

## **APPENDIX 1**

# **AUDITOR GENERAL'S AUDIT REPORTS – BENEFITS TO THE CITY OF TORONTO – ANNUAL UPDATE**

**January 28, 2008**



**Auditor General's Office**

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## EXECUTIVE SUMMARY

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*Estimated cumulative cost savings and increased revenues from Auditor General reports is \$5.5 for every \$1 invested*

This report is in response to a request from Audit Committee and summarizes the estimated cumulative cost savings and the estimated increased revenues resulting from various reports issued by the Auditor General's Office from January 1, 2003 to December 31, 2007.

This report also contains information relating to various audit reports containing administrative internal control recommendations made by the Auditor General's Office.

*Much of the value of our work can not be quantified monetarily*

This report outlines benefits and dollar savings based on the impact of implementing the Auditor General's recommendations. The report shows that there is an estimated benefit to the City of \$5.50 for every dollar invested in the Auditor General's Office. However, much of the value of our work is not of the type that can be quantified monetarily.

As an example, our report entitled "Review of Police Training - Opportunities for Improvement, Toronto Police Service", identified areas of non compliance with use of force legislation. The report states that:

"There is, in our view, a risk to the Toronto Police Service in relation to non-compliance with legislation. When officers are not trained according to minimum standards in use of force training, it presents a safety risk to both the police officer and the general public. In situations where the risk becomes a reality, there is the added risk of litigation. This matter requires immediate attention and, consequently, has been reported to and discussed separately with the Chief of Police."

The reporting of this particular issue and the implementation of recommendations relating to compliance with legislation has the potential to mitigate future legal action and costs the extent of which is undeterminable. The avoidance of legal action could result in significant cost savings to the City.

An additional example where savings can not be quantified is in a report entitled “Improving the Procurement Process – Unbalanced Bids”. Reference is made in the report that:

“The intent of the recommendations in this report is to mitigate the risks associated with the award of unbalanced bids and minimize the possibility of additional costs to the City as a result of the award of contracts which are clearly unbalanced in terms of pricing.”

While there will be savings in connection with the implementation of the recommendations in this report, it is not possible to quantify the amount.

## **1.0 BACKGROUND**

*Annual update to  
Audit Committee  
request*

At its meeting of November 23, 2004, the Audit Committee:

“requested the Auditor General to provide the value added of his department by identifying:

- a. actual dollar savings to the City of Toronto;
- b. potential savings to the City of Toronto;
- c. at risk dollars to the City of Toronto; and
- d. for non-identifiable dollar activities, the impact of the audit review on those items.”

This report responds to that request and represents the Auditor General’s annual update on the benefits to the City from the completion of various audits.

*Includes audits  
from the five year  
period  
2003 to 2007*

In order to provide a meaningful analysis, the information in this report relates only to audits performed during the five year period from January 1, 2003 to December 31, 2007.

*Includes  
highlights of 2007  
audit reports*

We have eliminated the cost savings generated by the office from the date of amalgamation, January 1, 1998, through to December 31, 2002. The use of a five-year period in this report is consistent with the reporting of a number of audit organizations in certain large municipalities.

This report also highlights various 2007 audit reports and the related estimated savings to the City.

The financial benefits to the City from audit reports issued prior to 2003, have previously been reported to Audit Committee and Council in our 2006 and 2005 reports and are available at:

<http://www.toronto.ca/audit/reports2007.htm>

<http://www.toronto.ca/audit/reports2006.htm>

## **2.0 THE AUDITOR GENERAL'S OFFICE**

### **2.1 Mission Statement and Authority**

***Mission Statement  
– to be recognized  
as a leading audit  
organization***

The Mission Statement of the Auditor General's Office is as follows:

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

***Audit process is an  
independent,  
objective  
approach  
to improve  
governance and  
control processes***

The audit process is an independent, objective, assurance activity designed to add value and improve an organization's operations. The audit process assists an organization in accomplishing this objective by bringing a systematic, disciplined approach in evaluating and improving the effectiveness of risk management, control and governance processes.

***Report  
to Council***

The Auditor General's Office was established in order to report directly to and provide assurance strictly for City Council. The new City of Toronto Act, 2006 has not changed this requirement.

***Authority under  
City of Toronto  
Act***

The City of Toronto Act, 2006 provides the Auditor General with the authority to conduct financial, operational, compliance, information systems, forensic and other special reviews of City divisions and local boards (restricted definition). Under the City of Toronto Act, local boards (restricted definition) is defined as a local board other than the Toronto Police Services Board, the Toronto Public Library and the Toronto Board of Health.

## 2.2 Responsibilities

Specific responsibilities of the Auditor General include:

- |  |   |
|--|---|
| <i>Divisional audit projects</i>                 | <ul style="list-style-type: none"><li>• conducting audit projects identified by the Auditor General, or approved by a two-thirds majority resolution of Council;</li></ul>  |
| <i>Fraud investigations</i>                      | <ul style="list-style-type: none"><li>• conducting forensic investigations, including suspected fraudulent activities;</li></ul>  |
| <i>Information technology reviews</i>            | <ul style="list-style-type: none"><li>• providing assurance that the information technology infrastructure contains adequate controls and security including business continuity (emergency) planning;</li></ul>  |
| <i>Oversee external audit contract</i>           | <ul style="list-style-type: none"><li>• overseeing the work and the contract of the external auditors performing financial statement/attest audits of the City and its local boards;</li></ul>  |
| <i>Coordination with Internal Audit Division</i> | <ul style="list-style-type: none"><li>• coordinating audit activities with the Internal Audit Division and any contracted work to ensure the efficient and effective use of audit resources;</li></ul>  |
| <i>Audit of ABC's – Toronto Police and TTC</i>   | <ul style="list-style-type: none"><li>• coordinating audit activities with the Internal Audit Division at the Toronto Police Services Board and Toronto Transit Commission in order to ensure the efficient and effective use of audit resources; and</li></ul> |
| <i>Manage the Fraud &amp; Waste Hotline</i>      | <ul style="list-style-type: none"><li>• managing the Fraud and Waste Hotline Program, including the referral of issues to divisional management.</li></ul>  |

## 2.3 Professional Standards

### *Audits conducted using Government Auditing Standards*

The Auditor General's Office conducts its work in accordance with generally accepted Government Auditing Standards. Audits are conducted in accordance with these standards, which relate to:

- independence;
- objectivity;
- professional proficiency;
- scope;
- performance of work; and
- divisional management.

***Staff bound by professional organization ethics***

Staff is also bound by the standards and ethics of their respective professional organizations, which include the Institute of Chartered Accountants of Ontario, the Certified General Accountants Association, the Society of Management Accountants, the Information Systems Audit and Control Association, the Association of Certified Fraud Examiners, the Institute of Internal Auditors and the Canadian Environmental Auditing Association.

## **2.4 Annual Audit Work Plan**

***Audit projects prioritized based on risk assessment***

The focus of audit work is based on the preparation of an annual audit work plan. The 2008 Audit Work Plan will be submitted to the Audit Committee at its February 22, 2008 meeting. The work plan allocates audit resources to audit projects based, for the most part, on the results of a city-wide risk assessment periodically conducted, and updated annually, by the Auditor General's Office. This risk assessment is also completed for the City's Agencies Boards and Commissions. The purpose of the risk assessment is to ensure that all areas of the City are evaluated from an audit risk perspective by using uniform criteria and to prioritize potential audit projects.

When selecting audit projects, the Auditor General attempts to balance audits expected to yield cost reductions, increased revenue, improved services and improvements in major control systems with projects that also address broad management issues.

***Other factors impact work plan such as Hotline complaints and concerns of Council***

The work plan consists of ongoing projects, new projects, Council requests and also includes our annual follow-up of recommendations.

The process for selecting audits also includes considering complaints received through the Fraud and Waste Hotline Program.

***Projects must fit available resources***

A comprehensive city-wide risk assessment is undertaken periodically and has been included within the 2008 work plan. Finally, the extent of projects included in our work plan is also a function of available staff resources.

## **2.5 Audit Recommendations**

*Over 650  
Recommendations  
the last five years*

Over the five year period commencing January 1, 2003, the Auditor General has made over 650 audit recommendations to management and to City Council including management of the City's Agencies, Boards and Commissions.

*How do  
recommendations  
benefit the City?*

Recommendations resulting from reviews, investigations and audits conducted by the Auditor General's Office have benefited the City of Toronto in a variety of ways. Audit recommendations have identified ways to:

1. maximize City revenues or identify opportunities for new revenues or cost reductions;
2. better manage or utilize City resources, including the management of public funds, personnel, property, equipment and space; and
3. eliminate inefficiencies or uneconomical practices, including inadequacies in management information systems, internal and administrative procedures, organizational structure, use of resources, allocation of personnel and purchasing policies.

Audits also assist management to:

- safeguard assets;
- detect unauthorized transactions and unauthorized access to assets that could result in unauthorized acquisitions, use or disposition of assets;
- ensure compliance with laws, regulations, policies, procedures or generally accepted industry standards; and
- achieve the desired program results.

*Management is  
responsible for  
implementation of  
recommendations*

Auditing by itself does not directly produce benefits to the City. Benefits only come from the implementation of audit recommendations. The responsibility of the Auditor General's Office in regard to audit recommendations is to present accurate and convincing information that clearly support the recommendations made. It is the responsibility of management to implement recommendations. Further, City Council is responsible for ensuring that agreed upon recommended changes and improvements occur.



*Follow-up process monitors implementation of recommendations*

An audit process is not effective unless recommendations are implemented and there is a monitoring process to ensure that recommendations have been implemented. The Auditor General's Office conducts a formal systematic follow-up of recommendations to City divisions and Agencies, Boards and Commissions. The follow-up of recommendations is an annual process incorporated in our work plan.

### **3.0 COST SAVINGS AND INCREASED REVENUES**

#### **3.1 Quantifiable Financial Benefits**

*Audit Committee requested financial benefits*

At the request of the Audit Committee, attempts have been made to identify the extent of the quantifiable financial benefits which have resulted from the work conducted by the Auditor General's Office.

*Since 2003 issued over 125 reports with over 650 recommendations*

From January 2003 through to December 2007, the Auditor General's Office completed over 47 performance audits plus 78 other reviews and special projects. These 125 reports contained approximately 650 recommendations.

*Since 2003 over 2,100 Hotline complaints*

In addition, since the full time operation of the Fraud and Waste Hotline in 2003, the Office has handled over 2,100 individual complaints to the Hotline.

*One benchmark of audit effectiveness is ratio of audit cost to generated cost savings*

In terms of measuring the effectiveness of an audit process, one of the benchmarks occasionally used by the audit profession relates to the ratio of audit costs incurred to the estimated savings generated.

*Cost savings over last five years are over \$82 million*

A comparison of the audit costs from 2003 to 2007 to the estimated potential savings is summarized in Table 1 below entitled "Five Year Estimated Savings Compared to Audit Costs 2003 – 2007". Since 2003, the cumulative audit expenditure has been approximately \$15 million and the estimated cost reductions and/or revenue increases are in the range of \$82 million. Many of the cost savings are ongoing and occur on an annual basis. Our estimated cost savings are projected on a five year forward basis only.

*Return on investment of \$5.5 for every \$1*

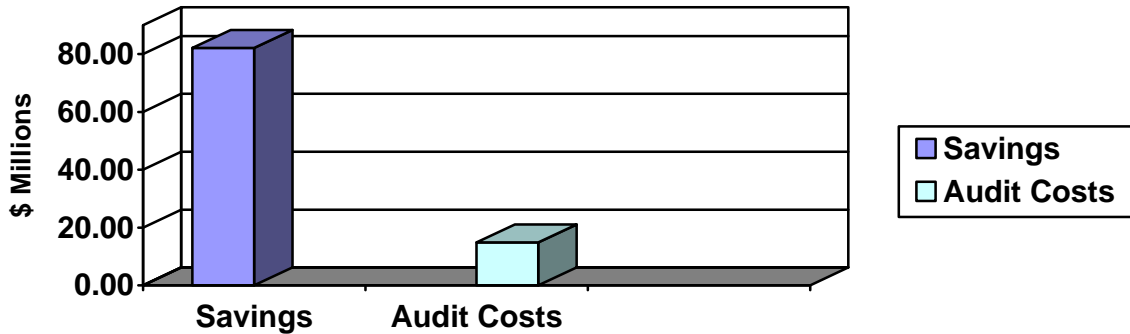
In simple terms, for every \$1 invested in the audit process the return on this investment has been \$5.50.

*invested on audits*

These project savings are presented graphically in Table 1 as follows:

**3.2 Table 1**

**Five Year Estimated Savings Compared to Audit Costs  
2003-2007**



*Cumulative savings by year from 2003-2007*

Table 2 provides a summary by year of the estimated cumulative savings generated as a result of the audit work conducted from 2003 through 2007 projected forward over a five year period. These figures are estimates based on a range of assumptions by the Auditor General.

**3.3. Table 2**

**Summary  
Total Five Year Cumulative Estimated Savings  
2003 – 2007**

ESTIMATED SAVINGS \$000'S						
Year of Savings	Year of Audit Report					
	2003	2004	2005	2006	2007	Total
2003	\$3,523					\$3,523
2004	1,237	\$2,340				3,577
2005	1,237	1,268	\$391			2,896
2006	1,237	1,268	2,600	\$410		5,515
2007	1,237	1,268	2,600	5,299	\$506	10,910
2008	1,237	1,268	2,600	5,299	4,577	14,981
2009		1,268	2,600	5,299	4,577	13,744
2010			2,600	5,299	4,577	12,476
2011				5,299	4,577	9,876
2012					4,577	4,577

<b>Total</b>	<b>\$9,708</b>	<b>\$8,680</b>	<b>\$13,391</b>	<b>\$26,905</b>	<b>\$23,391</b>	<b>\$82,075</b>
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*Savings from 2007 audit work*

Table 3 provides a summary of the Auditor General’s estimates of one-time and annual recurring savings generated as a result of certain audit work conducted in 2007. These figures are estimates based on a range of assumptions by the Auditor General.

**3.4. Table 3**

**Estimated Savings from 2007 Audit Reports Where Savings are Quantifiable**

<b>Year Project Issued</b>	<b>Project Description</b>	<b>One-time Savings</b>	<b>Ongoing Annual Savings</b>
2007	Management of Construction Contracts – Leaside Bridge Structure Rehabilitation Contract	\$200,000	\$500,000
2007	Management of Construction Contracts – Toronto Water and Sewer Emergency Repair Contracts	\$150,000	\$200,000
2007	Toronto Water Division Review of Wastewater Treatment Program	\$38,000	\$740,000
2007	Internet Usage Review		\$1,900,000
2007	Review of Police Training – Opportunities for Improvement		\$1,200,000
2007	Fraud Related Matters	\$118,000	\$37,000
<b>Total</b>		<b><u>\$506,000</u></b>	<b><u>\$4,577,000</u></b>

**4.0 OVERVIEW OF SIGNIFICANT REPORTS ISSUED IN 2007**

Many of the recommendations from our reports concerning a specific division or project can be applied to other areas of the City. For example, the recommendations to improve the management of construction contracts apply to all projects and contracts within the City and the savings, benefits and efficiencies to be achieved would have relevance elsewhere throughout the City.

The following highlighted reports and estimated savings reflect a small number of the 32 reports issued by the Auditor General’s

Office during 2007. There are savings, benefits and efficiencies attributable to other report recommendations that cannot accurately be estimated.

#### **4.1 Management of Construction Contracts – Leaside Bridge Structure Rehabilitation Contract**

This particular review focused on contract development and award, contract administration, processing and compliance of payments as well as compliance with relevant policies and procedures. The review asked the following questions regarding this \$19.6 million capital project:

- Does management exercise adequate and effective oversight of construction contracts?
- Do contract documents, terms and conditions adequately protect the City's interests?
- Do contractors comply with contract provisions and specifications?
- Are payments to the contractor adequately supported, authorized, monitored and controlled?

*Identify a need for better control over tender and estimating process as well as contract terms and conditions*

The report's 11 recommendations outlined how contract costs could be reduced through better controls in the tender process including more accurate estimation of required quantities and better contract terms and conditions.

*Need to improve controls over contract management and payment processing*

This review identified savings to be achieved through improved controls over payment processing, more accurate and timely recovery of third party costs and project administration fees. Additional savings are also possible through better monitoring and controls over additional contractor work orders and the minimization of contractor overhead expenses billed to the City. One time savings identified in this particular contract approximate \$200,000.

*City could save over \$500,000 annually*

It is our view that overall, the improvements to contract management and payment processes could save the City in excess of \$500,000 annually over the administration of similar contracts throughout the City.

## **4.2 Management of Construction Contracts – Toronto Water and Sewer Emergency Repair Contracts**

### ***Second contract review focusing on administration, processing payments and compliance with policies***

This audit was the second of a series of audits conducted in relation to the management of construction or construction related activities. This review assessed whether the Toronto Water Division has appropriate and effective controls over the management of water and sewer and emergency repair contracts. The review focused on contract development and award, contract administration, processing payments and compliance with relevant policies and procedures.

### ***Need for stronger management controls over the estimation for awarding contracts and to control excessive overruns***

Certain of the issues identified in this review are similar to those identified in other audits. The Toronto Water Division is making progress in standardizing contract management policies and procedures. However, our review identified a number of areas requiring strengthened management controls, better staff training and improved project management processes.

Improvements over estimating, controlling and monitoring extra work orders could help avoid the overruns in total spending that occurred under these contracts.

### ***Recovery of excess one time payments are estimated at \$150,000***

This review identified a number of opportunities and specific instances for recovery of more than \$150,000 of excess payments.

On a conservative basis, we estimate that annual savings in similar contracts on a go forward basis will be approximately \$200,000.

## **4.3 Toronto Water Division - Review of Wastewater Treatment Program – Phases 1 and II**

### ***Phase I- Review controls over payroll, overtime and attendance management***

Phase I of this two part review of Toronto Water's wastewater treatment program focused on controls over payroll processing, overtime and attendance management, as well as the use of technology in managing maintenance activities.

### ***Inadequate monitoring of overtime and employee absenteeism***

The report's 16 recommendations identified financial control weaknesses in processing payroll, managing overtime costs and monitoring employee attendance. Organizational changes, automation of plant processes and introduction of new operating tools over the past number of years have significantly reduced the number of plant staff. While this has dramatically reduced salary

costs, overtime costs have increased. Improved monitoring of employee absenteeism and more effective use of technology to manage maintenance activities would likely reduce repair costs as well as the resultant payroll overtime costs.

*A revised shift schedule could reduce overtime by \$200,000 annually*

There are opportunities to reduce overtime through better shift schedules that have the potential to save the City in excess of \$200,000 annually. Such a change in the shift schedule requires the consent of the union.

*Phase II reviewed purchases and contracts*

Phase Two of the review focused on purchasing, contract management, payment processing and compliance with legislative requirements.

*Identify improvements over payments and contracts*

The report contains 18 recommendations dealing with supervisory and financial control weaknesses in processing payments, managing contracts and maintaining inventory. Closer scrutiny is required over invoice payments and contract terms to avoid overcharges by vendors.

*Excessive use of DPOs for over \$9 million of purchases*

Wastewater staff have not complied with City purchasing policies regarding Departmental Purchase Orders (DPOs), which are intended for one time and emergency purchases. During 2006, the wastewater treatment operation purchased over \$9 million using DPOs.

*Use of Blanket contracts could save the City over \$540,000*

The City is increasing DPO limits and this should make it easier for City divisions to comply with related policies. However, the City could achieve significant savings if the wastewater operation purchased more goods and services through a competitive procurement process. We estimate that wastewater operations could save approximately \$540,000 annually by paying lower prices if similar purchases were combined and purchased through blanket contracts.

One time savings in relation to this contract are in the range of \$38,000.

#### **4.4 Internet Usage Review**

*The review measures employee internet usage and compliance with Acceptable Use Policy*

The objective of this review was to assess compliance with the City's Acceptable Use Policy with respect to employee Internet usage pertaining to personal use, visits to inappropriate sites and excessive use of resources.

*Controls are not adequate to monitor and control excessive personal use*

Our review indicated that controls appear adequate in restricting access to inappropriate Internet sites and activities using excessive computing resources. However, there are inadequate controls in monitoring excessive personal use at the individual level. Our review found a significant number of users who appear to have spent excessive time on the Internet for personal use during work hours. These staff are not in compliance with the Acceptable Use Policy.

*Lost productivity due to excessive personal use may be as high as \$1.9 million a year*

Excessive personal internet usage is conservatively estimated to cost the City over \$1.9 million in lost productivity annually. This estimate was based on the number of users who averaged in excess of three hours of inappropriate internet use per day, over and above an additional two hours of internet use to allow for lunch and break periods.

We appreciate that real savings in terms of reducing staff to compensate for the productivity losses is not practical. However, reductions in staff overtime may be possible if such non productive time was eliminated. Our estimate of savings is conservative.

#### **4.5 Review of Police Training – Opportunities for Improvement**

*Report has 39 recommendations and many were implemented within six months*

Our review of Police Training report contains 39 recommendations, 16 of which were implemented within six months through amendments to the Toronto Police Service Skills Development and Learning Plan.

Our review identified:

- instances where police officers were not in compliance with the Toronto Police Services Act regarding “use of force” training required every 12 months;
- areas where Toronto Police are not in compliance with internal training polices;
- officers being inappropriately assigned as coach officers within the training unit despite being unqualified, both in terms of rank and required training;
- little evaluation has been conducted to assess the “real world” impact of training;

- absence of an effective and complete evaluation process to measure the value of the training program; and
- opportunities to achieve more effective training through a blend of classroom and alternate learning that will reduce the impact of training on completion of police officers day-to-day duties.

*Changes to “use of force” training will mitigate potential legal liability*

Any deficiency regarding a police officer’s training poses a significant potential liability for the Toronto Police Service. Recent incidents have raised concern regarding the “use of force” by police forces. The identification of concerns relating to the adequacy of use of force training as a result of our audit and the implementation of the recommendations relating to “use of force” training will mitigate this potential legal liability.

*Need to balance training with opportunity cost on daily policing*

Police training is the heart of effective and responsive policing and is fundamental to the running of any organization and the development of its staff. However, the time spent on training must be balanced against the financial and opportunity costs.

*More efficient training provides opportunity to free up over \$1.2 million in officer time for day to day policing duties*

The opportunity costs for any police service is the impact police training has on the availability of police officers for day-to-day policing duties. Implementation of the recommendations of this report will help improve the training process at the police.

Through a more efficient training process an estimated \$1.2 million of police resources can be made available for day-to-day policing activities. In practical terms, the reallocation of resources would reduce future hiring requirements.

## **5.0 NON FINANCIAL BENEFITS – HIGHLIGHTS FROM REPORTS**

*Many reports produce non-financial benefits*

The purpose of any audit process is not specifically to identify cost reductions or revenue increases.

*Better internal control and operational efficiencies have no direct financial benefit*

Many of the recommendations issued by the Auditor General’s Office have not resulted in direct financial benefits but have led to improvements relating to:

- internal controls;
- policies and procedures;
- the use of City resources;
- operational efficiencies; and



- financial reporting processes.

*Other reports have wide ranging impacts beyond financial benefits to the City*

In other cases, the impact of certain audit reports may have wide ranging impacts beyond financial benefits. For example, the following specific reports have benefits that are not measurable in financial terms:

- Review of City of Toronto Pandemic Planning and Preparedness;
- Management of City Information Technology Assets
- Treasury Services Review – Corporate Finance Division – Finance Department
- Municipal Election 2006 - Review of Financial Filings by Members of City of Toronto Council

These reports are a general sample of reports previously issued. Details of all reports are on the Auditor General’s web site:

<http://www.toronto.ca/audit/reports>

## **5.1 Review of City of Toronto Pandemic Planning and Preparedness**

*The 2007 audit provides a snapshot of what the City has accomplished and what work remains to be completed in preparing for a pandemic emergency*

This is the first audit of the City’s pandemic planning and preparedness conducted by the City’s Auditor General. Because the City’s pandemic planning is still in progress, the purpose of the audit was to provide a snapshot of what the City has accomplished and what work remains to be completed in preparing for a pandemic emergency.

*The City has undertaken a number of planning activities, and is working towards implementing key actions*

The City has undertaken a number of planning activities, and is working towards implementing key actions such as stockpiling personal protective equipment and essential operational supplies. Certain important pandemic public health measures remain to be completed, some of which are dependent upon federal or provincial guidance.

Our audit noted certain challenges and gaps in the pandemic planning and preparedness process, and as a result our report includes a number of recommendations to help strengthen the existing accountability framework and corporate coordination, as well as enhancing the completion of pandemic public health planning.

***Implementation of recommendations will improve financial controls over spending related to pandemic planning and preparedness***

The implementation of certain recommendations in this report will improve financial controls over spending related to pandemic planning and preparedness. The extent of any resources required or potential cost savings resulting from implementing the recommendations in this report is not determinable at this time.

## **5.2 Management of City Information Technology Assets**

***Reviewed the framework to manage Information Technology assets***

The review of the framework for managing information technology assets assessed the quality and effectiveness of City's information technology asset management program and processes for the over \$110 million invested in hardware and enterprise-wide software, at over 500 locations.

***Key findings:***

Key findings were as follows:

***Need better planning and priority setting and alignment of divisional and corporate initiatives***

- A lack of coordinated planning and priority setting for information initiatives;
- Divisional information initiatives are not always aligned with the corporate business plan and strategy;
- Inadequate citywide support to complete corporate information technology initiatives. Corporate projects compete with division priorities and do not always receive the resources or attention they deserve;

***Need more effective monitoring and control of information technology***

- Absence of effective monitoring and control of information technology. For example, maintenance fees of \$120,000 were paid over a five-year period for licenses never used and \$1.5 million was paid to a vendor for work not yet completed; and
- A lack of coordinated hardware and software acquisition and inventory management.

***Benefits will accrue to City over the long term***

It is extremely difficult to quantify cost savings from the various recommendations. Efficiencies which may result from the review are essentially benefits and savings that will accrue over the longer term.

### **5.3 Treasury Services Review – Corporate Finance Division – Finance Department**

This review was designed to measure the effectiveness of internal controls in mitigating the risks related to investment management.

***Identify control weaknesses in Financial Investment system***

The significant findings include:

- Control weaknesses within the Financial Investment and Debt Management Information System that limit its effectiveness.

***Governance and oversight practices need to be formalized and documented***

- Management oversight and governance practices require formalization and documentation. For example, there are no specific details provided in the Investment Policies dealing with exceptions and no formalized risk management policy which defines acceptable risk levels and activities in the investment area.

***Need better controls over cash and investment management***

- Controls over cash and investment management require improvement such as ensuring trade tickets are adequately completed and authorized with the required three signatures.

Implementation of the recommendations noted in the report will enhance the internal control processes of the Treasury Services Unit and strengthen risk management over the City's extensive investment portfolio.

### **5.4 Municipal Election 2006 - Review of Financial Filings by Members of City of Toronto Council**

***Council requested the review of 2006 election expenses***

Council directed the Auditor General to "...review the financial statements filed by Members of Council after the 2006 election and report to Council, through the Audit Committee, on any other irregularities or inconsistencies contained therein."

***Our work focused on spending limits, contributions and expenses***

Our work focused exclusively on the review of financial statements filed by the elected Members of Toronto City Council as at April 2, 2007 including spending limits, contributions and expenses as reported in the financial statements Form 5.

*We found a large number of errors and inconsistencies in Council member's financial statements*

Even though the review was limited in scope, we identified a relatively large number of errors or inconsistencies in the financial statements. A number of errors, in certain cases, resulted in the incorrect final reporting of campaign contributions received, total campaign expenses and the final surplus or deficit.

The report provided additional information used by the Director, Election Services to report to City Council on changes required to the Municipal Elections Act.

## **6.0 CONCLUSION**

This report represents the Auditor General's fourth annual report on the benefits or value added to the City of Toronto based on the impact of implementing audit report recommendations.

Over the five year period commencing January 1, 2003, the estimated potential savings to the City are in the range of \$82 million compared to a cumulative audit expenditure of \$15 million. In simple terms, for every \$1 invested in the audit process the return on this investment has been \$5.50.

However, the audit process is not specifically designed to identify cost reductions or revenue increases. Many of the recommendations issued by the Auditor General's Office have led to strengthening of internal controls, improvements to policies and procedures, better management and use of City resources and the elimination of operational inefficiencies.

Finally, auditing by itself does not directly produce these benefits. Management is responsible for implementing the recommendations and City Council is responsible to ensure that agreed upon changes and improvements occur. In this regard the Auditor General's Office conducts an annual formal systematic follow-up to ensure that recommendations have been implemented.