



TORONTO STAFF REPORT

November 29, 2004

To: Audit Committee

From: Auditor General

Subject: Toronto Emergency Medical Services Operational Support Review –
Works and Emergency Services Department

Purpose:

To report on the results of the Toronto Emergency Medical Services Operational Support Review.

Financial Implications and Impact Statement:

The implementation of the recommendations in this report will improve management controls over certain expenditures incurred by the Toronto Emergency Medical Services Division.

Our review identified that Provincial Sales Tax has been paid on certain expenditures which are sales tax exempt. It is estimated that an amount of \$60,000 is recoverable from the Province of Ontario for sales tax overpayments extending back for four years (2001 to 2004). Any sales tax, which may have been overpaid prior to 2001, is non-recoverable because the Provincial Retail Sales Tax Act requires that refund applications must be received by the Province within four years from the date the tax was paid. It is also estimated that future annual savings from avoiding future tax overpayments would be approximately \$15,000.

As a result of our review of Provincial Sales Tax issues at the Toronto Emergency Medical Services, we requested staff to review similar tax exempt areas at the Toronto Fire Services Division. This review also identified that Provincial Sales Tax has been paid on certain expenditures which are sales tax exempt. It is estimated that an amount of \$66,000 is recoverable from the Province of Ontario for sales tax overpayments extending back for four years (2001 to 2004). Any sales tax, which may have been overpaid prior to 2001, is non-recoverable because the Provincial Retail Sales Tax Act requires that refund applications must be received by the Province within four years from the date the tax was paid. It is also estimated that future annual savings from avoiding future tax overpayments would be approximately \$16,000.

In addition, we have communicated with the Chief Financial Officer and Treasurer in relation to Provincial Sales Tax issues which may exist in other areas throughout the City. This matter is currently being addressed by the Chief Financial Officer and Treasurer.

Further, we have identified opportunities for cost savings relating to the potential reduction of certain expenditures incurred by the Toronto Emergency Medical Services Division. The exact amount of the savings will be determined following more detailed reviews and analyses by staff.

Recommendations:

It is recommended that:

- (1) the Chief Administrative Officer, take the necessary steps to ensure that previous recommendations contained in the Auditor General's report dated May 8, 2001 entitled "Review of Departmental Purchase Orders" are addressed and that:
 - (a) the City's procurement policies, procedures and guidelines are complied with and communicated to all staff involved in the acquisition of goods and services;
 - (b) necessary training is provided, such that staff is fully aware of, understand and comply with the policies, procedures and guidelines;
 - (c) effective management controls and monitoring measures are implemented to ensure compliance with Corporate procurement policies and procedures; and
 - (d) compliance with procurement policies and procedures is incorporated into the staff performance review process;
- (2) the Commissioner, Works and Emergency Services, clearly define and communicate the roles, responsibilities, authorities and accountability of program managers of the Toronto Emergency Medical Services and the Support Services Division, Works and Emergency Services, in the payment approval process, including the responsibility for reviewing related invoices, purchase orders and contracts;
- (3) the Commissioner, Works and Emergency Services, take the necessary action to ensure that all staff responsible for authorizing or processing invoice payments are aware of their responsibilities relating to the review of invoices and related supporting documents. Staff should also be aware of the need to review the contract terms, evaluate the appropriateness of all charges, as well as validating the accuracy of the goods and services provided;
- (4) the Chief/General Manager, Toronto Emergency Medical Services, take immediate steps to ensure that:
 - (a) an equipment inventory database which tracks all equipment over a certain dollar threshold amount is completed in a timely manner;

- (b) procedures are established to monitor regular maintenance of all equipment; and
 - (c) the preventive maintenance history of each piece of equipment is systematically tracked in the database;
- (5) the Chief/General Manager, Toronto Emergency Medical Services, take immediate steps to correct the information maintained in the Stores' inventory system. Such actions include:
- (a) completing an assessment of irregularities in the existing data, and developing an action plan, with specific timelines for the action to be taken to make the necessary corrections;
 - (b) documenting the functionality of the system and operating procedures, and providing formal training to ensure that staff has the necessary knowledge to effectively operate the system;
 - (c) strengthening controls over access to the system, including restricting access; and
 - (d) adjusting inventory records to reflect actual amounts on hand, with such adjustments being the subject of supervisory review and approval;
- (6) the Chief/General Manager, Toronto Emergency Medical Services:
- (a) identify the skills and expertise required by staff to effectively manage inventory items warehoused at the Stores;
 - (b) assess the skill set and competency level of current staff;
 - (c) develop a training and development program that ensures staff has the necessary skills and expertise to effectively perform their responsibilities;
 - (d) define the roles, responsibilities and authorities of supervisory and management staff responsible for the Stores operations; and
 - (e) provide adequate management oversight to reasonably ensure that irregularities are detected and corrected in a timely manner;
- (7) the Chief/General Manager, Toronto Emergency Medical Services, review and take the necessary steps to improve procedures for re-ordering, stocking and controlling access to inventory items at ambulance stations, and to ensure that appropriate quantities of medical and other supplies are maintained;
- (8) the Chief/General Manager, Toronto Emergency Medical Services, comply with City policies and:

- (a) discontinue the current practice of subsidizing or contributing to certain staff events; and
 - (b) discontinue the current practice of making contributions to private and public organizations, or in exceptional circumstances, obtain prior approval from the Commissioner, Works and Emergency Services;
- (9) the Chief/General Manager, Toronto Emergency Medical Services, ensure that Toronto Emergency Medical Services complies with City policy with respect to business meeting and entertainment expenses, such that expenses be claimed by the most senior staff person present at the meeting or event and be approved by the next level of management who is not at the same meeting or event. Expense claims of the Chief/General Manager, Toronto Emergency Medical Services, should be approved by the Commissioner, Works and Emergency Services;
- (10) the Commissioner, Corporate Services, in consultation with the Chief/General Manager, Toronto Emergency Medical Services, undertake a review of the use of cellular telephones and pagers by the Toronto Emergency Medical Services. This review include but not be limited to:
- (a) an assessment of communication needs of the Toronto Emergency Medical Services;
 - (b) an identification and analysis of cost saving opportunities, including a detailed review to determine whether the Toronto Emergency Medical Services is paying monthly charges for inactive pagers, and whether corrective actions are required; and
 - (c) the management and co-ordination of purchases and service subscriptions of cellular telephones and pagers of the Toronto Emergency Medical Services;
- (11) the Chief/General Manager, Toronto Emergency Medical Services, develop a policy respecting the provision of uniforms to Toronto Emergency Medical Services staff, in particular management staff who do not normally conduct field visits, outlining the justification and costs for this practice. Such a policy be appropriately approved;
- (12) the Chief/General Manager, Toronto Emergency Medical Services, obtain authorization from City Council to revise the contract value for the purchases of parkas, as required by Toronto Municipal Code, Chapter 71 (Financial Control);
- (13) the Chief/General Manager, Toronto Emergency Medical Services, review the practice and necessity of labelling certain uniforms with specific job titles. The elimination of such a practice would provide greater flexibility in the allocation of uniforms to staff and likely eliminate the requirement to purchase significant numbers of uniforms for inventory purposes;

- (14) the Chief/General Manager, Toronto Emergency Medical Services, review the current arrangements for the delivery of services provided by the staff Psychologist. Such a review to determine the costs of the services and the availability of such services through the City's benefit plans;
- (15) the Chief Financial Officer and Treasurer ensure that all payments to employees are properly reported for income tax purposes; and
- (16) the Chief/General Manager, Toronto Emergency Medical Services, report back to the April 2005 meeting of the Audit Committee with a response to each of the recommendations in this report, outlining the specific action taken or to be taken, and a suggested timetable for implementation.

Background:

The Toronto Emergency Medical Services Division (EMS), the sole provider of emergency medical service response in the City of Toronto, is the second largest municipal ambulance service provider in North America. Its mandate is derived from the Ambulance Act, the Canada Health Act and other regulations such as the Highway Traffic Act, the Health Insurance Act and the Health Facilities Special Orders Act. The Province of Ontario provides funding for approximately 50 per cent of eligible expenditures incurred by EMS for its provision of land ambulance service, and 100 per cent for the Central Ambulance Communications Centre.

Reporting to the Commissioner, Works and Emergency Services, EMS is comprised of four Sections:

1. Operations Section
 - provides emergency and non-emergency medical care and transportation by paramedic ambulance crews; and
 - responsible for operational supervision and support.
2. Operations Support Section
 - provides support services to the Division, including accommodations, fleet operations, facility maintenance, staff scheduling, materials management, and communication systems engineering;
 - responsible for the maintenance and distribution of medical equipment and supplies; and
 - supports the Operations Section.

3. Central Ambulance Communications Centre

- provides an ambulance dispatch service which includes 911 call receiving, radio dispatch and operational analysis;
- comprises the operational functions of the dispatch service, and the design, operation and maintenance of radio, telephone and computerized equipment; and
- responsible for the training of dispatchers and the creation of updated map location data.

4. Program Development and Service Quality Section

- includes EMS Education, the Professional Standards Unit, Community Safeguard Services and EMS Planning;
- provides public education to promote rapid and appropriate use of emergency resources;
- responsible for training and developing department staff for first-aid training for City of Toronto staff and for recruiting paramedics; and
- responsible for complaint investigation, operational reviews, and the coordination of programs with governmental agencies.

With a gross annual operating expenditure budget of \$124.14 million in 2004, EMS operates with a total of 1,152 positions (1,146 in 2003) from 41 ambulance stations located across the City. The staff complement consists of 110 managerial staff, 850 paramedics and 192 dispatchers and support staff. The Province of Ontario's contribution to the gross annual operating budget is anticipated to be approximately \$74 million in 2004.

Audit Objectives and Scope

The 2004 Annual Work Plan of the Auditor General's Office included a review of the Operational Support function of EMS. This review was selected based on the significant costs of delivering emergency medical services in the City and the results of previous audit work performed.

Our review had two general objectives. Our first objective was to assess whether EMS has adequate and effective procedures in place to ensure that certain of its program expenditures are managed with due regard for economy, efficiency and compliance with City policies and legislative requirements. The second objective was to identify opportunities to improve internal administrative controls and, where appropriate, identify areas for cost savings.

Our review focused on an assessment of the following areas of expenditure controls and included other related issues where appropriate:

- purchases, payments and expenditure control processes; and
- materials and equipment management.

Our audit work included:

- interviews with relevant staff;
- site visits to various EMS stations;
- an evaluation of internal controls;
- an examination of documents and records;
- physical counts of a sample of inventory items; as well as
- a review of relevant studies and legislative requirements.

Our review, for the most part, covered the period from January 2003 through to June 2004.

This review did not include an evaluation of salary controls as a major Corporate-wide payroll processing review was completed in November 2004 by the Auditor General's Office. Management throughout the City is in the process of implementing the recommendations contained in that report. In addition, earlier this year, the City's Internal Audit Division completed a review of management controls over payroll overtime payments to non-union staff throughout the City. This review included EMS. Consequently, in view of the work previously conducted by the Internal Audit Division, our review did not include an examination of overtime payments at EMS. We have, however, had discussions with the Director of the Internal Audit Division concerning this review.

In addition, the Auditor General issued a report dated November 18, 2003, entitled "Fleet Operations Review – Phase One". This review was Corporate-wide and did not include a review of those organizations who manage their own operations such as the Toronto Emergency Medical Services. One of the recommendations in this particular report was a requirement that those entities report back to the Audit Committee by October 2004 addressing the recommendations in that report. To the best of our knowledge, the Audit Committee has not yet received a report from EMS. Further, the second phase of a Corporate-wide fleet review, conducted by the Auditor General's Office, is presently in progress and any issues which may be applicable to EMS will be addressed at that time. In view of the above, this review did not include an evaluation of the fleet operations within EMS.

The Context of this Report

The Ontario Provincial Auditor has recently issued two reports in connection with expenditure controls. Both of these reports have identified issues and concerns which are similar to those identified in this report. In general terms, the Provincial Auditor has noted that “many of the exceptions we found could have been prevented or appropriately addressed if there had been adequate managerial review and approval.” An appropriate level of managerial review and supervisory approval in regard to certain of the issues in this report would have minimized certain expenditures which, in our view, are inconsistent with the City’s policies and practices.

It is also important to put into context certain of the expenditures which we have highlighted in this report. An audit by its nature is an evaluation of a limited number of expenditure transactions. While certain of the expenditures identified in this report on their own, are not significant, it is possible that similar transactions may have occurred elsewhere in EMS. Consequently, these issues require immediate management attention.

In order to ensure that certain of the issues we have identified were dealt with on a timely basis, our preliminary findings were communicated in writing to the Chief/General Manager, Toronto Emergency Medical Services in late July 2004.

A summary of the major issues identified during the course of our review is included in the following Summary of Overall Audit Observations. Further details relating to each one of these observations, along with our recommendations, are provided in the body of the report.

Summary of Overall Audit Observations

1. Certain of the Recommendations contained in the Auditor General’s report, dated May 8, 2001, entitled “Review of Departmental Purchase Orders” have not been implemented. It appears as if no consideration was given to this particular audit report as issues and concerns identified in that report continue to exist.
2. In 2003, over 1,600 departmental purchase orders were issued for purchases totalling approximately \$2.1 million (excluding departmental purchase orders issued during the SARS outbreak and the SARS – Rolling Stones Concert). Contrary to City policies, certain of these departmental purchase orders were for repetitive purchases from the same long-standing vendors, and/or were issued after the receipt of the goods or services.
3. In a number of instances, Departmental Purchase Orders appeared to have been split to keep the purchase amount below the maximum limit for a departmental purchase order.
4. A number of purchases inappropriately cited specific City contracts as the authority for the purchase even though the goods or services purchased were not included in the terms of the related contracts.

5. Controls require improvement in ensuring that the payment terms and rates are consistent with the provisions in the related contracts. Current internal control practices do not ensure that EMS is only charged for actual goods and services received.
6. EMS has paid Provincial Sales Tax on certain supplies that are tax exempt. Staff is currently taking steps to recover tax overpayments of approximately \$60,000 over the past four years. Estimated future annual savings from avoiding future tax overpayments would be approximately \$15,000. Any sales tax which may have been overpaid prior to 2001 is non-recoverable because the Provincial Retail Sales Tax Act requires that refund applications must be received by the Province within four years from the date the sales tax was paid.
7. Toronto Fire Services has paid Provincial Sales Tax on certain supplies that are tax exempt. Staff is currently taking steps to recover tax overpayments of approximately \$66,000 over the past four years. Estimated future annual savings from avoiding future tax overpayments would be approximately \$16,000. Any sales tax which may have been overpaid prior to 2001 is non-recoverable because the Provincial Retail Sales Tax Act requires that refund applications must be received by the Province within four years from the date the sales tax was paid.
8. EMS did not maintain a complete and accurate asset inventory to account for expensive equipment such as defibrillators. Staff has recently introduced a new equipment tracking form and has begun inputting the maintenance records into the computer system.
9. An amount of \$64,000 has been expended on asset control and inventory management systems. There is no documentation available indicating whether a detailed review of the suitability of SAP's asset control and inventory modules was conducted prior to the purchase of these systems.
10. The inventory management system at the Stores currently does not provide accurate and reliable information on inventory balances for a significant number of items. In addition, controls over supplies are inadequate to identify or prevent unauthorized use.
11. Expenses incurred for certain business meetings were not appropriately approved. Certain of the expenditures on staff activities and functions are contrary to Corporate directives and policy.
12. Opportunities may exist for savings in regard to a re-evaluation of monthly plans for cellular telephones and pagers as well as the elimination of monthly charges for a number of underutilized telephones and pagers.
13. Management needs to review its policies in regard to the extent of uniforms allocated to non-union staff.
14. The contract, in regard to the supply of certain uniforms, is in excess of the amount approved by City Council. Council approval has not been sought on this over expenditure.

15. Remuneration paid to certain training instructors, who are also full-time employees of EMS, was not reported to Canada Revenue Agency (formerly Revenue Canada) for income tax purposes. Failure to report such income could result in fines and penalties to the City.

Comments:

Funding Challenges

In 2003, EMS incurred actual gross expenditures of \$115.8 million, and an additional \$11 million to respond to the SARS outbreak and the subsequent SARS – Rolling Stones Concert. The Province paid approximately \$61 million for its share of the 2003 gross expenditures and also provided one-time funding of \$10.3 million for additional costs incurred by EMS to manage the SARS outbreak. The City funded the remaining balance of approximately \$55 million.

City officials, as directed by City Council, are currently negotiating with the Province for an additional contribution to cover a funding shortfall that exists because actual provincial funding does not cover 50 per cent of land ambulance operations, nor does the funding cover 100 per cent of the costs of the Communications Centre. The shortfall is primarily a result of the provincial funding ceiling being set at a certain level of salary increases regardless of amounts actually awarded by provincially appointed arbitrators. The total funding shortfall in 2003 was \$6.5 million and EMS is projecting a shortfall in provincial funding of approximately \$11.2 million in 2004.

Detailed Observations

Compliance with City Purchasing Policy and Procedures

The Auditor General issued an audit report dated May 8, 2001 entitled, “Review of Departmental Purchase Orders”. One of the recommendations in that report was:

“the Chief Administrative Officer advise department heads of the need for their respective departments to comply with the Corporate Purchasing Policies and by-law and remind them of their responsibility in this regard including adherence to the requirement that ... the practice of splitting purchases be discontinued.”

Based on the issues identified during this review, it is apparent that this recommendation has not been consistently implemented at EMS.

City policy stipulates that Departmental Purchase Orders (DPOs), which are issued without the involvement of the Purchasing and Materials Management Division, should only be used for one-time, low-dollar purchases. City policy also requires that departmental purchase orders be prepared prior to ordering the goods or services. For repetitive purchases from the same supplier or purchases exceeding \$7,500, City contracts are required to be issued after a formal competitive process.

In 2003, EMS issued over 1,600 DPOs totalling nearly \$2.1 million (excluding DPOs issued during the SARS outbreak and the SARS – Rolling Stones Concert). A number of these DPOs were repetitive purchases from the same long-standing vendors. In addition, certain of the DPOs were issued after the receipt of the goods or services, and in a number of instances, the purchases appeared to have been “split” to keep the purchase amount below the maximum limit for DPOs (i.e., \$7,500) or below the limit for three competitive quotes (i.e., \$3,000).

While we recognize that some of the purchases could not have been planned or anticipated due to the nature of emergency services, we noted DPOs for purchases of non-emergency, recurring items such as furniture replacement or repair services, vehicle tires, and cellular telephone accessories.

Recommendation:

1. The Chief Administrative Officer, take the necessary steps to ensure that previous recommendations contained in the Auditor General’s report dated May 8, 2001 entitled “Review of Departmental Purchase Orders” are addressed and that:
 - (a) the City’s procurement policies, procedures and guidelines are complied with and communicated to all staff involved in the acquisition of goods and services;
 - (b) necessary training is provided, such that staff is fully aware of, understand and comply with the policies, procedures and guidelines;
 - (c) effective management controls and monitoring measures are implemented to ensure compliance with Corporate procurement policies and procedures; and
 - (d) compliance with procurement policies and procedures is incorporated into the staff performance review process.

Administrative Controls

The Financial Services Unit of the Support Services Division, Works and Emergency Services Department, is responsible for the day-to-day accounting and payment procedures for EMS. Program staff, however, is ultimately responsible for determining the appropriateness of the amounts invoiced and whether the payment terms and rates are consistent with the provisions of the contract. The Financial Procedures Manual of Works and Emergency Services provides clear guidelines on the procedures required when certifying invoices for payment.

Our review noted that while certain checks and balances have been incorporated into the current payment processes, payment controls require improvement to ensure that EMS pays only the agreed price for actual goods and services received.

For example, in our review of 50 invoices, five did not contain sufficient information such as unit price or quantity of goods/services or the invoiced price did not agree to the contract. Details on eight of the invoices were for purchases of goods or services that did not form part of the original contracts. In these circumstances, it is not possible for staff to determine the appropriateness of the amounts being invoiced without sufficient information on the invoices or the purchasing documents. Nonetheless, all of these invoices were approved by the responsible program managers/supervisors of EMS, and processed by the Financial Services Unit. The following are examples of concerns which we identified during our review:

- (a) Certain products and services purchased by the City are exempt from Provincial Sales Tax. In our review, we noted that EMS has been paying Provincial Sales Tax on purchases of oxygen and other medical supplies which qualify for a tax exemption, even though the Provincial Sales Tax exemption status was clearly stated in the City contracts. In addition, these invoices had been reviewed by both the program managers and staff from the Financial Services Unit. Our discussions with management and the City Finance Department resulted in action being taken to recover Provincial Sales Tax overpayments of approximately \$60,000 over the past four years. Any sales tax which may have been overpaid prior to that time is non-recoverable.

During our review of Provincial Sales Tax exemptions, we considered that similar overpayments may have been made by the Toronto Fire Services Division. Consequently, we referred the matter to them for review. The Financial Services Unit has since confirmed that the Toronto Fire Services Division has paid Provincial Sales Tax on purchases of oxygen and repair parts, labour and maintenance charges for fire-fighting vehicles and original equipment that qualify for provincial tax exemption. A detailed examination is underway to compile the amount of the tax overpayment to the Province. Based on staff's preliminary assessment, tax overpayments in the range of \$66,000 will be recoverable as the City is eligible to recover tax overpayments over the past four years. Any sales tax which may have been overpaid prior to that time is non-recoverable.

In these instances, a comparison of contract terms and the invoiced amounts would have identified these billing errors prior to processing payment. The regular review of contracts by departmental management will minimize the risk of paying Provincial Sales Tax on products and services that qualify for tax exemption.

- (b) A number of payments were made to a vendor for the supply of equipment parts, upgrades, labour, and repair services. The supplier's invoices were approved by staff without knowledge of the specific terms of the equipment warranty provisions and contract. In addition, staff did not validate the unit price or labour rate on the invoices prior to authorizing the payments.
- (c) Since June 2003 (during the SARS outbreak), a contracted City vendor was directed to refill and deliver oxygen cylinders to City ambulance stations (instead of centrally to EMS Headquarters as stipulated in the City contract) at an extra cost of \$65 per station per visit. The new price was agreed verbally between the vendor and the Supervisor of the Stores who was responsible for purchasing medical supplies, but the contract was not

revised to reflect the changes. While we appreciate the circumstances surrounding the SARS outbreak, the multiple-station delivery continued even after the SARS outbreak had subsided.

Between October 2003 and January 2004, the continuation of the multiple station delivery model has cost the City an additional \$100,000. In February 2004, staff began withholding payment to the supplier and following our review, staff decided to continue the arrangement but has renegotiated a lower rate (approximately 30 per cent less), with the same supplier. While we understand that there had been certain legal issues delaying the establishment of a new contract for oxygen supply, an evaluation by staff of the costs and quantities invoiced and the related contract would have prompted management to address the delivery issue in a more timely manner.

The City has recently issued a Request for Quotation for the supply of oxygen to EMS and the Toronto Fire Services, and a new contract has been awarded to a different supplier. We were advised by staff that the delivery of oxygen to multiple EMS stations, as opposed to a single station, would cost an additional \$10,000 for the whole year according to the new contract.

- (d) The invoices and the packing slips from the current oxygen supplier (for the contract ending December 2004) denote only a total number of oxygen cylinders supplied to all ambulance stations for the day without indicating the specific number supplied to each station. As a result, management currently has no means of validating the services being billed for the refilling and delivery of oxygen cylinders. In particular, we noted that even after the SARS outbreak, there has been an increase of 25 per cent in the number of cylinders refilled as compared to the same period in 2002-2003 (when the delivery was done by EMS drivers).

It is apparent that staff responsible for the payment approval process are not clear on their specific roles and responsibilities. The roles and responsibilities of the Financial Services Unit and program managers in the review and approval of invoices require clarification. We understand that EMS and the Support Services Division, Works and Emergency Services Department, has initiated discussions to clarify their respective roles and responsibilities in this particular area.

Recommendations:

2. The Commissioner, Works and Emergency Services, clearly define and communicate the roles, responsibilities, authorities and accountability of program managers of the Toronto Emergency Medical Services and the Support Services Division, Works and Emergency Services, in the payment approval process, including the responsibility for reviewing related invoices, purchase orders and contracts.
3. The Commissioner, Works and Emergency Services, take the necessary action to ensure that all staff responsible for authorizing or processing invoice payments are aware of their responsibilities relating to the review of invoices and related supporting documents. Staff

should also be aware of the need to review the contract terms, evaluate the appropriateness of all charges, as well as validating the accuracy of the goods and services provided.

Asset Control and Monitoring of Expensive Medical Equipment

According to the Financial Procedures Manual prepared by Works and Emergency Services, staff is required to maintain up-to-date inventory records for items of significant dollar value.

EMS owns several types of expensive emergency equipment, including defibrillators and stretchers. The total value of these types of equipment alone amounts to approximately \$4 million. To better track and manage its assets, EMS acquired a computerized Asset Tracking System in 2001.

Our review of asset management practices at EMS noted the following:

- (a) EMS did not maintain complete and accurate records on certain expensive equipment.
- (b) In the case of defibrillators (cost approximately \$16,000 each), management was unable to provide us with an accurate listing of the inventory of this equipment or its location at the time of our audit.
- (c) Most of the expensive equipment used by EMS requires regular repair and periodic preventive maintenance. Record keeping practices did not facilitate systematic tracking and monitoring of preventive maintenance services performed on certain equipment. For example, a unique identification number was not assigned to each piece of equipment and maintenance records continued to be kept manually by different groups of staff performing the services.

Without an accurate equipment inventory and systematically organized maintenance records, management cannot be assured that each piece of equipment is regularly inspected and maintained as required by the Ministry of Health. We have discussed our concerns with staff and subsequent to this discussion, a new equipment tracking form has been introduced and staff has begun inputting the maintenance records into the computer system.

Recommendation:

- (4) The Chief/General Manager, Toronto Emergency Medical Services, take immediate steps to ensure that:
 - (a) an equipment inventory database which tracks all equipment over a certain dollar threshold amount is completed in a timely manner;
 - (b) procedures are established to monitor regular maintenance of all equipment; and
 - (c) the preventive maintenance history of each piece of equipment is systematically tracked in the database.

Management of Materials and Medical Supplies Inventory

The majority of the materials and medical supplies for EMS are kept in the Stores at the Headquarters building. The Supervisor of the Stores reports to the Manager, Materials and Equipment Management Unit of the Operational Support Section, and oversees the ordering, receiving, and storage of goods at the Stores, as well as the delivery of materials and medical supplies to 41 ambulance stations across the City.

In 2003, over \$5 million worth of materials and supplies, including medical supplies, uniform and clothing items, auto parts, and miscellaneous office supplies were acquired through the Stores. According to City records, the value of inventories at the end of 2003, including approximately \$0.7 million of supplies left over from the SARS outbreak, totalled \$1.9 million. Inventories kept at the 41 ambulance stations, ambulances and other EMS vehicles are not tracked for financial reporting purposes.

To facilitate its management of inventory and equipment, EMS purchased Stores Management System software and Asset Tracking System software at a cost of \$51,000 in 2001. Additional payments of approximately \$13,000 were made in 2002 and 2003 for system upgrades, purchases of support services and related supplies. There is no documentation available indicating that a detailed review of the suitability of SAP's inventory module and the Stores' inventory system was conducted prior to acquiring the software. This issue has been identified in previous audit reports.

During our review of the inventory management process at the Stores, we noted that:

- EMS does not have accurate and reliable information to effectively manage medical supplies and other inventory items; and
- management controls over the Stores' operation are inadequate to safeguard the supplies.

Our specific observations in relation to the management of the Stores are as follows:

- (a) We conducted a physical count on a sample of 23 inventory items in June 2004. Eighteen of these 23 items showed significant differences between the actual quantities on the shelves and the balances recorded in the Stores Management System. The total recorded dollar value of these items was 18 per cent higher than the actual inventory value of these items. We were advised by Stores staff that since November 2003, inventory balances reported by the system and the actual quantity on-hand were consistently different. The inventory value of \$1.9 million at the end of 2003, as reported by EMS in the Corporate financial records, is therefore likely to be significantly misstated.

- (b) The causes of the continuing inaccuracy in the system-generated quantity on-hand are two-fold: improper data input procedures were used during the annual physical count conducted in October 2003; and an earlier version of the computer program was not customized to correctly account for the issuance of certain medical items.
- (c) Knowing that the inventory balances reported by the system were inaccurate most of the time, Stores staff made re-ordering decisions based on physically checking the shelves. Because of the need to frequently correct the system-generated inventory balances, staff regularly adjust the balances in the system without obtaining approval from the Stores Supervisor. We were advised that the equivalent of one full-time position is used to update the records in the system, even though the data is consistently inaccurate and cannot be relied upon in day-to-day operations.
- (d) The October 2003 physical count of the Stores' inventory was conducted by Stores' staff under the supervision of a staff person from the Operations Section. Our review found that the inventory balances were adjusted by staff immediately prior to and during the count, and that appropriate inventory count procedures were not used.
- (e) We noted that over 30 employees in EMS were assigned full system access capability, including the authority to adjust the inventory balances in the system. The integrity of data in the system was therefore further compromised.
- (f) None of the current Stores staff has received any formal training in operating the system, nor were they provided with any written guidelines on detailed operating procedures.

Based on the above, it is apparent that the inventory management system is not functioning in the manner intended. The system serves no purpose if it contains inaccurate and unreliable information. We have been advised that management is currently undertaking measures to address the above issues.

We appreciate that certain of the issues identified above might be related to the high staff turnover in the Stores in the past years. We understand for example that the current Stores Supervisor assumed this role in the Fall of 2003 and that there have been a number of staff changes in the Stores in 2003-2004.

Recommendations:

- 5. The Chief/General Manager, Toronto Emergency Medical Services, take immediate steps to correct the information maintained in the Stores' inventory system. Such actions include:
 - (a) completing an assessment of irregularities in the existing data, and developing an action plan, with specific timelines for the action to be taken to make the necessary corrections;

- (b) documenting the functionality of the system and operating procedures, and providing formal training to ensure that staff has the necessary knowledge to effectively operate the system;
 - (c) strengthening controls over access to the system, including restricting access; and
 - (d) adjusting inventory records to reflect actual amounts on hand, with such adjustments being the subject of supervisory review and approval.
6. The Chief/General Manager, Toronto Emergency Medical Services:
- (a) identify the skills and expertise required by staff to effectively manage inventory items warehoused at the Stores;
 - (b) assess the skill set and competency level of current staff;
 - (c) develop a training and development program that ensures staff has the necessary skills and expertise to effectively perform their responsibilities;
 - (d) define the roles, responsibilities and authorities of supervisory and management staff responsible for the Stores operations; and
 - (e) provide adequate management oversight to reasonably ensure that irregularities are detected and corrected in a timely manner.

Inventory Management at Ambulance Stations

EMS currently operates 41 ambulance stations across the City. These stations provide paramedics with convenient access to emergency supplies, and a place to wait between service calls. In most stations, medical supplies and other inventory items are stored in several upright cabinets that are located in the garage and/or inside the building. Several larger stations, such as those located at a district office, have a small storage room designated for paramedic supplies.

As a part of our audit, we visited 13 of the total 41 stations. Our observations in relation to the management of inventory items at the ambulance stations are as follows:

- (a) Upon delivering supplies to ambulance stations, Stores drivers are required to identify inventory items that are in short supply, and record the quantity required to replenish the stock. These decisions are made at the discretion of the drivers, based on their knowledge of the inventory items and their consumption rates. To ensure adequate supplies are always available, there is a tendency for the drivers to overstock the inventory to create a large margin of safety. This could result in unnecessary inventory carrying costs to the City.

- (b) The costs of delivering medical and other supplies to all 41 stations and the combined inventory carrying costs can be substantial. At the time of our audit, we were advised by management that they were exploring the concept of consolidating the storage of medical supplies into a few larger depots instead of many small stations throughout the City. While further research is to be conducted by management to identify and evaluate all the advantages and disadvantages associated with this new concept, one of the advantages may be a reduction in delivery resources and inventory carrying costs.
- (c) Storage shelves in stations are not designed and organized to facilitate a logical and orderly retrieval of supplies. Inventory items were not always separately stored at their designated areas or compartments; the same inventory item could be found at multiple areas inside the same cabinet or stacked beneath other items. In several stations, large quantities of medical supplies such as gloves, masks and gowns were left in open boxes in hallways and staff rooms. We also noted that certain medical supplies have a limited shelf life and must be used prior to the expiry date. It is therefore particularly important for these items to be stocked in such a way that older inventory items are used first.
- (d) Inventory items stored at ambulance stations were not adequately safeguarded from unauthorized access. We noted that prescribed drugs are safely secured in locked cabinets, but most of the cabinets storing regular supplies in the ambulance stations were not locked. We were also advised that all Toronto paramedics and a number of City vendors have ready access to the ambulance stations. Management explained that a selected number of service providers were provided with a master key to all ambulance stations in the City for operational reasons.

Recommendation:

- 7. The Chief/General Manager, Toronto Emergency Medical Services, review and take the necessary steps to improve procedures for re-ordering, stocking and controlling access to inventory items at ambulance stations, and to ensure that appropriate quantities of medical and other supplies are maintained.

Management Control Over Certain Expenditures

Business Meeting Expenses

In various communications issued by the Chief Administrative Officer, it has been made very clear that City funds are not to be used to pay for or subsidize staff functions. This directive was issued to City Commissioners with the requirement that it be communicated to all staff. In addition, the conditions and authority of senior management in approving expense claims are clearly defined in the City's Expense Claim Policy.

In 2003, EMS spent approximately \$84,000 on expenditures classified as "Food and Beverages" or "Business Meetings Expenses" and approximately \$400,000 on expenditures classified as "Other Expenses" or "Other Services". We appreciate that many of the expenditures included in these accounts are directly related to the operation of emergency medical services, such as

payments to St. John Ambulance and certain hospitals, and taxi expenses as a result of hospital off-load delays. However, our review of a sample of payment transactions in 2003 and the first quarter of 2004 also found certain expenditures that, in our view, contravene the directive of the Chief Administrative Officer and the City's Expense Claim Policy. For example, we noted certain expenditures for staff retirement events as well as purchases of various fundraising/dinner tickets relating to a number of non-profit organizations. In addition, we identified payments of approximately \$5,000 relating to the Toronto Emergency Medical Services Pioneers Association in 2003 for two luncheon meetings. These functions were attended by current employees of EMS, retirees and spouses. While these expenditures are not significant on their own, they are contrary to City policy.

In addition, a number of the expenses incurred for business meetings where the Chief/General Manager, Toronto Emergency Medical Services, was present were approved by the Chief/General Manager himself or by one of his staff. City policy requires that these expenses should have been approved by the Commissioner, Works and Emergency Services.

Recommendations:

8. The Chief/General Manager, Toronto Emergency Medical Services, comply with City policies and:
 - (a) discontinue the current practice of subsidizing or contributing to certain staff events; and
 - (b) discontinue the current practice of making contributions to private and public organizations, or in exceptional circumstances, obtain prior approval from the Commissioner, Works and Emergency Services.
9. The Chief/General Manager, Toronto Emergency Medical Services, ensure that Toronto Emergency Medical Services complies with City policy with respect to business meeting and entertainment expenses, such that expenses be claimed by the most senior staff person present at the meeting or event and be approved by the next level of management who is not at the same meeting or event. Expense claims of the Chief/General Manager, Toronto Emergency Medical Services, should be approved by the Commissioner, Works and Emergency Services.

Cellular Telephones and Pagers

In 2003, EMS paid approximately \$300,000 for subscribing to accounts for approximately 300 cellular telephones and over 400 pagers. For most City departments, purchases and service subscriptions of cellular telephones and pagers are processed through the Telecommunications Services Unit of the Corporate Services Department. We understand that because EMS manages its own communications centre, an informal arrangement was made with the Telecommunications Services Unit that EMS would independently manage its own cellular telephone and pager accounts and related purchases. We were advised that a similar arrangement has also been made with the Toronto Fire Services.

Our review found that approximately 160 cellular telephones subscribed by EMS are assigned to management and non-paramedic staff. Almost all of these management and non-paramedic staff are also assigned a pager, which according to management, is to facilitate response to an emergency.

While the nature of the operation necessitates a communication system capable of contacting all paramedic and non-paramedic staff in the event of an emergency, the rationale of providing both a cellular telephone and a pager to non-paramedic staff should be reviewed. This is particularly the case for staff who work in an office where regular telephones are readily available and accessible.

In response to our request, the Telecommunications Services Unit completed a preliminary review of the cellular telephone and pager usage in EMS. The analysis, based on actual usage shown on past billing statements, identified potential annual savings by amending the existing monthly rate plans for cellular telephones, cancellation of a number of under-utilized handsets, removal of unnecessary features, and converting the pagers to a more basic service plan.

The Telecommunications Services Unit also noted differences between the vendor's billing records and pager inventory records maintained by EMS. Billings for pagers appear to be in excess of the actual number of pagers accounted for in the inventory of EMS. This discrepancy needs to be reviewed in detail in order to ensure that billings are appropriate.

Recommendation:

10. The Commissioner, Corporate Services, in consultation with the Chief/General Manager, Toronto Emergency Medical Services, undertake a review of the use of cellular telephones and pagers by the Toronto Emergency Medical Services. This review include but not be limited to:
 - (a) an assessment of communication needs of the Toronto Emergency Medical Services;
 - (b) an identification and analysis of cost saving opportunities, including a detailed review to determine whether the Toronto Emergency Medical Services is paying monthly charges for inactive pagers, and whether corrective actions are required; and
 - (c) the management and co-ordination of purchases and service subscriptions of cellular telephones and pagers of the Toronto Emergency Medical Services.

Procurement and Allocation of Uniforms

Under the terms of the Collective Agreement between the City and the Toronto Civic Employees' Union, Local 416, "the City shall furnish uniforms annually and provide for their cleaning at least once per week for all uniformed employees of the Toronto Emergency Medical

Services”. The standard uniforms include up to two pairs of pants, four shirts, and two pairs of shoes per year and one pair of boots every two years.

Nearly 90 per cent of staff in EMS are provided with standard uniforms annually. These include paramedics, field supervisors/managers, dispatchers, schedulers, and most staff in the Operational Support Section and the Program Development and Service Quality Section.

We were advised that most “inside” (non-operational) managers and supervisors are trained paramedics, and consequently, are provided with standard uniforms for performing patient care duties in the event of an emergency. Although there is no data available to quantify the frequency of such emergencies, we have been advised that these emergencies are infrequent.

As indicated previously, the provision of uniforms to staff is based on a Union agreement. We are not aware of any contractual obligation for the provision of uniforms to management staff, although it has been past practice for many years to supply a range of uniforms to senior staff.

For instance, in addition to the annual uniform allowance, supervisors and managers are provided with a one-time issue of dress uniform (at a cost of approximately \$700 each) and certain senior management staff are also provided with a ceremonial uniform or “mess kit” (at approximately \$1,500 each).

Management has indicated that they view all uniform expenditures as appropriate, although in the context of the amount of funds involved and the funding difficulties experienced by EMS, it may be appropriate to re-evaluate this expenditure.

In November 2002, EMS received Council’s approval for the purchase of 1,000 parkas for paramedics. The estimated value of the order was \$338,000 in 2002, and increased to \$493,000 in 2003. The increase of \$155,000 was for purchasing 500 parkas in addition to the 1,000 previously approved by City Council. The contract amendment was properly authorized in accordance with the delegation of authority directed by City Council at its meeting held on September 22, 23, 24 and 25, 2003.

In his report to the Community Services Committee in April 2004, the Chief/General Manager, Toronto Emergency Medical Services, explained that the additional 500 parkas were required so that approximately 200 managerial, communication and support staff would have replacement parkas, and that the remaining 300 parkas would serve as inventory for future replacement of damaged/lost parkas and for distribution to new staff. The report also stated that EMS “will not again be expecting to undertake a wholesale replacement of its parkas until sometime between 2008 and 2010”.

While the provision of parkas to paramedics and management staff who need to make field visits is necessary, the justification for providing winter parkas to non-operational management staff and inside workers is not provided in the staff reports.

We noted that instead of 1,500 parkas as approved by Council, a total of 1,621 parkas have been ordered to date. At the time of our review in August 2004, there were 457 surplus parkas in the Stores and 14 parkas were awaiting delivery.

Our review also found that all parkas in stock are prominently silk-screened with at least five different job titles such as “Manager”, “Supervisor”, “Operational Support”, “Paramedic” and “EMD”. The specific position identification makes it difficult to accommodate both variations in sizes and position titles when an individual requires a parka. As a result, even though the Stores carries a large number of spare parkas, a new employee may not be able to find a parka with the required size and correct job title. This is evident in that at the time of our review, parkas had to be ordered for 14 staff while over 400 parkas were available in stock. In addition, an individual who changes position will need a new parka to reflect the new job title.

The total cost of parkas purchased is now in excess of \$500,000, exceeding the Council approved revised commitment by approximately 12 per cent. According to Toronto Municipal Code, Chapter 71, Financial Control By-law, expenditures in excess of \$500,000 or 10 per cent of the approved funds require Council approval. Staff were not aware of the over expenditure and therefore had not sought Council approval to increase the contract value.

The total expenditures on uniforms in 2003 were approximately \$775,000 (including approximately \$520,000 for parkas).

Recommendations:

11. The Chief/General Manager, Toronto Emergency Medical Services, develop a policy respecting the provision of uniforms to Toronto Emergency Medical Services staff, in particular management staff who do not normally conduct field visits, outlining the justification and costs for this practice. Such a policy be appropriately approved.
12. The Chief/General Manager, Toronto Emergency Medical Services, obtain authorization from City Council to revise the contract value for the purchases of parkas, as required by Toronto Municipal Code, Chapter 71 (Financial Control).
13. The Chief/General Manager, Toronto Emergency Medical Services, review the practice and necessity of labelling certain uniforms with specific job titles. The elimination of such a practice would provide greater flexibility in the allocation of uniforms to staff and likely eliminate the requirement to purchase significant numbers of uniforms for inventory purposes.

Provision of In-house Psychologist

EMS currently has a full-time Psychologist on staff at a total cost of over \$120,000 per annum (including salary and other work-related expenses). This staff person does not have an annual work plan nor does he keep track of any workload statistics. As a result, we are unable to reasonably assess whether it is cost effective to have a full-time, designated position in EMS.

Employees of EMS can utilize the Employee Assistance Program offered by Human Resources (over 200 visits by EMS employees were recorded between 2001 and 2003). The City's benefit plan also offers the services of a licensed Psychologist (to a maximum of \$300 per person per benefit year). The existence of these other sources for this service should be considered in assessing the need for a full-time staff Psychologist.

We appreciate that the daily delivery of emergency medical services involves a highly stressful work environment and staff are required to deal with critical incidents on a frequent basis. Provision of counselling services for staff is therefore an essential part of the Toronto Emergency Medical Services. Nonetheless, given that the current workload for the full-time in-house psychologist is not known, and that other service options are currently available for EMS employees, it would be prudent that EMS management undertake a review to determine whether a full-time psychologist position is required or the level of service can be met in a different manner.

Recommendation:

14. The Chief/General Manager, Toronto Emergency Medical Services, review the current arrangements for the delivery of services provided by the staff Psychologist. Such a review to determine the costs of the services and the availability of such services through the City's benefit plans.

Reporting for Income Tax Purposes

EMS offers special training programs (e.g., CPR/First Aid, Public Access Defibrillation and Basic Trauma Life Support) to City staff and the public on weekends and evenings.

Although most of the instructors are current full-time employees of EMS, their instructor fees have been paid through the City's accounts payable process by the issuance of City cheques. As a result, this remuneration was not captured in the City's payroll system for income tax reporting.

Our discussion with staff revealed that the Finance Department, in reviewing the propriety of the current reporting protocol, concluded that although these employees render their instruction services after normal working hours, an employee-employer relationship still exists between the instructor and the City. The Income Tax Act therefore requires the City to report amounts paid to these City employees as part of their annual employment income from the City. Failure to report such income could result in fines and penalties to the City, and in some cases, the City could be liable for the employees' income tax.

We have been advised that the Finance Department, in consultation with the Support Services Division, Works and Emergency Services, will issue the appropriate Canada Revenue Agency (formerly Revenue Canada) form, (a T4A), to report supplementary employment income earned by these City employees as course instructors in 2003. In addition, a special payroll code will be designed for EMS so that a T4A will be generated automatically at the end of 2004.

Recommendation:

15. The Chief Financial Officer and Treasurer ensure that all payments to employees are properly reported for income tax purposes.

Implementation of Audit Recommendations

It is important that the recommendations contained in this report be implemented as soon as possible. Consequently, it is suggested that senior management develop an action plan in regard to the implementation of the recommendations, including a specific timetable, as well as assigning specific staff the responsibility for the implementation.

Recommendation:

16. The Chief/General Manager, Toronto Emergency Medical Services, report back to the April 2005 meeting of the Audit Committee with a response to each of the recommendations in this report, outlining the specific action taken or to be taken, and a suggested timetable for implementation.

Conclusion:

The day-to-day service to the general public provided by Toronto Emergency Medical Services is of the highest quality as is evidenced by the dedication of the staff in managing the SARS outbreak and the recent awards presented to the organization in recognition of its services to the residents of Toronto. In this context, it is important to appreciate that the contents of this report do not address the day-to-day operations of the organization but are focussed on the need to improve certain management controls within the administrative structure.

Specifically, our review of the administrative controls identified the following issues:

- the inappropriate use of Departmental Purchase Orders;
- certain transactions which are not in compliance with City policies;
- the need to ensure that there is an appropriate level of scrutiny and control over payments to third parties; and
- the need to improve asset management and inventory controls.

In addition, staff need to review certain areas where there may be opportunities for cost savings such as:

- the allocation and distribution of uniforms;
- the management of telecommunication equipment; and
- the means by which counselling services are provided to staff.

We appreciate the pressure put on EMS as a result of the SARS outbreak in 2003 and have considered the unusual operating circumstances which existed at that time. During our review, we have taken this matter into account and the issues which we have identified in this report are practices which were not specifically related to the SARS outbreak.

The implementation of the recommendations in this report will assist management in improving internal controls and ensure that EMS is in compliance with City policies.

Contact:

Jerry Shaubel, Director

Tel: (416) 392-8462

Fax: (416) 392-3754

E-Mail: JShaubel@toronto.ca

Anne Cheung, Senior Audit Manager

Tel: (416) 392-8439

Fax: (416) 392-3754

E-Mail: ACheung1@toronto.ca

Jane Ying, Audit Manager

Tel: (416) 392-8480

Fax: (416) 392-3754

E-Mail: JYing@toronto.ca

Jeffrey Griffiths

Auditor General