tpl: toronto public library

AU7.5 Attachment 5

October 26, 2020

Ms. Beverly Romeo-Beehler
Auditor General
City of Toronto
Metro Hall – 9th Floor
55 John Street
Toronto, ON M5V 3C6

Dear Ms. Romeo-Beehler,

At the meeting of the Toronto Public Library Board on October 19, 2020, the following motion was adopted regarding Agenda Item No. 13 – *Auditor General's Proposed Risk-based Audit Plan for the Toronto Public Library* report:

> That the Toronto Public Library Board:
> 1.   adopts the Auditor General's proposed risk-based audit plan of the Toronto Public Library Board.

We look forward to hearing more about your audit plan for a risk assessment for Toronto Public Library.

.../2

Library Board
Chair
Sue Graham-Nutter

Vice Chair

Sarwar Choudhury
Councillor Paul Ainslie
Andrea Geddes Poole

Jennifer Liu
Alison Menary
Councillor Gord Perks

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tpl.ca

The efforts of the Auditor General's Office to prepare the Library's proposed risk-based audit plan are greatly appreciated.

Sincerely,

Sue Graham-Nutter
Chair, Toronto Public Library

Attachment: *Auditor General's Proposed Risk-based Audit Plan for the Toronto Public Library* report to the Toronto Public Library Board dated October 7, 2020

cc: Vickery Bowles
      City Librarian
      Toronto Public Library

🏛 TORONTO   **REPORT FOR ACTION**

Auditor General's Proposed Risk-based Audit Plan for the Toronto Public Library

Date: October 7, 2020
To: Toronto Public Library Board
From: Auditor General
Wards: All

SUMMARY

The Auditor General's audits and investigations provide independent information for City Council to hold City administrators accountable for providing stewardship over public funds. The Auditor General's work helps to identify and mitigate risks the City faces, improve accountability, strengthen management controls, and enhance the efficiency and effectiveness of City operations.

The Auditor General's mandate, powers, and responsibilities are set out in the City of Toronto Act, 2006 and Chapter 3 of the Toronto Municipal Code. The Auditor General's mandate includes all of the divisions of the City and the majority of the City's agencies and corporations. For certain entities of the City, including the Toronto Public Library Board, the Auditor General may undertake financial (excluding attest), compliance, and performance audits, and provide recommendations to the Board, **upon request by the Board**.

At its meeting on June 22, 2015, **the Toronto Public Library Board carried the recommendation that the Auditor General "…perform a risk assessment of the Toronto Public Library Board**"[1]. Every five years the Auditor General performs a city-wide risk assessment to inform her Audit Work Plan. The Auditor General's last detailed risk assessment was completed in 2014 and reported out in 2015 (prior to the Board's request), and this current city-wide risk assessment in 2020 was the next available time to include the Toronto Public Library.

The Auditor General's Office initiated the risk assessment of the Toronto Public Library ("TPL") in July 2020, to inform the development of a proposed risk-based audit plan of TPL.

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1 https://www.torontopubliclibrary.ca/content/about-the-library/pdfs/board/meetings/2015/sep21/04-Minutes-June-22.pdf

The purpose of this report is to advise the TPL Board of the proposed audit projects identified as a result of our risk assessment of TPL. The proposed audit projects align with those risks we ranked as medium to high for TPL, and also factor in the skills and experience that our office offers, trends in our Fraud and Waste Hotline allegations, common issues and themes found in our audits of the City of Toronto, and recent trends in the public sector.

We plan to incorporate potential audit projects from the risk-based audit plan, as adopted by the Board, into the Auditor General's 2021 Work Plan to be presented to City Audit Committee on November 19, 2020. The Audit Work Plan will include this report as an attachment.

It is important to note that our city-wide risk and opportunity assessment of the City's divisions, agencies and corporations is still in process. TPL's risks and potential audit projects will be considered together with the rest of the City's, to inform the prioritization of the audit projects included in the Auditor General's 2021 Audit Work Plan.

Although we have listed several potential audit projects of TPL, it is not guaranteed that any or all of these will occur. We plan to include some audit projects for TPL in our Audit Work Plan, but it is subject to available resourcing.

Toronto Public Library was very cooperative and supportive throughout our risk assessment process. We thank the Toronto Public Library Board and management for their support. We look forward to working together in the future.

RECOMMENDATIONS

The Auditor General recommends that:

> 1. The Toronto Public Library Board adopt the Auditor General's proposed risk-based audit plan of the Toronto Public Library.

FINANCIAL IMPACT

This recommendations and information provided in this report have no financial impact.

DECISION HISTORY

Under the *City of Toronto Act*, 2006, the role of City Council is to:

- represent the public and to consider the well-being and interests of the City;
- develop and **evaluate the policies and programs** of the City;
- determine which services the City provides;

- **ensure** that administrative policies, practices and procedures **are in place to implement the decisions** of council;
- **ensure the accountability and transparency of the operations** of the City, including the activities of the senior management of the City;
- **maintain the financial integrity** of the City; and
- carry out the duties of council under this or any other Act.

The Auditor General's mandate is also outlined in the *City of Toronto Act*, 2006.

Specific responsibilities of the Auditor General are set out in *Chapter 3 of the Toronto Municipal Code.* Article 3-3.3.B of the Code states that for certain entities, including the Toronto Public Library Board, Toronto Police Services Board, and Toronto Board of Health, the Auditor General may undertake financial (excluding attest), compliance and performance audits and provide recommendations to the Board, **upon request by the Board**.

At its meeting on June 22, 2015, the **Toronto Public Library Board carried the recommendation that the Auditor General "…perform a risk assessment of the Toronto Public Library Board"**[2].

The Auditor General's Office initiated the risk assessment of TPL in July 2020. Protocol requires that we report first to the Board. The matter is then referred to the City's Audit Committee by the Board. We plan to incorporate potential audit projects from the risk-based audit plan, as adopted by the Board, into the Auditor General's 2021 Work Plan to be presented to City Audit Committee on November 19, 2020. The Audit Work Plan will include this report as an attachment

COMMENTS

Auditor General's Risk-Based Approach to Audit Selection

The Auditor General undertakes a risk-based approach to audit selection. To identify audit priorities for her Audit Work Plan, every five years the Auditor General performs an extensive risk assessment of the operations of the City and its major agencies and corporations included in her mandate. The results of the Auditor General's last city-wide risk assessment was reported in 2015. In accordance with the Auditor General's 2019 Audit Work Plan, the Auditor General initiated a new city-wide risk and opportunity assessment in 2020.

In 2020, the Auditor General's city-wide risk and opportunity assessment also includes the Toronto Public Library and Toronto Police Service, since the respective Boards have invited the Auditor General in to do this work.

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[2] https://www.torontopubliclibrary.ca/content/about-the-library/pdfs/board/meetings/2015/sep21/04-Minutes-June-22.pdf

The purpose of the Auditor General's city-wide risk and opportunity assessment is to ensure that all significant areas of the City are evaluated from an audit risk perspective by using uniform criteria to identify areas that may warrant audit attention. Determining which areas to audit and the appropriate allocation of audit resources is essential in maximizing the value of an effective audit process.

We used the following 10 risk factors of our city-wide risk and opportunity assessment in evaluating the risks of TPL:

- Cyber Security and Information and Technology Exposure
- Legal Exposure (incl. Environmental, Regulatory, Litigation)
- Susceptibility to Fraud, other Wrongdoing, or Waste
- Complexity and Significant Changes in Operations and Service Delivery
- Alignment of Strategic / Business / Service Planning
- Sufficient Staffing Levels & Organization Competence
- Financial Exposure (Materiality and Impact)
- Contractual Exposure
- Adequacy of Policies, Procedures, Processes and Controls
- Public and Political Interest

Risk Assessment Results

Guided by the risk factors listed above, our process involved reviewing publicly available information, interviews with TPL management and the Board Chair, and a review of information / reports requested from TPL management.

We identified potential audit projects for each of the risk factors we ranked as medium to high, as outlined in the tables below. The proposed audit projects also factor in the skills and experience that the Auditor General's office can provide, trends in our Fraud and Waste Hotline allegations, common issues and themes found in our audits of the City of Toronto, and recent trends in the public sector.

It is important to note that our city-wide risk and opportunity assessment of the City's divisions, agencies and corporations is still in process. TPL's risks and potential audit projects will be considered together with the rest of the City's, to inform the prioritization of the audit projects included in the final Auditor General's Audit Work Plan. The Auditor General's 2021 Audit Work Plan will be presented at the November 19, 2020 City Audit Committee meeting.

Although we have listed several potential audit projects of TPL in the tables below, it is not guaranteed that any or all of these will occur. We plan to include some audit projects for TPL in our Audit Work Plan, but it is subject to available resourcing.

The project descriptions in the tables below are worded at a high level and are subject to change during the detailed planning of the audit. During the planning phase of the audit, we review additional information, conduct planning interviews and analysis, and further our understanding of the specific risks. We then prepare our audit plan, including

specific objectives of the audit. The planning phase results in a Terms of Reference, which is shared with management and the Board.

A number of the proposed audits below are broad in scope, such as the operational reviews. These audits may be divided into multiple phases or a series of audits, because of the nature, complexity, or size of the operations or subject matter.

The proposed audits in Tables 1 and 2 below have been identified to help TPL to address areas of risk, continue to strengthen its processes, systems, and controls, and identify potential efficiencies and/or cost saving opportunities.

Table 1: Proposed Higher Priority Audit Projects for Consideration
(contingent upon the Auditor General's final city-wide risk assessment and availability of audit resources)

No.	Audit Topic	Risk Factors	Project Description
1.	**Cyber Security**	Cyber Security Exposure	This audit will include IT vulnerability assessments and penetration testing of the existing networks and systems to assess cybersecurity risks, processes and controls.
2.	**Information Technology / Digital Strategy**	Information and Technology Exposure	This audit will focus on the review of processes and controls to acquire, maintain and implement major IT capital projects and systems.
3.	**Capital Projects** - contract procurement and management Facilities / building maintenance	Contractual Exposure Financial Exposure (Materiality and Impact)	This audit will focus on the award and management of major capital construction contracts, including a review of contract compliance and contractor performance. With a significant state of good repair backlog, this audit will review whether maintenance services are being provided economically, efficiently and in compliance with appropriate policies and legislative requirements.

Table 2: Other Audit Projects for Consideration
(contingent upon the Auditor General's final city-wide risk assessment and availability of audit resources)

No.	Audit Topic	Risk Factors	Project Description
1.	**Operational Reviews**	Complexity and Significant Changes in Operations and Service Delivery Financial Exposure (Materiality and Impact) Sufficient Staffing Levels & Organization Competence	Operational Review of Toronto Public Library. The following areas would be considered in a **series of audits**: • review of TPL's staffing model, branch hours, online services (bricks and mortar vs. digital presence) • opportunities for cost savings and/or efficiencies • review of branch locations for any opportunities to save costs overall, while still meeting community needs (e.g. opportunities for efficiencies, additional co-locations with other City programs/initiatives) • opportunities for other potential cost recovery methods or alternative funding sources • evaluation of TPL's performance and outcomes in delivering its strategic priorities
2.	**Operating Contracts** - contract procurement and management	Contractual Exposure Financial Exposure (Materiality and Impact)	This audit will review significant contracted services to ensure value for money received (i.e. janitorial, security, repair and maintenance, and other consulting services provided by external vendors).
3.	**Internal controls** environment of significant financial processes / systems	Susceptibility to Fraud, other Wrongdoing, or Waste	This review will use data analytics to assess adequacy of processes and controls in the following areas: • accounts payable and purchasing • payroll expenses

CONTACT

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Niroshani Movchovitch, Senior Audit Manager, Auditor General's Office
Tel: 647-336-4261

SIGNATURE

Beverly Romeo-Beehler
Auditor General

ATTACHMENTS

Attachment 1: Description of Risk Factors

Attachment 1: Description of Risk Factors
2020 City-wide Risk Assessment
Auditor General's Office

1) **CYBER SECURITY AND INFORMATION AND TECHNOLOGY EXPOSURE**

Given the dependence of business operations on information technology, the risks related to availability of systems, confidentiality, and integrity of data, are often considered among the top risks to organizations.

In recent years, many municipalities and other public/private sector organizations in Canada and the U.S. have been affected by cyber-attacks. These cyber-attacks have resulted in loss of sensitive information and confidential data, and caused denial of service in a number of instances where municipalities and organizations were not able to provide services to their citizens, businesses, and other stakeholders. These cyber-attacks also resulted in significant financial losses and litigation issues.

The City provides a number of services, such as information about and registration of various programs for kids, communities, and businesses through the internet. The City's IT infrastructure stores a significant amount of confidential and sensitive data, such as information about employees' and citizens' personal records. It also maintains a large number of systems that are critical to the City's operations and providing services, such as water, fire services, transportation, and emergency response to the citizens of Toronto.

Weaknesses in information technology controls could lead to potential cyber-security risks, exposing the City to compromise confidential information, or the potential shutdown of critical technology systems that are relied upon to provide services to citizens.

The following are some important factors that impact the IT security exposure of an operating unit:

- Existence of an IT Governance framework, adequacy of policies and procedures
- Security over data collection, management and storage, such as data relating to personally identifiable information, financial records, including credit card information, etc.
- IT access controls, monitoring, and change management
- Pace of adoption of new technologies, comparison with industry benchmarks, and compliance with cyber security standards
- Business continuity, applications and systems change management, and disaster recovery procedures
- Employee training and awareness on information technology and cyber security

2) LEGAL EXPOSURE (INCL. ENVIRONMENTAL, REGULATORY, LITIGATION)

Exposure to risk can be introduced by non-compliance with internal and external policy, procedure, regulatory, and statutory matters. Non-compliance can result in public embarrassment and/or monetary loss due to improper business practices, the levy of fines or litigation, loss of funding sources, disallowed costs from funding agencies, and in certain cases may compromise privacy or health and safety.

The complexity and clarity of internal / external requirements impacts an organization's ability to comply, and therefore influences the degree of exposure to risk. Compliance risk may be mitigated if external third parties / government sectors are required to perform independent monitoring / audits.

Consideration should be given to:
- Crisis management (i.e. health-related pandemics, mass public violence, natural disasters)
- People and equity (i.e. diversity and inclusion, mental health awareness, harassment)
- Climate change (i.e. reducing the carbon footprint, risks to infrastructure)
- Health and safety

3) SUSCEPTIBILITY TO FRAUD, OTHER WRONGDOING, OR WASTE

The Disclosure of Wrongdoing and Reprisal Protection policy, part of the Toronto Public Service By-law (Chapter 192), includes a duty for employees to report allegations of wrongdoing. Specifically, the By-law requires:
- all City employees who are aware that wrongdoing has occurred to immediately notify their manager, their Division Head, or the Auditor General's Office
- allegations of wrongdoing received by Division Heads, Deputy City Managers or the City Manager to be immediately reported to the Auditor General
- employees who report wrongdoing in good faith to be protected from reprisal.

Exposure to potential losses from fraud, other wrongdoing, or waste may be impacted by various factors including the degree of:
- pressure on employees to achieve performance goals
- opportunities from weak internal controls (e.g. inadequate segregation of duties) or management override of controls
- liquidity of assets
- potential conflicts of interest or collusion

Fraud and wrongdoing in the following areas have been identified in recent years:
- irregular procurement practices
- misuse of City resources
- subsidy claim fraud
- employee benefits fraud
- sick leave abuse / overtime
- conflict of interest

An effective way to deal with fraud or other wrongdoing is to identify and document fraud risks. In the consideration of risk, it is important to assess the extent of fraud or other wrongdoing that has occurred and the adequacy of fraud prevention and awareness activities. Fraud risks are not limited to theft and misappropriation of cash or physical assets, but should consider emerging trends and historic trends in the program area.

4) COMPLEXITY AND SIGNIFICANT CHANGES IN OPERATIONS AND SERVICE DELIVERY

The degree of risk is influenced by the complexity, size, scope, and magnitude of a unit's operations, activities, and service delivery. Units may deal with a high volume of transactions and/or a portfolio of programs and services of varying size and complexity, the people, process, and technology to support them, and all of the related regulations.

The complexity of a unit's operations must be considered within the context of interdependencies and agreements with third parties, (i.e. general contractors, subcontractors, housing providers, etc.), divisions, agencies, and corporations, and the City as a whole. It may be difficult to establish clear accountability for process and control ownership, and alignment of risk decisions and tolerances.

In addition, structural changes, reorganizations, changes in third-party relationships, and key management turnover, can all potentially increase risk for established operations.

5) ALIGNMENT OF STRATEGIC / BUSINESS / SERVICE PLANNING

The development and implementation of strategic and long-term business plans define the key initiatives and priorities of a unit. A Division/Agency/Corporation business plan links funding requirements to organizational goals and objectives in the short-term (annual) and for a longer-term period (3-5 years).

These plans also establish the formal goals and objectives for the organization and communicate them to staff. This allows staff to develop performance objectives which are aligned with the organizational objectives. Both personal and organizational objectives should include measurable performance targets and indicators.

Without clearly defining goals, objectives, performance measures/targets, and outcomes, it is not possible to track and evaluate the effectiveness of a unit. It is important that the outcomes set are also aligned with the City's goals and help the City to move forward. Also, without a periodic refresh, and continuously measuring outcomes, the strategic plan and business plans may lose relevance, increasing the risk that operations will not meet stakeholder expectations.

6) STAFFING LEVELS & ORGANIZATION COMPETENCE

There must be sufficient personnel with appropriate experience and capability to manage day-to-day operations in accordance with policies and procedures, make decisions, and maintain internal controls. To limit organizational exposure, these individuals need to understand their roles and responsibilities and be accountable for their actions or lack thereof.

Changes in an organization's management personnel, structure or systems influence risk. For example:
- Reorganization of responsibilities and activities can result in significant changes that compromise the internal control environment.
- Significant downsizing, inadequate succession planning, and process reengineering efforts may also increase risks if there are inadequate protocols in place to transfer knowledge or the control environment is not carefully analyzed and preserved. For example, adequate levels of authorization balanced with adequate segregation of duties.
- Every new election may present new City Council priorities that may impact existing systems or processes.

7) FINANCIAL EXPOSURE (MATERIALITY AND IMPACT)

Large dollar amounts either flowing through a system or committed to an activity or project will increase financial risk. Any potential financial loss (impact) depends on the dollar value of revenues and / or expenditures that a program manages.

Financial risks can also impact the adequacy of City reserve and reserve fund balances which are Council-approved:
- for planned future expenditures;
- to protect the City against unbudgeted or unforeseen events;
- to smooth out future program expenditures which may fluctuate from one year to the next;
- or to accumulate funds for future capital expenditures or irregular or occasional expenses (such as municipal elections every four years).

It is also important to note that some Divisions may have relatively small operating / capital budgets but are responsible for managing or administering significant funds (i.e. Engineering and Construction Services, Accounting Services (Accounts Payable, Accounts Receivable), PPEB – Employee Benefits, Revenue Services (Property Tax Collection, Water Billings, etc.)). These represent "at risk" dollars that need to be considered when assessing financial risk.

8) <u>CONTRACTUAL EXPOSURE</u>

All contracts present some level of risk. Risks can be increased or mitigated by the manner in which contracts for service providers and suppliers are procured and managed. Contract risk exposure is impacted by the degree to which:

- Oversight of procurement has been centralized (i.e. through PMMD)
- Compliance with procurement policies
- Formal, open, competitive procurement processes are used
- Wording of contract deliverables, outcomes, and any consequences for non-performance, etc. is clearly defined and clearly understood by all parties
- Irregular purchasing activities have been identified
- Contract management practices have been implemented by knowledgeable staff
- Potential conflicts of interest have been identified and addressed

9) <u>ADEQUACY OF POLICIES, PROCEDURES, PROCESSES AND CONTROLS</u>

Policies and procedures should be in place so that activities efficiently and effectively support the achievement of an organization's objectives in a consistent manner. Policies and procedures need to be communicated so that staff understand what is expected of them and the scope of their freedom to act. Authority, responsibility and accountability should be clearly defined so that the appropriate people make decisions and take action.

Even if policies and procedures are well-defined, processes must be in place to monitor adherence with requirements and address instances of isolated and/or recurring non-compliance in a timely manner.

10) <u>PUBLIC AND POLITICAL INTEREST (INCL. ADVERSE PUBLICITY)</u>

Events can occur which erode public confidence in the City of Toronto. As the level of visibility, political and/or public interest, or potential for public embarrassment increases, the degree of exposure will increase. The amount of interest that Council expresses in a particular unit or function could also impact this factor.