

Auditor General's 2017 Status Report on Outstanding Audit Recommendations - City Divisions in Cluster C

Date: October 13, 2017

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 or corporations.

This report is about labour relations or employee negotiations.

This report is about litigation or potential litigation that affects the City or one of its agencies or corporations.

SUMMARY

Every year, the Auditor General reviews the implementation status of outstanding audit recommendations and reports the results to City Council through the Audit Committee.

This report provides information regarding the implementation status of audit recommendations issued to City divisions in Cluster C. The divisions in Cluster C are:

- Accounting Services
- Chief Corporate Officer
- Corporate Finance
- Corporate Security
- Environment and Energy
- Facilities Management
- Finance and Administration
- Financial Planning
- Fleet Services
- Information and Technology
- Pension, Payroll and Employee Benefits

- Purchasing and Materials Management
- Real Estate Services
- Revenue Services
- Treasurer
- 311 Toronto

This report also provides information on the potential cost savings from outstanding audit recommendations relating to City divisions in Cluster C in response to a motion adopted by the Audit Committee at its July 4, 2016 meeting.

As of December 31, 2015, there were a total of 27 Cluster C audit reports with 133 outstanding recommendations. Among the 133 recommendations included in the 2017 follow-up review, we verified that 54 recommendations (41 per cent) have been fully implemented, 69 recommendations (52 per cent) were either reported by management or determined by our review as being not fully implemented, and 10 recommendations (7 per cent) are no longer applicable.

Staff implemented the audit recommendations in four audit reports and will help the City realize significant cost savings. A total of approximately \$4.3 million in one-time savings and \$5.8 million in annual recurring savings were estimated by staff as a result of implementing recommendations in the four audit reports. Details of the audit recommendations and savings are provided in the Section "Noteworthy 2017 Follow-Up Results".

Continued efforts to implement outstanding recommendations will provide additional benefits to the City such as cost savings, improved controls, and enhanced service delivery.

Many of the City divisions in Cluster C have undertaken a significant amount of work to implement the recommendations. While a number of the recommendations have not been fully implemented, we recognize that some of the recommended changes require significant system or process changes, hence necessitating a longer time frame for full implementation.

Among the audit reports with outstanding recommendations, the 2008 audit report on disaster recovery planning for City computer facilities continues to have four recommendations not fully implemented to date. Management indicated that they have made significant progress towards the implementation of these recommendations. Further details are provided on page 10 of this report, and page 16 in Attachment 2.

We express our appreciation for the co-operation and assistance we received from management and staff of City divisions in Cluster C during this year's follow-up review process.

RECOMMENDATIONS

The Auditor General recommends that:

1. City Council receive this report for information.
2. City Council not authorize the public release of the confidential information contained in Confidential Attachment 1.

FINANCIAL IMPACT

There is no financial impact resulting from the adoption of the recommendation in this report.

DECISION HISTORY

At the July 4, 2016 Audit Committee meeting, a motion was adopted requesting the Auditor General to report to the October 28, 2016 Audit Committee meeting on the estimated savings associated with outstanding audit recommendations and the effect these savings would have on the City's Annual Financial Statements.

In response to the motion, the Auditor General presented a report entitled "Auditor General's New Recommendation Follow-up Process and Response to Report Estimated Cost Savings Associated with Outstanding Recommendations" to the Audit Committee at its October 28, 2016 meeting. The report is available at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.AU7.9>

In the aforementioned report, the Auditor General indicated that her Office will incorporate the requested savings information in her 2017 annual follow-up reports to the Audit Committee. The Auditor General also informed the Audit Committee of a new follow-up reporting process being piloted in 2017 and 2018.

ISSUE BACKGROUND

The follow-up of outstanding recommendations is required by Government Auditing Standards. Following up on outstanding recommendations from previous audits is important because it ensures that management has taken appropriate action to implement the recommendations. The Auditor General reports to the Audit Committee each year on the implementation status of outstanding recommendations.

In accordance with the Auditor General's 2017 Work Plan, and the new follow-up reporting process that started in 2017, we have completed a review of the implementation status of audit recommendations issued to City divisions in Cluster C.

The key steps in our recommendation follow-up process are:

1. We provide a list of outstanding audit recommendations to management.
2. Management responds with information detailing the action taken on recommendations implemented, as well as progress made on those not fully implemented.
3. The Auditor General's Office reviews information provided by management to determine the accuracy of management's assertions related to each recommendation. We then assess whether it can be considered fully implemented or is no longer relevant.
4. The Auditor General reports the results of the follow-up review to City Council through the Audit Committee.

This report relates only to City divisions in Cluster C and does not include recommendations relating to divisions in Cluster A, Cluster B, the City Manager's Office, or City Agencies and Corporations.

Recommendation follow-up results for divisions in Cluster A and the City Manager's Office were reported to the March 2017 Audit Committee meeting. The report is available at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.AU8.10>

Recommendation follow-up results for divisions in Cluster B were reported to the June 2017 Audit Committee meeting. The report is available at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.AU9.14>

A consolidated report on recommendation follow-up results for City Agencies and Corporations was submitted to the June 2017 Audit Committee meeting. The report is available at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.AU9.13>

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

COMMENTS

A total of 133 outstanding recommendations from City divisions in Cluster C were included in the 2017 follow-up process. Management reported their status as follows:

- 78 were fully implemented

- 46 were not fully implemented
- 9 were reported as no longer applicable

We assessed the nine recommendations reported by management as no longer relevant and verified that eight are no longer applicable and one is not fully implemented.

We reviewed the 78 recommendations reported by management as fully implemented and determined that in 23 recommendations, the steps undertaken or the extent of the improvement did not fully address the issues or intent of the audit recommendations. Of the remaining 55 recommendations, one was determined as no longer applicable. We discussed our review results with management staff before finalizing our decisions, and management staff agreed and have explained the additional steps they will take to fully implement the recommendations in the future.

Figure 1 below provides a comparison of recommendation implementation status as reported by management versus audit verification.

Figure 1: Comparison of Recommendation Implementation Status

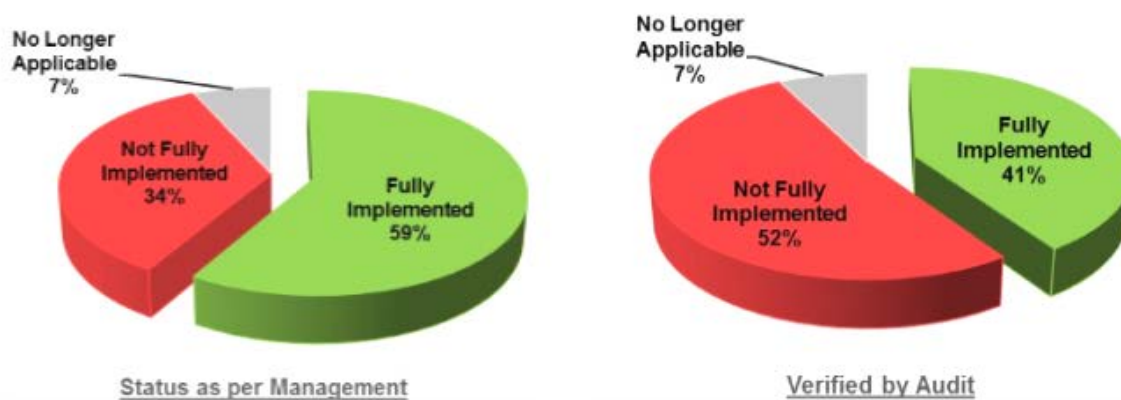


Table 1 outlines the 2017 follow-up review results of the 133 outstanding audit recommendations by individual division for reports issued to City divisions in Cluster C, prior to December 31, 2015.

Table 1: 2017 Follow-Up Review Results - Status of Outstanding Recommendations for Reports Issued to City Divisions in Cluster C

Divisions in Cluster C	Number of Recommendations			
	Outstanding From Previous Follow-up Cycle	Results of 2017 Review		
		Fully Implemented	Not Fully Implemented	No Longer Applicable
311 Project Office	2	-	2	-

Divisions in Cluster C	Number of Recommendations			
	Outstanding From Previous Follow-up Cycle	Results of 2017 Review		
		Fully Implemented	Not Fully Implemented	No Longer Applicable
Accounting Services	6	2	4	-
Facilities Management	42	14	19	9
Financial Planning	2	1	1	-
Fleet Services	1	1	-	-
Information & Technology	42	14	27	1
Pension, Payroll & Employee Benefits	16	9	7	-
Purchasing & Materials Management	7	1	6	-
Revenue Services	15	12	3	-
Total	133	54	69	10

Implementation status needs to be considered in conjunction with when the report was issued as recommendations in recently issued audit reports may need further time for management to fully implement the recommended changes. Table 2 provides a breakdown of outstanding recommendations by the number of years since the report was issued.

Table 2: Outstanding Recommendations by the Number of Years Since the Reports Have Been Issued to City Divisions in Cluster C, as of October 3, 2017

Division in Cluster C	Outstanding Recommendations				
	Total Not Fully Implemented	Up to 2 years	2 to 5 years	More than 5 years	Attachment 2, Page reference
311 Toronto	2	-	-	2	Page 1
Accounting Services	4	-	-	4	Pages 1-2
Facilities Management *	19	-	8	11	Pages 3-9
Financial Planning	1	-	1	-	Page 10

Division in Cluster C	Outstanding Recommendations				
	Total Not Fully Implemented	Up to 2 years	2 to 5 years	More than 5 years	Attachment 2, Page reference
Information & Technology	27	-	15	12	Pages 10-16
Pension, Payroll & Employee Benefits	7	7	-	-	Pages 17-18
Purchasing & Materials Management	6	-	6	-	Pages 18-20
Revenue Services	3	3	-	-	Page 21
Total	69	10	30	29	

*Includes one report entitled "Management of Capital Project 129 Peter Street" issued to the Deputy City Manager and Chief Financial Officer. More details about the report are included in attachments 1 and 2.

Attachment 1 contains an alphabetical list by City divisions in Cluster C detailing the 51 recommendations that have been fully implemented as determined by the 2017 follow-up review.

Attachment 2 contains an alphabetical list by City divisions in Cluster C detailing the 65 recommendations that have not been fully implemented, along with management's planned actions and time frames.

Attachment 3 contains 10 recommendations that are no longer applicable, along with management comments in City divisions in Cluster C.

Confidential Attachment 1 contains three confidential recommendations, fully implemented and four confidential recommendations not fully implemented, along with management comments in City divisions in Cluster C.

Recommendations determined as fully implemented or no longer applicable will not be included in the next year's follow-up review. All recommendations reported as not fully implemented will be included in future follow-up reviews until they have been implemented.

Noteworthy 2017 Follow-Up Results

Staff implemented audit recommendations in the following four audit reports and helped the City realize significant costs savings. A total of approximately \$4.3 million in one-time savings and \$5.8 million in annual recurring savings were estimated by staff as a result of implementing recommendations in the four audit reports. Details of the audit recommendations and savings are provided below.

Improving Controls Over Property Tax Assessments and Payment in Lieu of Taxes (PILTs), October 2015

In 2015, the Auditor General completed a review on the efficiency and effectiveness of controls in billing and collection of property taxes. The review provided 15 recommendations relating to a number of opportunities to improve the management of property tax assessment review, appeal and billing processes. The review also highlighted the need for better coordination between the City and Municipal Property Assessment Corporation (MPAC). The report is available at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2015.AU4.3>

As of September 2017, Revenue Services has implemented 12 out of the 15 recommendations. In response to the audit recommendations, staff strengthened and broadened the review process and implemented automated controls in analysing property tax data. These processes have resulted in an increase in the number of appeals filed and properties referred to MPAC for review and reassessments. As a result, the City recovered \$2.4 million from retroactive property taxes, and an estimated \$5.8 million in annual property taxes in future years. This \$5.8 million additional annual tax revenue is expected to continue on an ongoing basis.

According to management staff, the benefits of ensuring that property values are properly classified and assessed are not only financial but also ensure the integrity of the system and prevent erosion of the assessment base. A property not correctly assessed could also serve as evidence of inequity during an appeal process. The Assessment Review Board is required to ensure equity in determining the assessment value of any property under appeal.

Controls Over Telecommunication Expenses Need Improvement, June 2014

In 2014, the Auditor General issued a report on controls over Telecommunication Expenses. The report includes 18 public and two confidential recommendations relating to the improvement of controls over project management, telecommunication expenses, inventory of devices, and payment to vendors. The report is available at:

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

Management has implemented 12 public recommendations and one recommendation was verified as no longer applicable in 2017. Management efforts are currently underway for the remaining four outstanding public recommendations. The two confidential recommendations continue as outstanding and management's plans of action with completion timeline are included in Confidential Attachment 1.

Recommendation number 13 in the report, implemented in 2017, relates to the need for staff to verify charges in prior period invoices. Staff reviewed invoices for the years 2013 to 2016 and identified billing errors of \$936,000. This amount has been adjusted against the payments due to the vendor. Management has now implemented exception reports to identify and address these billing errors on a timely basis.

These credits are in addition to the \$500,000 savings achieved through improved oversight of the City's telecommunication plans and monitoring of telecommunication expenses, reported in the Auditor General's 2016 Follow-up report.

Further, recommendation number nine of this report, also implemented in 2017, requests the Information and Technology Division to perform an evaluation of conference calling alternatives to reduce conference calling costs.

Management staff advised that certain solutions available in the market were considered; however, staff decided to continue with the existing conference calling option that uses the more costly landline network. Due to the increased use of teleconferencing across the City, the costs increased by more than three times in the last three years, from \$40,000 in 2013 to \$140,000 in 2016 and it is expected that this trend will continue in the future. By educating users, the City can increase the use of unified communication technologies and rely more on the existing VoIP infrastructure to reduce teleconferencing costs.

Reliable Data is Needed for Effective Fleet Management, April 2013

The 2013 Auditor General's report includes six public recommendations to help improve monitoring and oversight of the City's fleet and fuel use. The report is available at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2013.AU11.7>

The audit recommended that staff, conduct a review of the City's Green Fleet vehicles and report to City Council on the progress on the City's Green Fleet Plan.

In response to the audit recommendation, the Fleet Services Division performed a quantitative, lifecycle analysis of the City's green vehicles and reported the results to the Government Management Committee in August 2016 as part of the first progress report on the Consolidated Green Fleet Plan 2014-2018.

According to the staff report, the implementation of the Consolidated Green Fleet Plan will result in an anticipated net savings of \$508,800 from capital cost avoidance and reductions in fuel usage over the expected asset lifecycle (4.5 to 15 years) of the green vehicles.

A Mid-Term Review of the Union Station Revitalization: Managing Risks in a Highly Complex Multi-Year, Multi-Stage, Multi-Million Dollar Project, October 2012

In 2012, the Auditor General completed a review of the Union Station Revitalization Project. The review provided 20 public recommendations to help improve the overall effectiveness of the Project and identified cost savings opportunities. The report is available at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2012.AU9.7>

Recommendation number 16 requested staff to review previously approved change orders to ensure compliance with the terms of the Master Agreement and, where pricing errors are noted, obtain credits owing to the City.

In response to the recommendation, Facilities Management staff conducted a review of the previously approved change orders and identified a credit of over one million dollars owing to the City.

Facilities Management staff advised that their review was limited to the two largest trade subcontractors with a large number of change orders. Staff further advised that there are a number of issues with the "General Contractor/Construction Manager" that are being addressed through litigation. If there are other issues with past billings, they would also be addressed in the litigation.

Noteworthy Long-Term Outstanding Recommendations

Disaster Recovery Planning for City Computer Facilities, March 2008

In 2008, the Auditor General completed a review of Disaster Recovery Planning for City Computer Facilities. The report includes seven public recommendations to improve the City's approach to disaster recovery planning for City computer facilities, to minimize the negative effects of extended computer service interruptions, and to maintain critical public services in the event of a disaster. The report is available at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2008.AU7.3>

During the current follow-up review, management advised that four of the seven recommendations continue to be outstanding. Staff indicated in their responses that they have made significant progress towards implementation of these recommendations. Management's plans of action and expected implementation time for these recommendations are included in Attachment 2.

The City's information technology disaster recovery plan has been in progress for a number of years and its completion is important for continued City operations in case of a disaster. We encourage management to implement these recommendations as early as possible to better prepare the City for any unforeseen disaster event.

Outstanding Recommendations with Potential Cost Savings

Of the 69 audit recommendations not fully implemented, a number of them will have potential cost savings. However, the amount of cost savings cannot be quantified at this point. Listed below are examples of reports with potential cost savings:

Management of the City's Long-Term Disability Benefits-Phase One: Improving City Management to Address Growing Trends in Long-Term Disability Benefits and the Confidential Information, October 2015

Recommendation number one in this report requests staff to review alternate ways of managing the City's Long-Term Disability (LTD) benefits program. In addition, recommendation number four requests staff to develop and track performance indicators for assessing and continuously improving the City's return to work process for employees in receipt of LTD benefits. Implementation of these recommendations could result in cost savings. In addition, there is potential for additional cost savings from the implementation of the confidential recommendations.

City Stores: Maximize Operating Capacity to Be More Efficient, October 2012

Recommendation number three in this report requests the City Manager to explore ways to maximize purchasing power and rationalize materials handling for items commonly purchased by the City, its Agencies and Corporations through the Shared Services review. The Shared Services Review identified \$1.2 million over five years in cost savings as Agencies and Corporations will save time by not issuing separate calls for common goods. This was reported in the Auditor General's 2016 Annual Report. There is potential for additional cost savings when this recommendation is fully implemented.

Management of the City's Employee Extended Health and Dental Benefits, Phase Two: Ineffective Controls and Plan Design Leaving the City Vulnerable to Potential Benefit Abuse, March 2017

The Auditor General's 2017 Phase Two audit report on extended health benefits highlighted the potential benefits waste or abuse relating to claims for orthotics and orthopedic shoes, compression stockings, medical braces, massage, physiotherapy and other treatments. The audit findings were based on an analysis of 2013 to 2015 claims reimbursement data.

As the report was released in March 2017, we have not formally verified the implementation status of the 16 recommendations in the audit report. However, we have requested and received the latest benefit claim costs information from staff. Compared with January to June 2016 claim reimbursement costs for chiropractor, massage therapist, footwear, vascular compression and other medical items, the claim reimbursement costs for these benefits for the same 6-month period in 2017 have reduced by approximately \$4.5 million.

It is possible that the City can realize further cost savings if the declining trend continues for the remainder of 2017 and future years. We will provide further cost information in next year's follow-up report.

CONCLUSION

Among the 133 recommendations included in the 2017 follow up review, we verified that 54 recommendations (41 per cent) have been fully implemented, 69 recommendations

(52 per cent) were either reported by management or determined by our review as being not fully implemented, and 10 recommendations (7 per cent) are no longer applicable.

Implementation of recommendations in four audit reports resulted in approximately \$4.3 million one-time savings, and an estimated \$5.8 million in annual recurring savings.

Among the 69 outstanding audit recommendations, a number of them, when fully implemented, will result in cost savings, but the exact amounts of savings cannot be determined at present.

The results of this review indicate management continues to make progress in implementing audit recommendations. The outstanding audit recommendations will be included in the next year's follow-up review.

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SIGNATURE

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Auditor General

ATTACHMENTS

Confidential Attachment 1: Auditor General's 2017 Status Report on Outstanding Audit Recommendations - City Divisions in Cluster C (includes Confidential Audit Recommendations - Fully Implemented and Not Fully Implemented)

Attachment 1: City Divisions in Cluster C – Public Recommendations – Fully Implemented

Attachment 2: City Divisions in Cluster C – Public Recommendations – Not Fully Implemented

Attachment 3: City Divisions in Cluster C – Public Recommendations – No Longer Applicable