paving Contracts**

**Audit Objectives**

The objectives of this audit were to assess whether proper management controls were in place to ensure fair and competitive tendering processes, and whether the City received value for money in acquiring road resurfacing, utility cut, and sidewalk repair contracted services. These contracts are administered by the Transportation Services Division.

**Unbalanced bids can expose the City to higher contract costs**

Based on our analysis, 15 of the 55 local road resurfacing contracts (27 per cent) we reviewed were won by bidders who appeared to submit materially unbalanced bids. Unbalanced bidding occurs when a bidder quotes unreasonably high prices on certain items and unreasonably low prices on other items in the same bid in order to maximize profits.

At the time of our audit, we estimated that the City may have avoided \$10.6 million in additional road resurfacing, utility cut, and sidewalk repair contracts costs over the past five and a half years had the City timely addressed the issue of unbalanced bidding.

**Recommendations to protect the City from future financial loss**

Our findings underscore the importance of identifying and addressing potentially unbalanced bids during the tendering process to protect the City from financial loss and ensuring a level playing field for bidders. Seven recommendations were issued and any savings as a result of the implementation of these recommendations will be quantified in future audit follow-up cycles.

**Information sessions to raise awareness**

Further, at the request of the City Manager, the Auditor General delivered three presentations to frontline, supervisory and management staff in the Transportation Services and Engineering & Construction Services Divisions. The purpose of these sessions was to explain the significant adverse impact of unbalanced bidding on construction contracts and the potential consequences of collusion and bid-rigging in the award of City contracts.

The audit report is available at:  
<http://www.toronto.ca/legdocs/mmis/2016/au/bgrd/backgroundfile-94704.pdf>

**Audit of Water Billing and Collection –  
Phase II: Part 1 – Incorrect Vacant Land Status  
Properties Reduces City’s Property Tax Revenue**

**Understated property tax revenues if properties are incorrectly classified as vacant land**

The audit identified 38 properties that are categorized as ‘vacant land’ in the Municipal Property Assessment Corporation (MPAC) but did not appear to be vacant according to these properties’ water billing records.

Vacant land properties have lower assessed values than market values of neighbouring properties. When properties were incorrectly categorized as ‘vacant land’, the City lost tax revenues from these properties.

**City-wide impact could be much larger**

In a sample of properties we reviewed, we estimated that the City potentially lost approximately \$250,000 annually due to incorrect classification of vacant land properties. The potential lost revenue from all properties that were incorrectly classified could not be precisely quantified at the time of our audit but the City-wide impact could be significant.

Our report recommended City staff to review and correct the vacant land classification where appropriate. After this has been implemented, we will be able to determine the total amount of tax revenue increase.

The audit report is available at:  
<http://www.toronto.ca/legdocs/mmis/2016/au/bgrd/backgroundfile-97426.pdf>

## **Information Technology Vulnerability Assessment and Penetration Testing**

### **An audit to address the risk of external and internal IT threats**

The Auditor General's 2015 Work Plan included a project related to the City's information technology vulnerability assessment and penetration testing. The purpose of this audit was to assess whether the City's information technology systems and assets were adequately protected from external and internal threats.

### **Increasing cybercrimes across the globe**

The alarming increase in cybercrimes and threats to critical information and infrastructure including high cost of data breaches led the Auditor General to perform these audits. The average cost per breach as per a study sponsored by IBM in 2016 was approximately \$US 4 million (\$CAD 5 million). (<http://www-03.ibm.com/security/data-breach/>).

### **External specialists were utilized in the audit**

Auditing IT vulnerabilities and penetration testing is a highly specialized area. This audit required the combined information technology skills of audit staff and the expertise of external consultants.

### **Two phases to the audit**

This audit was performed in two phases:

- Phase I focused on the external vulnerability assessment and penetration testing of internet facing applications used by the public.
- Phase II included a detailed assessment of controls over the internal IT network of the City. The vulnerability assessment and penetration testing was performed from inside the City's network and facilities.

The audit tests were designed to simulate the approach and techniques that an attacker would use to find weaknesses in the City's information technology systems, network(s), and applications.

**Two confidential reports on the results of internal and external vulnerability of the City's IT system**

The Auditor General issued two confidential reports in 2016 on the results of external and internal vulnerability assessment and penetration testing. The final report is being tabled at the March 2017 Audit Committee.

The reports are available at:

<http://www.toronto.ca/legdocs/mmis/2016/au/bgrd/backgroundfile-90751.pdf>

<http://www.toronto.ca/legdocs/mmis/2016/au/bgrd/backgroundfile-97617.pdf>

**Strengthening Enforcement of the Fair Wage Policy**

**City's commitment to be socially responsible**

The City of Toronto's Fair Wage Policy under Chapter 67 of the Toronto Municipal Code is administered by the Fair Wage Office. The Policy was designed to emphasize the City's commitment to be socially responsible by ensuring contracted workers receive a fair wage.

The objective of this audit was to review whether investigations conducted by the Office ensured contractor compliance with the City's Fair Wage Policy.

**Collaboration with other City divisions and agencies can be beneficial**

Our audit identified a number of areas where the Office could further improve its effectiveness in enforcing the Policy requirements. Moreover, there are opportunities to enhance a collaborative approach with various City divisions and agencies. This approach can serve as an efficient way to deterring and detecting non-compliance.

**Implementation of recommendations will strengthen enforcement and deter violations**

The audit report contained 13 recommendations to address the following areas of Fair Wage Policy enforcement:

- Ensuring the accuracy of back-wages owing to contracted workers by taking steps to verify the accuracy and completeness of vendor-provided payroll records.

- Documenting the analysis of vendor violations that do or do not warrant recommendations for disqualification.
- Enhancing the current investigative approach to include, where feasible, investigations of subcontractors and a sufficient number of random reviews.

The audit report is available at:

<http://www.toronto.ca/legdocs/mmis/2016/au/bgrd/backgroundfile-97448.pdf>

## **5. 2017 AND AHEAD**

### **2017 Audit Work Plan**

In developing her Audit Work Plan, the Auditor General implements a risk-based audit approach. The purpose of the Audit Work Plan is to provide an overview of how resources allocated to the Auditor General's Office are used during the year.

The Office presented its 2017 Audit Work Plan at the October 28, 2016 Audit Committee meeting:

<http://www.toronto.ca/legdocs/mmis/2016/au/bgrd/backgroundfile-97443.pdf>

### **Additional audits added to the original Audit Work Plan**

A revised 2017 Audit Work Plan is being submitted to the Audit Committee's March 2017 meeting as a result of a temporary increase to the Auditor General's operating budget approved by City Council in February 2017. This increase will provide for additional resources to address the backlog of high priority audit areas and conduct more investigations where needed.

**Examples of  
planned audit  
projects**

Planned 2017 projects include audits in the following areas:

- Children's Services
- Leases at Union Station
- Management and oversight of vendor rosters
- Green Lane Landfill operations
- Toronto Community Housing Corporation – Redevelopment and revitalization of TCHC communities management and oversight of vendor rosters
- Toronto Fire Services Operations Command
- Construction contracts issued by the Engineering and Construction Services Division
- Information Technology asset management
- Information Technology network infrastructure

**2017 activities will  
further enhance  
the quality of our  
work**

In addition to conducting performance audits and operating the Fraud and Waste Hotline, the Office will be completing activities in 2017 to enhance the quality of its work. These activities include:

- Furthering our ACL competencies through enhanced in-house training.
- Enhance staff training and succession planning through a series of in-house learning sessions, acting positions, rotation of special duty assignments, and individual job coaching.



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## CONCLUSION

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**Estimated \$7.4  
savings for every  
dollar invested in  
the Office**

The savings we have identified and will realize in future years would not be possible without management's commitment to implementing and effectively executing our recommendations.

Based on our analysis, over the five-year period commencing January 1, 2012, the estimated potential savings to the City are approximately \$160.5 million compared to a cumulative audit expenditure of approximately \$21.7 million. In simple terms, for every \$1 invested in the Auditor General's Office the return on this investment was approximately \$7.4.

Equally important are the non-financial benefits. 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.

**AUDITOR GENERAL'S OFFICE**  
**Mandated Responsibilities of the Auditor General**

Specific responsibilities of the Auditor General are set out in Chapter 3 of the Toronto Municipal Code.

**Annual reporting requirement**

- Reporting annually to City Council on the activities of the Office including the savings achieved.
- Conducting audit projects identified by the Auditor General, or approved by a two-thirds majority resolution of City Council.

**Audit of agencies and corporations**

- Undertaking financial (excluding attest), compliance and performance audits and provide recommendations to City-controlled agencies 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.

**Investigative responsibilities reinforced with the 2015 adoption of the Toronto Public Service By-law**

In June 2014, City Council adopted the Toronto Public Service By-law that includes a *Disclosure of Wrongdoing and Reprisal Protection* framework. The framework reinforces the Auditor General's independent oversight role in the investigation of reported wrongdoing. The By-law is encoded in Chapter 192 of the Toronto Municipal Code and came into effect on December 31, 2015.

Specific responsibilities of the Auditor General in relation to her role in the investigation of complaints and alleged wrongdoing are set out in Chapter 192:

**Operate the Fraud and Waste Hotline**

- Operating the Fraud and Waste Hotline Program, including the referral of issues to divisional management.

**Fraud investigations**

- Conducting investigations into fraud and other wrongdoing, as well as allegations of employee reprisals.

## Exhibit 1 (continued)

In accordance with the audit framework policy approved by City Council in 2002, the Auditor General's Office also performs the following duties:

### **Oversee external audit contract**

- Overseeing the work and the contract of the external auditors performing financial statement 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.
- Coordinating audit activities with internal auditors of the City's agencies and corporations.

### **Coordination with other Accountability Officers**

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

**AUDITOR GENERAL'S OFFICE  
Reports Issued in 2016**

**2016 Audit Reports:**

- Toronto Parking Authority Phase 2: Audit of the Revenue Operations of Off-Street Controlled Facilities
- Audit of Information Technology Vulnerability and Penetration Testing – Phase 1: External Penetration Testing
- Audit of Water Billing and Collection – Phase I: Overdue Water Account Collections Require Strengthening
- Audit of Toronto Transit Commission Materials and Procurement Department, Phase One: Improving Controls to Safeguard Inventory
- Audit of City Cleaning Services – Part 1: Opportunities to Control Costs, Improve Productivity and Enhance Quality of Cleaning Services
- Audit of City Cleaning Services – Part 2: Maximizing Value from Cleaning Contracts
- Improving the Tendering Process for Paving Contracts
- Management of the City's Long-Term Disability Benefits, Phase Two: Interim Report on the Approval and Monitoring of Claims
- Management of the City's Long-Term Disability Benefits Phase Two: The Need for a Proactive and Holistic Approach to Managing Employee Health and Disability
- Audit of Water Billing and Collection – Phase II: Part 1 – Incorrect Vacant Land Status Properties Reduces City's Property Tax Revenue
- Audit of Water Billing and Collection – Phase II: Part 2 – Management of Water Supply Contract for the Region of York
- Strengthening Enforcement of the Fair Wage Policy
- Management of the City's Employee Extended Health and Dental Benefits, Phase One: The City Needs to Ensure Adequate Detection and Review of Potentially Excessive and Unusual Drug Claims
- Audit of Information Technology Vulnerability and Penetration Testing – Phase II: Internal Penetration Testing, Part 1 – Accessibility of Network and Servers

**2016 Continuous Controls Monitoring Reports:**

- Continuous Controls Monitoring Program-City Accounts Payable, January 1 to September 30, 2015
- Continuous Controls Monitoring Program – City Overtime and Standby Pay for 2015
- Continuous Controls Monitoring Program – City Telecommunication Expenses for 2015
- Continuous Controls Monitoring Program – City Staff Absenteeism for 2015
- Continuous Controls Monitoring Program - Toronto Transit Commission, Employee Overtime and Absenteeism, 2015

**2016 Annual Reports:**

- 2015 Annual Report on Fraud and Hotline Activities
- 2015 Annual Report – Demonstrating the Value of the Auditor General’s Office
- Auditor General’s Office – Forensic Unit Status Report on Outstanding Recommendations
- Amended 2016 Audit Work Plan
- Auditor General’s Status Report on Outstanding Audit Recommendations for City Divisions
- Auditor General’s 2016 Status Report on Outstanding Audit Recommendations for City Agencies and Corporations
- Auditor General’s Office – 2017 Operating Budget
- 2017 Audit Work Plan

**2016 Other Reports:**

- Response to the Toronto Police Services Board’s Audit Request
- Future Audit of Toronto Hydro
- Toronto Transit Commission - Updated Audit Work Plan for 2016 and 2017
- Auditor General’s New Recommendation Follow-up Process and Response to Report Estimated Cost Savings Associated with Outstanding Recommendations
- Auditor General's Observations of a Land Acquisition at Finch Avenue West and Arrow Road by the Toronto Parking Authority

**AUDITOR GENERAL'S OFFICE**  
**Examples of How Audit Recommendations Benefit the City**

The following table presents examples of how the implementation of our audit recommendations benefit the City.

Increase City revenues, develop new revenue streams, and reduce operating costs		
<b>Increase City revenues</b>	2016 Phase Two Audit of the City's Long-Term Disability Benefits	The City recovered approximately \$240,000 in overpaid HST charges due to duplicated charges embedded in invoices and in monthly statements.
	2015 Phase One Audit of the City's Long-Term Disability Benefits	The City and its agencies and corporations recovered approximately \$1.8 million due to the service provider's billing errors dating back to 2003.
	2008 Sewer Use Bylaw Audit	A review of the surcharge rate to industries exceeding allowable discharge limits resulted in a revised cost recovery rate. This increased the City's annual revenue by \$740,000.
	2011 Audit of Police Parking Enforcement Review	\$1.8 million annual increase in revenues by reducing errors in parking tag issuances and delayed processing.
	2011 Audit of Red Light Camera Program	Addressing factors preventing the issuance of tickets (e.g. painting of stop bars at intersections) resulted in increased revenue by over \$1 million per year.
<b>Develop new revenue streams</b>	2011 Audit of Police Parking Enforcement Review	\$3 million annually in new revenue to the City by enabling Parking Enforcement Officers to enforce license renewal legislation. Revenue from expired licence plates previously resided with the Province.
	2011 Audit of Energy Efficiency Office	The audit highlighted the need for increased diligence regarding claiming carbon credits. Carbon credits are the dollar value associated with reductions in greenhouse gas emissions.  Staff estimated that the sale of up to 50,000 tonnes of carbon credits could generate \$250,000 to \$500,000 revenues per year.
	2007 Review of ECS - Management of Construction Contracts - Leaside Bridge Structure	A new administration fee of 18.3 per cent of construction costs on third party projects resulted in annualized revenues of \$1.148 million.

**Exhibit 3 (continued)**

<b>Reduce operating costs</b>	2016 Phase Two Audit of the City's Long-Term Disability Benefits	Changes to long-term disability benefits will result in \$1.9 million in annual savings beginning in 2017.
	2016 Audit of City Cleaning Services	Changes to the procurement and administration of cleaning contracts will result in annual savings of \$850,000 to be realized beginning in 2017.
	2015 Phase Two Audit of TTC Bus Maintenance and Shops Department	Better management of the TTC's long-term rental vehicles has reduced the number of rental vehicles, which resulted in ongoing annual savings of \$500,000 in 2016 and beyond.
	2012 Wheel-Trans Audit	Reduced the sedan taxi contract cost by approximately \$580,000 by way of a reduction in the monthly administration fee.
Reduced the accessible taxi contract cost by approximately \$2 million per year by incorporating competitive bidding in the procurement process.		
	2007 Employee Benefits Review	For the first time, the City partnered with the Toronto Police and TTC in the issuance of a joint RFP for employee benefit plan administration and underwriting services. In the five-year contract (2012-2016), the City, Police and TTC realized combined savings of \$54 million over 5 years, averaging \$10.8 million savings per year.
Better manage or utilize City resources, including management of public funds, personnel, property and equipment		
<b>Better manage public funds</b>	2016 Phase One Audit of TTC Inventory Controls	The audit prompted a review of inventory that had been received but not recorded in the inventory system. This review resulted in \$324,000 worth of inventory that was input in the system and could be made available for operational use.
	2016 & 2015 CCM of City Telecom Expenses (2014)	Continuous Control Monitoring (CCM) of telecommunication expenses resulted in additional annual savings of \$348,000 through the cancellation of inactive devices, adjustments to monthly phone plans and recoveries from staff for personal use of telecommunications devices.
	2014 Telecom Expenses Audit	Analysis of telecom expenses resulted in cancellation, suspension and re-assignment of City phones with no activity, multiple phones issued to the same users, and reduced excessive data/roaming/texting and other charges. Audit recommendations resulted in an estimated annual savings of \$623,000.

**Exhibit 3 (continued)**

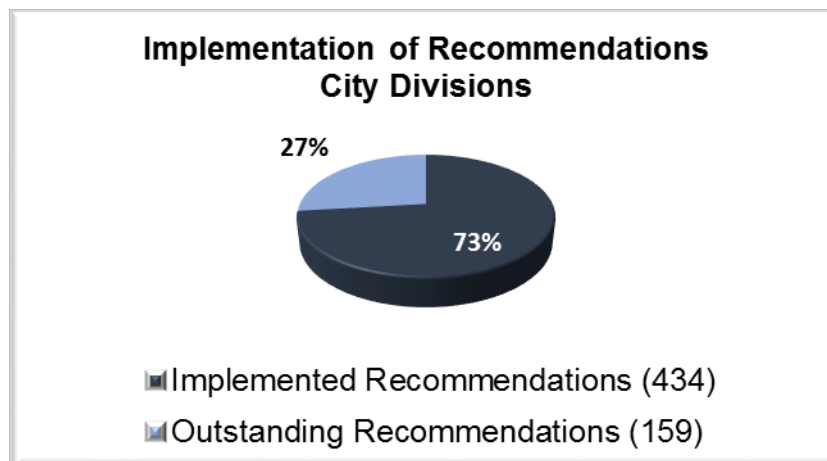
	2011 TCHC Audit on Controls Over Employee Expenses	Closer scrutiny of employee expenses and improved controls resulted in annual savings of \$1.0 million.
<b>Better manage City equipment</b>	2014 Phase One Review of TTC Bus Maintenance and Shops Department: Bus Maintenance and Warranty Administration	Management evaluated the merits of the current bus preventive maintenance inspection (PMI) interval in preventing mechanical failures. TTC staff piloted a revised interval to ensure the change in the PMI interval would not adversely affect vehicle safety and reliability. The higher inspection interval decreased the number of inspections required. This resulted in annual recurring savings of \$120,000.
	2012 Audit of Inventory Controls Over Traffic Control Devices	Consolidated the storage of emergency supplies which were previously stored in rented facilities. By storing them in City warehouses, the \$48,000 annual rental cost was eliminated.
	2012 Audit of TCHC Fleet Management	The transfer of management and ownership of TCHC fleet to the City resulted in annual savings of \$520,000.  TCHC also reduced its fleet by 30 vehicles which resulted in \$380,000 annual savings in operating and capital expenses.
	2010 TCHC Procurement Policies Audit	TCHC relocated their computer servers to City locations which reduced rental costs by \$158,000 per year.



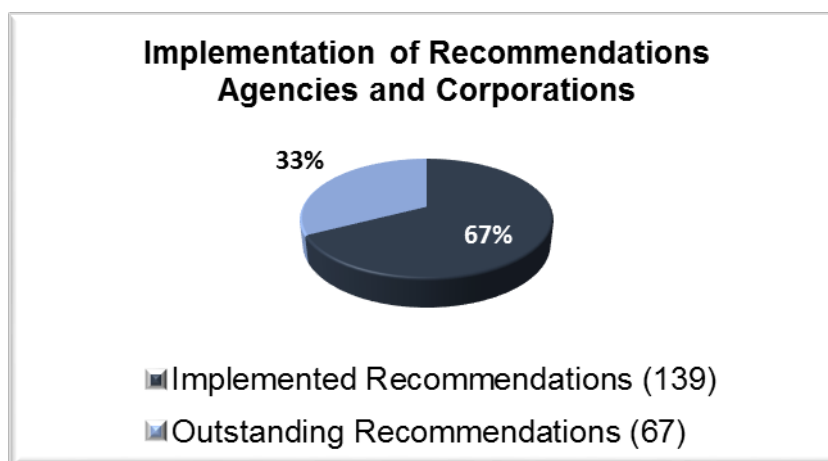
**Exhibit 3 (continued)**

Eliminate inefficiencies in management information systems, internal and administrative procedures, use of resources, allocation of personnel and purchasing policies		
<b>Eliminating inefficiencies in use of staff resources</b>	2015 CCM - TTC, 12-Month Review of Employee Absenteeism (2014)	<p>The CCM report provided an impetus for the TTC to focus on management of overtime. A number of changes were initiated by TTC management to reduce overtime in bus, station and Wheel-Trans operations. By moving the after business hour Wheel-Trans trips to contracted taxi services, TTC realized an annual savings of approximately \$800,000 from reducing the overtime otherwise required by TTC Wheel-Trans bus operators.</p> <p>This new process likely contributed to half of the net savings from improved overtime monitoring (annualized estimate of \$400,000).</p>
	2011 Police Paid Duty Audit	Seventeen uniformed police officers were redeployed from paid duty administrative work (distributing paid duties) to policing duties, an equivalent of \$1.7 million per year in cost avoidance.
	2010 Insurance and Risk Management Review	Achieved annual savings of \$745,000 by creating more internal solicitor positions to reduce fees paid to outsource insurance claims related work to external law firms.
	2007 Review of Children Services Administration of Child Care Subsidies	The Division replaced four consultant positions with four new quality assurance analyst positions thereby saving over \$100,000 per year.
<b>Eliminate inefficiencies in purchasing</b>	2010 Audit of TCHC Procurement Policies	TCHC reviewed opportunities to cooperate purchasing arrangements with the City. Staff estimated annual savings between \$5 million and \$7 million by obtaining goods through City stores.

**AUDITOR GENERAL'S OFFICE**  
**Recommendations made by the Auditor General during the five-year period from**  
**July 1, 2010 to June 30, 2015**



<http://www.toronto.ca/legdocs/mmis/2016/au/bgrd/backgroundfile-94506.pdf>



<http://www.toronto.ca/legdocs/mmis/2016/au/bgrd/backgroundfile-94486.pdf>

**AUDITOR GENERAL'S OFFICE**  
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**July 1, 2010 to June 30, 2015**



<http://www.toronto.ca/legdocs/mmis/2016/au/bgrd/backgroundfile-94458.pdf>