



## STAFF REPORT ACTION REQUIRED

### Auditor General's Status Report on Outstanding Audit Recommendations for City Divisions

<b>Date:</b>	June 15, 2010
<b>To:</b>	Audit Committee
<b>From:</b>	Auditor General
<b>Wards:</b>	All
<b>Reference Number:</b>	

#### SUMMARY

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This report provides information regarding the implementation status of audit recommendations contained in various reports issued by the Auditor General to City divisions. The report is the fifth such annual report issued by the Auditor General related to follow-up on management efforts to implement outstanding recommendations.

Management has made significant progress on implementing outstanding audit recommendations. Further, we noted that management continues to make progress on many recommendations not yet fully implemented.

Since January 1, 1999 the Auditor General has issued various reports containing a total of 1,087 recommendations. Since that time 129 of these recommendations have been identified by the Auditor General as no longer relevant. These recommendations are 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 1,087 recommendations made, 958 continue to have relevance.

The results of our review indicate management has fully implemented 870 or 91 per cent of the recommendations made by the Auditor General from January 1, 1999 to June 30, 2009.

Continued efforts to implement outstanding recommendations will provide additional benefit to the City through cost savings, additional revenue and enhanced service delivery.

## **RECOMMENDATIONS**

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### **The Auditor General recommends that:**

1. City Council receive this report for information.

### **FINANCIAL IMPACT**

The recommendation in this report has no financial impact.

### **ISSUE BACKGROUND**

In accordance with the Auditor General's 2009 Work Plan, we have completed a review of the implementation status of audit recommendations issued by the Auditor General's Office. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

On an annual basis, the Auditor General transmits 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. The results of this review are communicated to the Audit Committee. This review includes recommendations included in reports issued by the Auditor General from January 1, 1999 through June 30, 2009.

The results of this review relate only to City divisions reporting to the City Manager and do not include reports and recommendations relating to the City's agencies, boards and commissions. The status of recommendations related to agencies, boards and commissions is reported under separate cover.

### **COMMENTS**

#### **Results of the Auditor General's review**

Table 1 below contains cumulative results for all recommendations contained in reports issued by the Auditor General's Office from January 1, 1999 to June 30, 2009.

**Table 1: Percentage of Recommendations Implemented Since Inception of the Follow-up Process**

<b>Status of Recommendations</b>	<b>As of June 30, 2009</b>	<b>As of June 30, 2008</b>
Fully Implemented	870	790
Not Fully Implemented	88	97
No Longer Relevant	129	125
<b>Total</b>	<b>1,087</b>	<b>1,012</b>
Fully Implemented as a percentage of total recommendations	91%	89%

As of June 30, 2008, various audit reports issued by the Auditor General contained a total of 1,012 recommendations. An additional 75 recommendations were added during the current review period bringing the current period total to 1,087 recommendations.

The results of our review indicate that management has fully implemented 870 or 91 per cent of the 1,087 recommendations made by the Auditor General since January 1, 1999. The percentage shown for fully implemented recommendations is a percentage of total recommendations excluding those no longer relevant.

Recommendations no longer relevant relate to areas or programs that have changed in a manner that make the recommendation no longer applicable due to reorganization, modification, reduction or termination of service provided by the affected division.

### **Listing of Outstanding Recommendations**

A complete listing of the recommendations implemented, not implemented and those no longer relevant is included in Attachment 1.

Upon receipt of this report, recommendations reported as implemented or no longer relevant will not be reported to Council in the future. All recommendations reported as not implemented will be included in subsequent follow-up reviews until implemented.

In order to provide context for recommendations included in the appendices to this report, a few examples of noteworthy recommendations implemented and not implemented are provided below.

### **Noteworthy Recommendations Implemented**

1. Municipal Elections 2006 – Review of Financial Filings by Members of City of Toronto Council – City Clerks

The Auditor General recommended Council pursue certain amendments in the Municipal Elections Act 1996, with the Province. Recommended amendments included provisions requiring members of Council to file their financial statements

electronically, provision for corrections after filing of financial statements and treatment of nomination fees in the financial statements. Under the direction of Council the City Clerk pursued these issues with the Province.

Although the Province elected not to make any of the suggested legislative changes, revisions to internal City documents and guidelines will heighten awareness and help improve the financial filing process. Greater use of the Electronic Financial Filing system recommended by the Toronto Elections Review Task Force will increase openness and transparency as well as provide efficiency in the filing process and resolve inconsistencies and errors noted in our last review.

2. Management of Construction Contracts – Technical Services Division

The Technical Services Division has made significant progress in implementing audit recommendations. Out of a total of 27 recommendations, Technical Services has implemented over 90 per cent or 25 of 27 recommendations. Management has advised that the remaining nonimplemented recommendations will be implemented by the end of 2010.

**Noteworthy Recommendations Not Implemented**

1. Management of Construction Contracts - Toronto Water

Our review of Toronto Water & Sewer Emergency Repair contracts in 2007 resulted in a number of recommendations relating to the re-validation of payments for emergency repair contracts for 2006 and 2007, and development of policies and procedures for the award and management of these contracts. Toronto Water now has a District Operations Field Services Manual to assist in managing construction contracts negotiated in 2010 and onward.

As the management practices implemented as a result of the audit recommendations are relatively new, we were unable to validate management's assertions related to these recommendations during our follow-up work. We expect this will change next year when sufficient information will be available to validate the consistent application of practices recently included in the District Operations Field Services Manual.

2. Contract Management Procedures – Transportation Services Division

In our 2001 review we noted that district offices applied different contract management policies and procedures based on the practices of the pre-amalgamation municipalities. We recommended the establishment of a harmonized quality assurance program, project inspection and quality assurance guidelines, and standards for managing contracts in district offices.

Management has developed an operating manual describing quality assurance procedures and standardized forms to be adopted consistently across all districts. However, compliance with the intent of the recommendation will only be evidenced in practice as the 2010 construction season proceeds. As a result several recommendations in this audit remain 'Not Implemented'.

3. Hostel Operations Review – Shelter, Support & Housing Administration

Management indicated that two of the three remaining outstanding recommendations could not be implemented due to lack of budget and human resources. One outstanding recommendation pertains to the evaluation of the Out of the Cold Program and the other pertains to the assessment and collection of maintenance fees charged to shelter residents receiving income.

With respect to the Out of the Cold Program, our review identified the need to evaluate program costs, how program goals fit into the overall shelter system, and the future direction of the program including the possibility of phasing it out. The 2010 operating budget includes a per diem rate of \$73 and a maximum gross contract amount of approximately \$1.2 million.

With respect to maintenance fees charged at two City-operated shelters, our review identified the need for a centralized policy and internal controls to be established on the assessment and collection of such fees. Management indicated that the issue is complex and will involve discussions with other levels of government with respect to possible client income sources. Management also cited other policy considerations such as implications under the Residential Tenancy Act and on the emergency shelter funding.

Given the significant potential implications arising from the implementation of these recommendations, management should ensure these outstanding recommendations are addressed.

## **CONCLUSION**

Our review process verifies recommendations management believes they have fully implemented. We do not conduct audit work on recommendations not yet fully implemented. A significant amount of work is required to verify implementation of recommendations, and in circumstances where recommendations are obviously not implemented it is a significant waste of audit resources.

Last year we reported considerable work was undertaken where management reported recommendations as implemented when in many cases our validation of management assertions clearly indicated they were not implemented.

The results of this review indicate management made a significant effort to improve the process for reporting on the status of implemented recommendations. The number of cases where management reported the recommendation as ‘Implemented’ and audit work resulted in a “Not Implemented” status was in the range of 12 per cent of recommendations reviewed. A significant improvement over the prior year result.

## **CONTACT**

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## **SIGNATURE**

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Jeffrey Griffiths, Auditor General

10-AAS-05

## **ATTACHMENTS**

Appendix 1: City Divisions, Public Recommendations – Implemented  
City Divisions, Public Recommendations – Not Implemented  
City Divisions, Public Recommendations – No Longer Relevant