

APPENDIX 1

ANNUAL REPORT

**AUDITOR GENERAL'S OFFICE –
BENEFITS TO THE CITY OF TORONTO**

January 21, 2010



Auditor General's Office

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EXECUTIVE SUMMARY

***Report requested
by Audit
Committee***

This report responds to a request from the Audit Committee that the Auditor General, “*provide the value added of his department by identifying:*

- a. actual dollar savings to the City;*
- 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.”*

***City of Toronto
Act and the
Auditor General***

The *City of Toronto Act*, Section 177 provides for the appointment of an Auditor General. Under Section 178 of the *Act*, the Auditor General is:

“responsible for assisting city council in holding itself and city administration accountable for the quality of stewardship over public funds and for achievement of value for money in city operations.”

In general terms, in fulfilling this mandate, the Auditor General during various reviews throughout the City may identify cost savings or opportunities for cost savings. These cost savings may be one time or ongoing.

***Recommendations
relating to internal
controls are
important but not
easily quantifiable***

The realization of savings is only one component of the role of the Auditor General. Equally important is the ongoing evaluation of internal controls, risk management and governance processes throughout the City in order to ensure that the City’s resources are adequately protected. Recommendations relating to improving internal controls and quality of stewardship over public funds are an important part of the Auditor General’s work.

Estimated cumulative cost savings and increased revenues from Auditor General reports is \$5.0 for every dollar invested

In summary, this report indicates that there is an estimated benefit of \$5.0 for each dollar invested in the Auditor General's Office. This amount represents specific savings identified and has been calculated based on actual findings and recommendations contained in individual audit reports. Details and information supporting this amount are contained in the body of the report.

While the focus of this report is on actual quantifiable savings, it is important to appreciate the benefits of the audit function which are not quantifiable. Obviously, these benefits are not included in the determination of the financial benefits of the audit function to the City. Specific examples of non-quantifiable benefits are included in the following paragraphs.

(1) The Mayor's Fiscal Review Panel

Mayor's Fiscal Review Panel – opportunities for cost savings

The Mayor's Fiscal Review Panel issued a report entitled "Blue Print for Fiscal Stability and Economic Prosperity – a Call to Action" in 2008.

One of the highlights contained in the Mayor's Fiscal Review Panel report related to the need for:

“a plan for much more alignment, cooperation, and increased oversight of the 119 Agencies, Boards, Commissions, and Corporations, creating more opportunities for savings and joint initiatives.”

Prior years audit reports address Mayor's Fiscal Review Panel Recommendations

This is a recommendation we are fully supportive of and, in fact, has been a concern raised in a number of previous audit reports issued by the Auditor General dating as far back as 1999.

More recently in 2008, in the Auditor General's review of the Management of Information Technology at the Toronto Transit Commission, the report makes reference to the following:

“A recurring theme in a number of audits conducted by the Auditor General’s Office at the City, such as the Management of City Information Technology Assets, the Review of Fleet Operations and the Review of Facilities and Real Estate Management is the need for closer cooperation and coordination between the City and its local boards, particularly the TTC and the Toronto Police Service. For instance, during the review of the Enterprise Case and Occurrence Processing System (e-COPS) information technology project at the Toronto Police Service in April 2005, one of the recommendations contained in that report was:

The Chief of Police and the City’s Deputy City Manager and Chief Financial Officer develop an ongoing protocol and working relationship in order to ensure that:

- technology developments do not occur in isolation from each other;*
- technology developments are in accordance with the long-term objectives of both organizations; and*
- the purchase of any computer hardware and software is coordinated.*

While recognizing that both the TTC and the Toronto Police Service are separate legal entities there are, in our view, ongoing cost saving opportunities in developing closer relationships between the City and both of these entities, particularly in the area of information technology.”

These cost savings can not be quantified, but are likely significant

The recommendations made by the Mayor’s Fiscal Review Panel validate concerns we have raised for a number of years. The Fiscal Review Panel has not quantified these potential cost savings but they are likely significant. Generally, the reason why the cost savings have not been quantified relates to the fact that such an exercise is extremely difficult and subjective.

(2) Prior Years Cost Savings

This report does not contain savings realized before 2005

This report represents savings identified from reports issued between 2005 and 2009. Consequently, any ongoing savings identified by the Auditor General prior to that date have not been considered in this report. Many of the savings realized prior to 2005 are of continuing benefit to the City. Certain of the recommendations and potential annual recurring cost savings identified prior to 2005 include:

Examples of cost savings identified prior to 2005

- better management and coordination of software licence acquisitions \$3,200,000
- strengthening parking tag operations \$1,010,000
- reduction of Toronto Police overtime \$945,000
- changes to the Courtesy Envelopes Program at the Toronto Parking Authority \$750,000
- police parking enforcement issues \$600,000
- more effective management of consultants \$500,000
- cancellation of consultant contracts \$100,000

Cost savings generated from these recommendations are ongoing.

(3) Impact of Divisional Recommendations Across the City and its Local Boards

Many recommendations pertaining to specific City divisions or local boards are also relevant to the City's Agencies, Boards, Commissions and Corporations

Many reports contain recommendations which pertain to specific Divisions or local boards within the City, but they are also relevant to the City's Agencies, Boards, Commissions and Corporations. In the case of our review of information technology training in the City, for instance, the implementation of recommendations in the report will strengthen the overall effectiveness and efficiency of information technology training and education provided to City employees. Our audit report on the City's management and oversight over the disposal of surplus IT equipment also addressed a number of important areas relating to contract compliance in order to mitigate the risks arising from the inappropriate disposal of surplus IT assets.

Also, in our review of controls over utility and cable television service charges, we made recommendations that will result in annual savings in cable television service cost and strengthen the City's control over utility invoice verification.

Cost savings reflected in this report do not include the extent of resulting benefits to the City's Agencies, Boards, Commissions and Corporations

While we recommended the audit reports and recommendations be forwarded to the City's major Agencies, Boards, Commissions and Corporations in order to ensure that the issues raised are addressed by them where appropriate, the extent of any resulting benefits and cost savings is undeterminable and consequently not reflected in this report.

(4) Certain Reports Have Benefits Which are Not Financial

Certain other reports issued by the Auditor General's Office have impacts beyond cost savings. A major report which had minimal direct financial impact continues to have ongoing significant other unquantifiable benefits to the City. As far back as 1999, the Auditor General issued a report entitled "Review of the Investigation of Sexual Assaults – Toronto Police Service."

The benefits of this report were far reaching.

Far reaching impact on training officers in sexual assault investigations

In addition to its impact at the City, the Royal Canadian Mounted Police indicated that they would consider the recommendations in the report in the training of its officers in sexual assault investigations. Further, this report has received other attention throughout the U.S. and, in some cases, other cities have since conducted similar audits based on the one conducted in Toronto.

Strengthened control over the City's procurement practices

Improving internal controls and quality of stewardship over public funds is an important part of the Auditor General's work. The Auditor General's report entitled "Procurement Process Review – City of Toronto, March 31, 2003" was prominent in the "Good Government" phase of the Toronto Computer Leasing Inquiry. This audit report contained 43 recommendations, certain of which have resulted in long-term cost savings and strengthened control over procurement practices in the City. One of the recommendations pertained to the appointment of a Fairness Commissioner for the oversight of controversial or complex tenders (a recommendation which was duplicated by Madame Justice Bellamy in her 2005 report). The potential savings as a result of this particular recommendation are likely significant but not quantifiable.

More effective protection of water quality and pollution prevention

In another audit report entitled "Inspection and Enforcement of the City's Sewer Use By-law, Toronto Water, 2008", the focus was on protecting the environment through more effective monitoring of the City's Sewer Use By-law. Implementation of the 22 recommendations in this audit report will result in improved staff productivity and better use of information technology. The development of an overall inspection plan and improving accuracy of pollution prevention plans ensure that all businesses are inspected and pollutants reduced.

Improvements to the reporting and processing of sole source purchases

In 2009, the Auditor General reviewed the City's non-competitive procurement (sole-sourcing) process and identified opportunities for improvements in reporting and processing sole source purchases. Audit recommendations included in this report will improve the current sole source procurement process and will assist management in ensuring that all sole source purchases are reported accurately to Council, facilitate compliance with purchasing rules and generate cost savings by minimizing non competitive procurement.

Conclusion

The role of the Auditor General is not specifically to identify cost savings. Although cost savings are often a direct result of the work conducted by the Office, of equal importance is the work conducted to safeguard City resources and ensure proper use of public funds. It is important to appreciate also that reports which have no financial benefit nevertheless have significant other long-term benefits to the City.

1.0 BACKGROUND

***Annual
update
report
requested
by Audit
Committee***

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

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

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

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
2005 to
2009***

Information provided in this report relates to audits performed during the five-year period from January 1, 2005 to December 31, 2009.

The use of a five-year period in this report is consistent with the reporting of a number of large government audit organizations.

Previous years cost savings reported in prior years

This report does not include the cost savings generated by the Auditor General's Office from the date of amalgamation, January 1, 1998, through to December 31, 2004. These financial benefits to the City have been reported to Audit Committee and Council. The report is available at:

http://www.toronto.ca/audit/2006/benefits_city_annual_update_feb2006.pdf

Annual reports that provide information on cost savings for the period January 1, 2006 to December 31, 2008 are available at:

http://www.toronto.ca/audit/reports2009_sub1.htm

http://www.toronto.ca/audit/reports2008_sub1.htm

http://www.toronto.ca/audit/2007/audit_reports_benefits_to_the_city_annual_update_may_2007.pdf

Includes highlights of 2009 audit reports

This report highlights various 2009 audit reports and the related estimated savings to the City.

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.

Auditor General reports to Council

The Auditor General's Office was established in order to report directly to and provide assurance strictly for City Council. The *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

Under Section 178 of the *City of Toronto Act*, the Auditor General is responsible for “*assisting city council in holding itself and city administrators accountable for the quality of stewardship over public funds and for achievement of value for money in City operations.*”

Specific responsibilities of the Auditor General include:

***Divisional audit
projects***

- conducting audit projects identified by the Auditor General, or approved by a two-thirds majority resolution of Council

***Fraud
investigations***

- conducting forensic investigations, including suspected fraudulent activities

***Information
technology reviews***

- providing assurance that the information technology infrastructure contains adequate controls and security including business continuity (emergency) planning

Audit of ABCs

- undertaking financial (excluding attest) compliance and performance audits and provide recommendations to City-controlled Agencies, Boards and Commissions
- undertaking financial (excluding attest), compliance and performance audits and provide recommendations upon request by the Toronto Police Services Board, Toronto Public Library Board and the Toronto Board of Health

***Oversee external
audit contract***

- overseeing the work and the contract of the external auditors performing financial statement/attest audits of the City and its local boards

***Coordination with
Internal Audit
Division***

- coordinating audit activities with the City’s Internal Audit Division to ensure the efficient and effective use of audit resources

- Coordination with Accountability Officers*
 - coordinating activities with the City’s three other Accountability Officers; the Ombudsman, the Lobbyist Registrar and the Integrity Commissioner
- Manage the Fraud and Waste Hotline*
 - managing the Fraud and Waste Hotline Program, including the referral of issues to divisional management.

2.3 Professional 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:

- Audits conducted using Government Auditing Standards*
 - independence
 - objectivity
 - professional proficiency
 - scope
 - performance of work
 - divisional management.

These standards require that we plan and perform our audits to obtain sufficient, appropriate evidence that provides a reasonable basis for our findings and conclusions based on our audit objectives.

- Staff bound by professional organization ethics*

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

2.4 Independent Quality Assurance Review of the Auditor General’s Office

- Government Auditing Standards require an independent review*

A requirement of Government Auditing Standards is that audit organizations undergo an external independent quality assurance review at least once every three years. The objective of a quality assurance review is to determine whether an audit organization’s internal quality control system is in place and operating effectively. A quality assurance review provides assurance that established policies and procedures and applicable auditing standards are being followed.

***Auditor
General's
second quality
assurance
review***

The Auditor General's Office underwent its second quality assurance review during 2009. No other audit office in Canada has undergone such a process. Two reports were issued by representatives from the Association of Local Government Auditors (ALGA), an independent professional body which conducts a significant number of quality assurance reviews throughout the U.S. The 2009 ALGA report is available at: http://www.toronto.ca/audit/reports2009_sub4.htm

2.5 Annual Compliance Audit

The Auditor General's Office is required to undergo an annual compliance audit by an external independent accounting firm. The annual compliance report for the year ended December 31, 2008 is available at: http://www.toronto.ca/audit/2009/specialpurpose_audit_april25.pdf

2.6 Annual Audit Work Plan

***Submits annual
audit work plan to
City Council for
information***

On an annual basis, the Auditor General submits an audit work plan for the upcoming year to City Council for information. The 2010 Audit Work Plan was received by City Council at its January 26, 27, 2010 meeting. The work plan provides an overview of how resources allocated to the Auditor General's Office will be used in 2010. The 2010 Audit Work Plan is available at: http://www.toronto.ca/audit/2009/audit_workplan_nov10.pdf

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

The allocation of audit resources to audit projects, for the most part, is based on the results of a comprehensive City-wide risk assessment exercise, prepared in detail by the Auditor General's Office every five years and then updated annually. 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 in order to prioritize potential audit projects.

The Auditor General's most recent detailed risk assessments were completed in 2009 for City Divisions, and in 2007 for City Agencies, Boards and Commissions.

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

When selecting audit projects, the Auditor General attempts to balance audit work that will identify opportunities for cost reductions, increased revenues, enhanced efficiency and effectiveness of municipal services, and improvements in major control systems. Complaints received through the Fraud and Waste Hotline Program are also considered in selecting audit projects.

Finally, the extent of audit projects included in our work plan is also a function of available staff resources.

2.7 Audit Recommendations

Over 625 recommendations the last five years

Over the five-year period ending December 31, 2009, the Auditor General has made over 625 audit recommendations to management, including management of the City's Agencies, Boards and Commissions, and to City Council. Since amalgamation in 1998, the Auditor General has made almost 1,400 audit recommendations.

The Auditor General, in making recommendations, is cognisant of the cost benefit of implementing the recommendations. Careful consideration is given to ensuring that recommendations are relevant, practical and cost-effective. Consequently, there are few instances where management is in disagreement with the recommendations.

How do audit recommendations benefit the City?

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

- increase City revenues or identify opportunities for new revenues or cost reductions
- better manage or utilize City resources, including the management of public funds, personnel, property, equipment and space
- eliminate inefficiencies in management information systems, internal and administrative procedures, 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 disposal of assets
- ensure compliance with laws, regulations, policies, procedures or generally accepted industry standards
- achieve the desired program results.

2.8 Reports Requested by City Council

Sole sourcing review completed in 2009

City Council may request the Auditor General to conduct reviews on areas of concern. City Council has previously requested the Auditor General to consider performing a review of the issuance of City sole source contracts. This review was completed and reported to Audit Committee and City Council in October 2009. This report is available at:
http://www.toronto.ca/audit/reports2009_sub8.htm

Review of the affordable housing project completed in 2008

City Council also requested the Auditor General to perform a review of the affordable housing project at 2350 Finch Avenue West. This review was completed during 2008 and reported to Audit Committee and City Council in July 2008. The report is available at:
http://www.toronto.ca/audit/reports2008_sub6.htm

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 2005, issued over 118 reports with 625 recommendations

From January 2005 through to December 2009, the Auditor General's Office completed 55 performance audits and 63 other reviews and special projects. These 118 reports contained 625 recommendations.

*Since 2005,
handled 2,900
Hotline complaints*

In addition, the Office has handled 2,900 individual complaints to the Fraud and Waste Hotline Program over the same five-year period.

*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 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
in the range of
\$87 million*

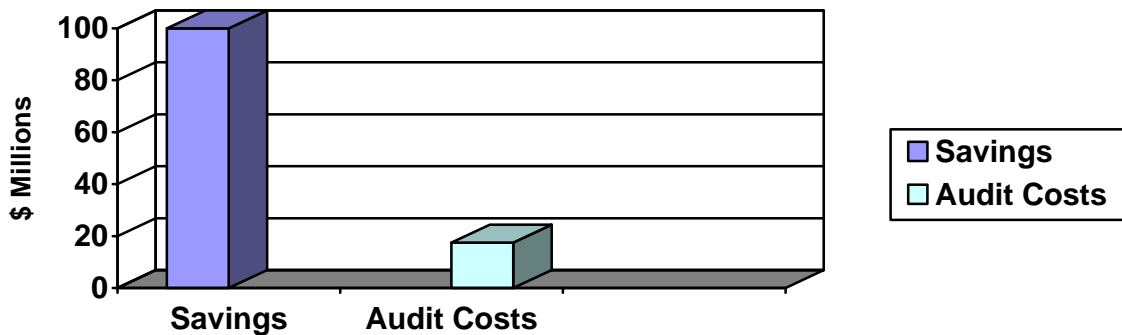
A comparison of audit costs from 2005 to 2009 to the estimated potential savings is summarized in Table 1 below entitled “Five Year Estimated Savings Compared to Audit Costs 2005 – 2009”. Since 2005, the cumulative audit expenditure has been approximately \$17.6 million and the estimated cost reductions and/or revenue increases are in the range of \$87 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 \$5.0
for every \$1
invested on audits*

In simple terms, for every \$1 invested in the audit process the return on this investment has been \$5.0. These projected savings are presented graphically in Table 1 as follows:

3.2 Table 1

**Five Year Estimated Savings Compared to Audit Costs
2005 - 2009**



Cumulative savings by year from 2005-2009

Table 2 provides a summary by year of the estimated cumulative savings generated as a result of the audit work conducted from 2005 through 2009 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
2005 – 2009**

ESTIMATED SAVINGS \$000's						
Year of Savings	Year of Audit Report					
	2005 \$	2006 \$	2007 \$	2008 \$	2009 \$	Total \$
2005	391					391
2006	2,600	410				3,010
2007	2,600	5,299	506			8,405
2008	2,600	5,299	4,577	716		13,192
2009	2,600	5,299	4,577	3,545	338	16,359
2010	2,600	5,299	4,577	3,545	335	16,356
2011		5,299	4,577	3,545	628	14,049
2012			4,577	3,545	922	9,044
2013				3,545	1,215	4,760
2014					1,537	1,537
Total	\$13,391	\$26,905	\$23,391	\$18,441	\$4,975	\$87,103

***Savings from 2009
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 2009. These figures are estimates based on a range of assumptions by the Auditor General.

3.4 Table 3

Estimated Savings from 2009 Audit Reports Where Savings are Quantifiable

Year Report Issued	Report Title	One-time Savings	Ongoing Annual Savings
2009	City Purchasing Card (PCard) Program – Improving Controls Before Expanding the Program		\$603,500 (five-year average)
2009	Payment of Utility Charges		\$150,000
2009	Toronto Parking Authority Pay and Display Parking Operations – Review of Revenue, Expenditure and Procurement Practices	\$260,000	\$160,000
2009	Fraud Related Matters	\$78,000	\$14,000
Total		\$338,000	\$927,500

4.0 OVERVIEW OF SIGNIFICANT AUDIT PROJECTS COMPLETED IN 2009

4.1 Second Audit Risk Assessment Exercise

It is not possible to audit all of the City's operations during a 12-month period. Determining which City areas to audit and allocating audit resources to those areas is fundamental to an effective audit process.

Completed a risk assessment exercise on the City's programs and services

City divisional units are reviewed and restructured periodically to ensure efficient and effective delivery of quality services to City residents. In order to accurately assess the relative risk exposure of potential audit entities and to objectively develop an audit work plan based on the City's current organization structure and service delivery models, the Auditor General's Office completed a second risk assessment of City programs in 2009. The first risk assessment exercise for City divisional programs was completed in 2004. A comprehensive risk assessment for City Agencies, Boards and Commissions was completed in 2007.

Ensured all City programs are evaluated from an audit risk perspective

The purpose of the risk assessment exercise is to ensure that all areas of the City are evaluated from an audit risk perspective by using uniform criteria and also to prioritize potential audit projects. Best practices generally necessitate a re-evaluation of any risk assessment over a five-year period.

The risk assessment process is a quantitative approach to prioritizing City risks, exposures and liabilities. In completing the risk assessment exercise, best practices of other major city governments across North America and private sector entities were reviewed to ensure the process followed by the Auditor General's Office is a best practice.

Developed the Auditor General Office's 2010 annual work plan based on risk assessment results

As part of our 2009 risk assessment review, the Auditor General's Office interviewed nearly 200 senior divisional managers and identified approximately 160 potential audit areas. Each one of these areas was separately evaluated in terms of audit risk and priorities. The Auditor General has relied on results of this risk assessment exercise in developing the 2010 annual work plan.

4.2 Audit Follow-Up Process

Audit follow-up process helps City Council ensure implementation of recommended changes and improvements were made

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 management's responsibility to implement recommendations. Further, City Council is responsible for ensuring that agreed upon recommended changes and improvements occur. The Auditor General assists Council in exercising this responsibility through an annual recommendation follow-up process.

Benefits of auditing only come from the implementation of audit recommendations. The Auditor General's Office conducts a systematic follow-up of recommendations made to City Divisions and Agencies, Boards and Commissions. The follow-up of recommendations is an annual process incorporated in our work plan.

The Auditor General reviewed and verified information detailing management actions and reported review results to the Audit Committee

On an annual basis, the Auditor General forwards a listing of outstanding audit recommendations to management. Management responds with information detailing the action taken on recommendations implemented as well as progress made on those not fully implemented. The Auditor General reviews information provided by management to determine the accuracy of management assertions related to each recommendation, and communicates results of the review to the Audit Committee.

From January 1, 1999 to June 30, 2008, the Auditor General has issued various reports containing a total of 1,012 recommendations. Since that time 125 of these recommendations have been identified by the Auditor General as no longer relevant because of changes such as re-organization, modification, reduction or termination of the service provided by the affected division. Consequently, of the 1,012 recommendations made, 887 continue to have relevance.

City divisions have implemented 89 per cent of the Auditor General's recommendations

The results of our 2009 follow-up review indicated that management has fully implemented 790 or 89 per cent of the 887 recommendations made by the Auditor General from January 1, 1999 to June 30, 2008. The 2009 follow-up review entitled "Auditor General's Status Report on Outstanding Audit Recommendations for City Divisions" is available at:
http://www.toronto.ca/audit/reports2009_sub9.htm

City ABCs have implemented 93 per cent of the Auditor General's recommendations

The Auditor General also follows up on the status of audit recommendations made to City Agencies, Boards and Commissions. City ABCs have implemented 93 per cent of the 162 recommendations contained in reports issued by the Auditor General's Office from January 1, 1999 to June 30, 2008. The 2009 follow-up review on City ABCs entitled "Auditor General's Status Report on Outstanding Audit Recommendations for City Agencies, Boards and Commissions" is available at:
http://www.toronto.ca/audit/reports2009_sub15.htm

4.3 Assistance to Various City Operations During Labour Disruption

Staff were redeployed with careful consideration to protect the Office's independence

A significant number of the Auditor General's Office staff were deployed to various City operations during the labour disruption. As a result, staff hours available for audit work were reduced by over 4,000 hours in 2009.

Careful consideration was given to the redeployment process in order to ensure that the Office's independence was not compromised in regard to ongoing audit work.

5.0 OVERVIEW OF SIGNIFICANT REPORTS ISSUED IN 2009

Audit reports identify quantifiable cost savings and non-financial benefits

The purpose of any audit process is not specifically to identify cost reductions or revenue increases. In certain cases, additional costs may be required to remedy certain control weaknesses.

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
- financial reporting processes.

Other reports have wide ranging impacts

In other cases, certain audit reports may have wide ranging impacts beyond financial benefits.

The following highlighted reports and benefits identified are reflective of the 22 reports issued by the Auditor General's Office during 2009.

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.htm>

5.1 City Purchasing Card (PCard) Program – Improving Controls Before Expanding the Program

In 2003, the Auditor General recommended implementation of purchasing cards in City operations

City Council in 2003 adopted the Auditor General’s report entitled “Procurement Processes Review – City of Toronto” (http://www.toronto.ca/audit/reports2003_sub1.htm). Included in the report were a series of recommendations relating to the use of purchasing cards. Specifically, the Auditor General recommended that the Chief Financial Officer and Treasurer expedite the implementation of purchasing cards in City operations, using a phased-in approach, and develop the necessary policies, procedures and controls.

The primary objective of the 2009 Purchasing Card (PCard) Program Review was to determine the adequacy of internal controls in the PCard program. The audit also assessed the extent to which the City has maximized financial and efficiency benefits associated with PCards. The audit provided a total of 20 recommendations to help improve the program’s control framework, efficiency, and compliance with City policies and procedures. This PCard report is available at: http://www.toronto.ca/audit/reports2009_sub18.htm

PCards have the potential for saving time and money

PCards have the potential for saving time and money by reducing paperwork associated with issuing purchase orders for small dollar transactions. Published studies have shown that the average cost per purchasing card transaction was approximately \$70 lower than the cost associated with other purchasing methods. Furthermore, the City receives a rebate from the Bank based on the total annual PCard purchase dollars. The City can realize substantial savings from reduced administrative costs and additional rebates by increasing PCard usage. Our review estimated that the City could realize approximately \$1.2 million from annual administrative savings and rebates by replacing 40 per cent of small dollar purchase orders with PCards.

Unclaimed GST rebates are estimated to be \$500 per month

This review also identified that approximately two to three per cent of monthly PCard transactions continued to lack supporting documents even six months after payment. These transactions amount to approximately \$15,000 monthly payment. Without the required documents, the City cannot validate the legitimacy or accuracy of these transactions. In addition, the City cannot claim its GST rebates from transactions without supporting documents. The unclaimed GST rebates are estimated to be \$500 per month.

City incurs a \$35 annual fee for each “inactive” PCard

The City incurs a \$35 annual fee for every PCard that has a yearly transaction amount below \$600. Of the total 1,160 PCards in circulation in 2008, 203 cards had transaction amounts below \$600, resulting in total \$7,105 “inactive” fee for the year. By implementing adequate procedures to reduce the number of low usage cards and to cancel cards where necessary, the costs from “inactive” PCards could be significantly reduced or eliminated.

5.2 Payment of Utility Charges

This review included an examination of the City’s payment control processes over hydro, natural gas and cable television service charges of approximately \$105 million per year.

The lack of centralized management of energy accounts and coordinated cable television accounts are key issues requiring management attention

Our review identified a number of issues that are the direct result of the lack of central account management of the billing process. The lack of central coordination also has an adverse effect on the management of cable television services and has resulted in higher service costs. Staff have since taken steps to address our concerns and estimate that annual cost savings in excess of \$150,000 will be realized effective January 1, 2010.

The following is a summary of our findings:

- No single divisional unit is fully accountable for ensuring that charges are correct.
- Management cannot fully rely on the Energy and Waste Management Office’s energy meter database because certain data is incomplete, and the City has not verified the physical location of energy meters charged to the City.
- The Energy and Waste Management Office only compares energy consumption levels between periods and years for significant variations, and sample recalculations were not carried out to ensure correct calculations of charges.
- As of January 2009, recognized billing anomalies totalling \$5.3 million required management’s in-depth review and decisions on whether the charges were reasonable. Anomalies totalling over \$140,000 were linked to hydro invoices dating as far back as 2007. Timely analysis of billing anomalies should be performed so that refunds are received on a timely basis.

Recognized billing anomalies totalling \$5.3 million required management’s in-depth review

Annual cost savings in excess of \$150,000 will be realized in cable television costs effective January 2010

- Staff have since taken steps to better coordinate cable television accounts and estimate that annual cost savings in excess of \$150,000 will be realized effective January 1, 2010.

Addressing the recommendations in the report will provide a cost effective control framework for the City to effectively manage invoice payments for utility and cable television services. The Auditor General's report is available at: http://www.toronto.ca/audit/reports2009_sub23.htm

5.3 Toronto Parking Authority Pay and Display Parking Operations – Review of Revenue, Expenditure and Procurement Practices

The review was conducted to assess the adequacy and effectiveness of controls and processes in place over revenue, expenditures and procurement practices pertaining to pay and display parking operations.

The Toronto Parking Authority's 2,800 pay and display machines generated \$65 million revenue in 2008

The Toronto Parking Authority manages both on-street parking meter operations and off-street municipal parking facilities, covering over 55,000 parking spaces across the City. The review covered pay and display parking operations of 2,800 pay and display machines deployed both on-street and off-street, generating \$65 million parking revenue in 2008. This amount represents 57 per cent of total parking revenue generated by the Toronto Parking Authority in 2008.

Major issues pertain to procurement and contract management practices

The major issues identified related to the following:

- Management's broad discretionary power over procurement practices.
- Inadequate contract management practices resulting in certain contracts with inadequate or insufficient terms and provisions, performance not being monitored and errors not being detected.
- Technology limitations in the ability of pay and display equipment to prevent invalid credit card payments.
- Need to strengthen certain administrative and information system controls.

Implementing the recommendations contained in the report will strengthen controls, improve accountability and will potentially result in cost savings in the range of \$400,000. The Auditor General's report is available at:

http://www.toronto.ca/audit/reports2009_sub5.htm

5.4 Parks, Forestry and Recreation - Capital Program – The Backlog in Needed Repairs Continues to Grow

Most of the issues identified required City-wide solutions

This was a review of the Parks, Forestry and Recreation capital program from a broad high level perspective. Issues identified pertained mainly to the growing state of good repair backlog and overall management of the capital program. While the review was focused on the Parks, Forestry and Recreation Division, most of the issues identified had broader implications from a corporate perspective and therefore required City-wide solutions.

The Division manages an asset inventory valued at over \$6 billion

The Parks, Forestry and Recreation Division manages an asset inventory valued at over \$6 billion. The Division has an approved capital plan of \$84 million for 2009 and average planned spending of \$75 million annually over the next ten years. Yet, the Division's state of good repair backlog continues to grow, estimated at \$233 million in 2008 to as high as \$600 million by 2018. At the City level, the state of good repair backlog is expected to grow from \$1.42 billion in 2008 to \$1.85 billion by 2018 despite average annual planned spending of \$1 billion.

Major issues identified

The major issues identified in our review included the following:

- lack of a master service and infrastructure plan to coordinate all the Division's strategies and initiatives
- lack of City-wide prioritization for capital projects
- need to improve timely project completion
- inadequate funding toward state of good repair projects
- need for more proactive efforts to pursuing private funding.

Addressing the recommendations in the report will enhance the Parks, Forestry and Recreation Division's and the City's efforts in improving and expanding significant infrastructure assets through more cost-effective management of limited resources.

This report is available at:

http://www.toronto.ca/audit/reports2009_sub7.htm

5.5 Process for Non-Competitive Procurement (Sole Sourcing) Needs Improvement

The objective of this review was to determine whether sole source contracts complied with the City's Municipal Code and purchasing policies and procedures.

Opportunities for improvement in sole sourcing

Our review identified opportunities for improvement in reporting and processing sole source purchases. A significant finding was that Council was not aware of the total amount of sole sourcing, approximately \$125 million or six per cent of annual City purchases. Purchases approved at the divisional level (\$13 million) and by Standing Committee and Council (\$73 million) were excluded from the annual sole source report.

Informal bidding occurred prior to sole sourcing

Purchasing rules are not always followed for sole source purchases made by divisions. For example, City divisions on occasions conduct informal bidding and engage vendors to perform work before obtaining appropriate approvals.

City has a financial risk if consultants are deemed employees

Long-term contractual arrangements with certain consultants require evaluation. Certain of these contracts may in fact be employer/employee relationships as defined by the Canada Revenue Agency. If Canada Revenue Agency deemed these individuals to be employees, the City would be liable for payments such as Canada Pension, employee health and income taxes, other statutory payments, plus penalties and interest.

In our view, the implementation of the recommendations contained in this report will ensure that all sole source purchases are reported accurately to Council, facilitate compliance with purchasing rules and generate cost savings by minimizing non competitive procurement. The Auditor General's report is available at:

http://www.toronto.ca/audit/reports2009_sub8.htm

5.6 Effectively Managing the Recruitment of Non-Union Employees in the Toronto Public Service

The objectives of the audit were to assess the effectiveness of internal controls over the recruitment process for non-union employees and to review compliance with relevant legislative requirements. This review identified a number of areas where there is opportunity for improvement.

The following highlights certain major issues identified in our review.

The Bellamy Report relating to the Toronto Computer Leasing Inquiry and the Toronto External Contracts Inquiry (http://www.toronto.ca/inquiry/inquiry_site/index.html) made two specific recommendations related to the hiring process at the City. These recommendations were as follows:

The Bellamy Report made two specific recommendations related to the hiring process

"The City's hiring process should include appropriate questions designed to elicit some perspective on the ethics of applicants. Applicants' responses to the ethics questions should then be considered prominently in hiring decisions.

New City employees should receive immediate training on the ethical dimensions of their particular work."

***Bellamy Report
recommendations
not fully
implemented***

Based on our review, neither of these recommendations have been fully implemented. In addition, while ethics training has been provided to certain senior levels staff, specific ethics training for new hires is not being done.

The Toronto Public Service People Plan and Learning Strategy identifies five goals and outlines strategic human resource planning and management in the City. The goal most relevant to the recruitment activities of the Human Resources Division is:

“we will attract and retain a skilled, high performing and diverse workforce.”

***Additional
outreach activities
needed***

Our review identified that while a number of general outreach activities have in fact occurred, additional outreach activities were needed.

Other recommendations included in this report pertain to the following areas:

- the need to evaluate the feasibility of developing a City-wide hiring policy
- the need to ensure conflict of interest issues throughout the hiring process are declared and documented
- the need to ensure documentation supporting hiring decisions is complete
- the need to ensure City policies are followed in areas such as reference checks, employment offers and probationary periods.

The implementation of the audit recommendations will assist the Human Resources Division to ensure that the recruitment for non-union employees is transparent, fair, timely and in compliance with legislation, policies and procedures. The recommendations contained in the report should, where appropriate, be reviewed by management for their applicability to the hiring of union positions. The Auditor General’s report in its entirety is available at:

http://www.toronto.ca/audit/reports2009_sub19.htm

5.7 Review of Disposal of Surplus IT Equipment – Security, Environmental and Financial Risks

The objective of this review was to determine whether the City’s management and oversight of the disposal of surplus Information Technology (IT) equipment adequately addresses potential risks such as:

- ensuring information residing on computer equipment such as hard drives is effectively erased or destroyed
- ensuring that surplus equipment is disposed of in an environmentally responsible manner, and
- ensuring the City receives its share of the funds from the disposal of the assets.

Risks pertaining to inappropriate disposal of surplus IT assets need to be addressed

The review identified the need to address a number of important areas relating to contract compliance. The City needs to address these issues in order to mitigate the risks pertaining to the inappropriate disposal of surplus IT assets. There is also a need to ensure that the qualifications of the current third party vendor are re-evaluated.

Implementation of recommendations in this report will place the City in a better position to demonstrate due diligence has been exercised in managing the disposal of surplus IT assets. There will be greater assurance that the City follows environmentally sound disposal procedures, thereby avoiding potential liability for non-compliance with government regulations.

Review of the City's practices identified a number of issues related to the management of the contract for disposal of surplus IT assets

Key recommendations identified in our report include the need to:

- re-evaluate the agreement with the vendor who is currently providing information technology asset disposal services
- review the agreement with the vendor for compliance and ensure policies and procedures are in place to ensure City is able to confirm compliance
- perform random checks to ensure hard drives are completely erased;
- implement an audit trail that will allow the City to verify surplus information technology assets are disposed of in conformance with regulatory requirements
- reconcile receipts from sale of equipment to actual equipment sold.

There are significant risks involved in relation to the inappropriate disposal of IT assets. Implementation of the recommendations contained in this report will reduce these risks. The Auditor General's report in its entirety is available at: http://www.toronto.ca/audit/reports2009_sub6.htm

5.8 Review of Management and Oversight of the Integrated Business Management System (IBMS)

The objective of this audit was to determine whether the City's management and oversight of the Integrated Business Management System (IBMS) ensures the reliability, integrity and confidentiality of information produced and maintained by the system.

A governance structure to coordinate IBMS related decision-making and change management is needed

The key message conveyed in this report related to the need to establish an IBMS information technology governance structure to coordinate IBMS related decision-making and change management. While there is a certain degree of divisional coordination, the current governance approach is for the most part fragmented. The major focus in information technology governance relates to the level of Corporate management at which major IT decisions are made. Divisions should not be permitted to make independent decisions concerning information systems without considering Corporate goals and strategies.

The audit addressed a number of areas from general oversight to operational practices required to ensure reliability, integrity and confidentiality of information is maintained

Key recommendations identified in our report include the need to:

- strengthen coordination and oversight to ensure IBMS related resources provide expected results
- execute a proper risk management program to identify and manage IBMS business risks
- implement performance indicators to monitor and assess methods to improve service delivery
- employ service level agreements between user divisions to ensure IBMS provides the expected level of service
- implement a comprehensive business continuity plan to ensure divisions can continue to function in the event of a disaster or system failure due to an unanticipated event
- improve change management practices to ensure changes are appropriately approved, documented and implemented in a systematic and controlled manner
- to ensure approved security policies are followed and compliance with general accepted security practices
- better manage the IBMS contract.

Management has committed to address most of the deficiencies identified in our report in 2009 with a few areas such as implementing policies and procedures for change management, security practices and records retention extending into 2010.

Ongoing management, monitoring and oversight is essential

Ongoing management, monitoring and oversight of IBMS related resources is essential in maintaining reliable services to user divisions and the public. Implementation of recommendations in this report will improve existing controls over IBMS resources including security management and administration of software licences. The Auditor General's IBMS report is available at:
http://www.toronto.ca/audit/reports2009_sub2.htm

5.9 Review of Information Technology Training

Review addresses whether training activities by the Information and Technology Division are relevant, effective and carried out in a cost effective manner

The importance of staff development and training was expressed by Council when it endorsed the "People Strategy" in 2003. The objective of this audit was to review training activities provided by the Information and Technology Division to identify opportunities for improving the management, administration and effectiveness of training services provided by the Division. Specifically the review was to determine if information technology training provided is relevant and delivered in a cost effective manner.

Training is a shared responsibility involving the employee and all levels of management

Although the review focused on training activity provided by the Information and Technology Division, recommendations included in the report recognize training employees of the Toronto Public Service is a shared responsibility involving the employee, employee managers and senior Corporate management. The City's commitment to maintaining a competent workforce requires employee willingness to receive training, identification of specific skills and knowledge required of employees, preparing annual training plans, and funding programs to reduce knowledge and skill gaps.

Improvement in management practices is warranted

Improvement in management practices is warranted. Areas identified include the following:

- Developing common computer skills
- More effective use of trainer time
- Evaluating the effectiveness of training
- Implementing a charge-back for “No Shows”
- Implementing performance measures
- Preparation of learning plans
- Centralizing employee training records

Implementation of recommendations contained in this report will strengthen controls and improve accountability. There will be greater assurance the City is following sound management practices to ensure training services:

- meet current and future needs
- effective training methods are used
- training resources are used efficiently
- anticipated benefits are realized.

The Auditor General’s report in its entirety is available at:

http://www.toronto.ca/audit/reports2009_sub20.htm

6.0 ANNUAL REPORT ON FRAUD AND WASTE HOTLINE

Prevention and detection, key components to manage risk of fraud, other wrongdoing

The Auditor General’s Office has administered the Fraud and Waste Hotline Program since its inception in 2002. The Hotline Program is part of the City's strategy to manage the business risk of fraud and other wrongdoing. Prevention and detection remain key components in managing this business risk which results in direct financial losses and costs such as additional management resources to investigate and correct wrongdoing.

In 2009, the number of complaints reported and managed through the Program reached in excess of 670. This is the highest since the inception of the Program. While the financial benefits of the Program have been highlighted in Table 3, it is important to recognize the non-financial benefits:

1. The resolution of complaints leads to improvements relating to internal controls, policies and procedures and mitigates potential misuse of City resources.
2. The Hotline Program allows employees and the public to report complaints anonymously. This encourages the reporting of wrongdoing to help detect and stop further losses to the City.
3. The Hotline Program is a key component in deterring fraud or wrongdoing by increasing the perception of being detected.

While these non-financial benefits to the City are significant, it is impossible to quantify their value.

The Annual Report on Fraud and Waste Hotline is scheduled to go before the February 12, 2010 meeting of the Audit Committee.

7.0 CONCLUSION

This report represents the Auditor General's sixth 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, 2005, the estimated potential savings to the City are in the range of \$87 million compared to a cumulative audit expenditure of \$17.6 million. In simple terms, for every \$1 invested in the audit process the return on this investment has been \$5.0.

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 strengthened 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.

