

**APPENDIX 1**

**ANNUAL REPORT**

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

**January 24, 2011**



**Auditor General's Office**

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Jeffrey Griffiths, C.A., C.F.E.  
Auditor General  
City of Toronto

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## EXECUTIVE SUMMARY

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***This report was requested by the Audit Committee in 2004***

This report responds to a request from the Audit Committee in 2004 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.”*

***The Auditor General’s reviews may identify cost savings***

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

***Certain recommendations relating to improving controls are important but not 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 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 benefit from Auditor General’s reports is \$5.20 for every dollar invested***

In summary, this report indicates that there is an estimated benefit of \$5.20 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.

***This report does not contain savings realized before 2006***

This report represents savings identified from reports issued between 2006 – 2010. 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 2006 are of continuing benefit to the City. Examples of pre-2006 reports and potential annual recurring cost savings are identified below:

***Examples of recurring annual cost savings identified prior to 2006***

1. Parking Tag Operations Review, 1999	\$1,210,000
2. Police Overtime Review, 2000	\$1,400,000
3. Parking Enforcement Unit Review, 2000	\$1,200,000
4. Selection and Hiring of Consultants, 2001	\$2,000,000
5. Toronto Parking Authority, 2002	\$1,900,000
6. Review of SAP Implementation, 2003	\$670,000
7. Hostel Operations Review, 2004	\$810,000
8. Telecommunication Services Review, 2005	\$300,000

These cost savings amounts are conservative estimates only and are likely understated. These amounts do not include one-time savings attributed to these reports and do not include savings attributed to other less significant reports.

One time savings can be significant. For example, as a result of a report entitled “Review of SAP Implementation” issued in 2003, we estimated one-time savings of \$3,375,000 in addition to ongoing savings of \$670,000.

Reports issued by the Auditor General from 2006 to 2010 are listed in Exhibits 1 and 2 of this report. All audit reports issued by the Auditor General can be viewed at:

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

***Some benefits of the audit function are not quantifiable***

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's Recommendations**

### ***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."*

The Fiscal Review Panel has not quantified these potential cost savings. Generally, the reason why the cost savings have not been quantified relates to the fact that such an exercise is extremely difficult and subjective.

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

The recommendations made by the Mayor's Fiscal Review Panel validate concerns we have raised in a number of previous audit reports dating as far back as 1999. The Mayor's Fiscal Review Panel was essentially repeating and highlighting concerns raised by the Auditor General's Office previously.

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.

### ***These cost savings cannot be quantified, but are likely significant***

The cost savings from closer cooperation and coordination between the City and its local boards have not been quantified but are likely significant. This in our view is an area where ongoing annual cost savings can be achieved. There is a need for further action to be taken in this regard in order to realize these savings.

## **(2) Impact of Divisional Recommendations Across the City and its Local Boards**

*Audit recommendations are relevant to other divisions and ABCCs*

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 (ABCCs).

*Cost savings reflected in this report do not include the extent of resulting benefits to the City's ABCCs*

Where one of our reports contains recommendations that in our view are applicable to other city entities, we recommended the report 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 at these other entities is undeterminable and consequently not reflected in this report.

## **(3) Certain Audit Reports Issued in Prior Years Have Benefits Which Are Not Financial**

*Recommendations with non-quantifiable benefits made by the Auditor General*

Certain audit reports issued by the Auditor General's Office have impacts beyond cost savings. A majority of reports that had minimal direct financial impact continue to have far reaching but unquantifiable benefits to the City. The following are examples of certain significant recommendations made by the Auditor General over the years.

- A major report which had minimal direct financial impact but ongoing significant unquantifiable benefits to the City is the Auditor General's report entitled "Review of the Investigation of Sexual Assaults – Toronto Police Service".

The review was conducted at the request of City Council in response to the successful civil case of Jane Doe versus the Commissioners of Police of the then Municipality of Metropolitan Toronto. The report contained 57 recommendations.

***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 report's recommendations 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***

- The Auditor General's March 31, 2003 report entitled "Procurement Process Review – City of Toronto" 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 in 2008 entitled "Protecting Water Quality and Preventing Pollution – Assessing the Effectiveness of the City's Sewer Use By-Law, Toronto Water", 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.

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## **1.0 BACKGROUND**

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### **1.1 Annual Report Requested by the Audit Committee**

***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.”*

***Includes highlights of 2010 audit reports***

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. Highlights of 2010 audit reports and related estimated savings to the City are also included in this report.

***Includes audits from the five-year period 2006 to 2010***

Information provided in this report relates to audits performed during the five-year period from January 1, 2006 to December 31, 2010. 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, 2005. These financial benefits to the City have been reported to Audit Committee and Council. These reports are available at:

[http://www.toronto.ca/audit/2006/benefits\\_city\\_annual\\_update\\_feb2006.pdf](http://www.toronto.ca/audit/2006/benefits_city_annual_update_feb2006.pdf)

<http://www.toronto.ca/audit/2005/benefits.pdf>

***Includes highlights of 2010 audit reports***

This report highlights various 2010 audit reports and the related benefits 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 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). Local boards (restricted definition) means a local board other than the Toronto Police Services Board, the Toronto Public Library and the Toronto Board of Health.

**2.2 Responsibilities**

***City of Toronto  
Act and the  
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.”*

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**

***Audits conducted using Government Auditing Standards***

The Auditor General’s Office conducts its work in accordance with generally accepted Government Auditing Standards.

These standards relate to:

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

These standards require that the Auditor General plans and performs audits to obtain sufficient, appropriate evidence that provides a reasonable basis for the findings and conclusions based on 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. Such a 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 review. 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](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, 2009 is available at:

<http://www.toronto.ca/legdocs/mmis/2010/au/bgrd/backgroundfile-29862.pdf>

## **2.6 Annual 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 2011 Audit Work Plan is scheduled to go before the February 22, 2011 meeting of the Audit Committee. The work plan provides an overview of how resources allocated to the Auditor General's Office will be used in 2011.

***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**

***Made 675 recommendations the last five years***

Over the five-year period ending December 31, 2010, the Auditor General has made 675 audit recommendations to management, including management of the City's Agencies, Boards, Commissions and Corporations, and to City Council. Since amalgamation in 1998, the Auditor General has made nearly 1,600 audit recommendations.

The Auditor General, in making recommendations, is cognizant of the cost benefit of implementing 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 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**

### ***Reports requested by City Council***

City Council may request the Auditor General to conduct reviews on areas of concern. Two recent examples are City Council's request to consider performing a review of the issuance of City sole source contracts and a review of the affordable housing project at 2350 Finch Avenue West. These two reviews were completed and reported to Audit Committee and City Council in October 2009 and in July 2008 respectively.

The sole sourcing review report is available at:

[http://www.toronto.ca/audit/reports2009\\_sub8.htm](http://www.toronto.ca/audit/reports2009_sub8.htm)

The affordable housing project review report is available at

[http://www.toronto.ca/audit/reports2008\\_sub6.htm](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 2006, issued over 68 audit reports with 675 recommendations***

From January 2006 through to December 2010, the Auditor General's Office completed 68 performance audits. These reports contained 675 recommendations. Since amalgamation in 1998, the Auditor General has made almost 1,600 audit recommendations.

#### ***Since 2006, 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 nearly \$97 million***

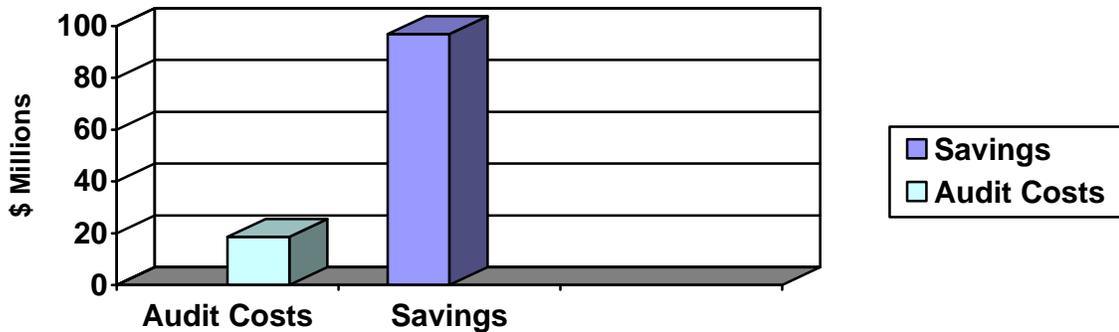
A comparison of audit costs from 2006 to 2010 to the estimated potential savings is summarized in Table 1 below entitled “Five Year Estimated Savings Compared to Audit Costs 2006 – 2010”. Since 2006, the cumulative audit expenditure has been approximately \$18.6 million and the estimated cost reductions and/or revenue increases are nearly \$97 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 \$5.20 for every \$1 invested on the Auditor General’s Office***

In simple terms, for every \$1 invested in the Auditor General’s Office the return on this investment has been \$5.20.

**3.2 Table 1**

**Five Year Estimated Savings Compared to Audit Costs  
2006 - 2010**





***Cumulative savings by year from 2006-2010***

Table 2 provides a summary by year of the estimated cumulative savings generated as a result of the audit work conducted from 2006 through 2010 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  
2006 – 2010**

<b>ESTIMATED SAVINGS \$000's</b>						
<b>Year of Savings</b>	<b>Year of Audit Report</b>					
	<b>2006 \$</b>	<b>2007 \$</b>	<b>2008 \$</b>	<b>2009 \$</b>	<b>2010 \$</b>	<b>Total \$</b>
2006	410					410
2007	5,299	506				5,805
2008	5,299	4,577	716			10,592
2009	5,299	4,577	3,545	338		13,759
2010	5,299	4,577	3,545	335	443	14,199
2011	5,299	4,577	3,545	628	2,943	16,992
2012		4,577	3,545	922	4,943	13,987
2013			3,545	1,215	4,943	9,703
2014				1,537	4,943	6,480
2015					4,943	4,943
<b>Total</b>	<b>\$26,905</b>	<b>\$23,391</b>	<b>\$18,441</b>	<b>\$4,975</b>	<b>23,158</b>	<b>\$ 96,870</b>

***Savings from 2010  
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 audit work conducted in 2010. These figures are estimates based on a range of assumptions by the Auditor General.

**3.4 Table 3**

**Estimated Savings from 2010 Audit Reports Where Savings Are Quantifiable**

Report Title	One-time Savings	Ongoing Annual Savings
Procurement Policies and Procedures, Toronto Community Housing Corporation		\$4,000,000
Insurance and Risk Management		\$600,000
Administration of Municipal Land Transfer Tax	\$1,700	\$118,000
Administration of Development Funds, Parkland Levies and Education Development Charges	\$165,000	
Management of Capital Project at 129 Peter Street	\$67,000	
Controls over Ferry Service Revenue	\$50,000	
Toronto Zoo Construction Contracts Review – Tundra Project	\$9,000	
Employee Expense Practices, Toronto Community Housing Corporation	\$3,175	\$200,000
Review of Internal Controls at the East York Curling Club		\$3,000
Fraud Related Matters	\$147,000	\$22,000
<b>Total</b>	<b>\$442,875</b>	<b>\$4,943,000</b>

## **4.0 OVERVIEW OF SIGNIFICANT 2010 AUDIT PROJECTS**

### **4.1 Follow-Up on Implementation of Audit Recommendations**

*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 realized if recommendations are implemented*

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

*The Auditor General verifies that recommendations are implemented and reports results to the Audit Committee*

The follow-up of recommendations is an annual process incorporated in our work plan. 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. The Auditor General verifies, to the extent he feels necessary, information provided by management and communicates results of the review to the Audit Committee.

Implementation status of audit recommendations for City divisions, Agencies, Boards, Commissions and Corporations are summarized below.

### **Implementation Status of Audit Recommendations for City Divisions**

*City divisions have implemented 91 per cent of the Auditor General's recommendations*

The results of our 2010 follow-up review indicated that 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. The 2010 follow-up review entitled "Auditor General's Status Report on Outstanding Audit Recommendations for City Divisions" is available at: [http://www.toronto.ca/audit/reports2010\\_june15.htm](http://www.toronto.ca/audit/reports2010_june15.htm)

### **Implementation Status of Audit Recommendations for City Agencies, Boards, and Commissions**

*City Agencies, Boards and Commissions have implemented 96 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. The results of our 2010 review indicated that on a combined basis, City agencies, boards and commissions have implemented 96 per cent of the 171 recommendations made by the Auditor General from January 1, 1999 to June 30, 2009. 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/reports2010\\_june1.htm](http://www.toronto.ca/audit/reports2010_june1.htm)

### **Implementation Status of Audit Recommendations for the Toronto Police Service**

*Recommendations made to the Toronto Police Service were followed up*

The Auditor General initiated follow up work on the following two reports pertaining to the Toronto Police Service:

- "The Auditor General's Follow-up Review on the October 1999 Report entitled: Review of the Investigation of Sexual Assaults Toronto Police Service" (October 2004)
- "Review of Police Training - Opportunities for Improvement - Toronto Police Service" (October 2006)

Results of the Auditor General's follow up on the above audit reports were reported separately to the Toronto Police Services Board in 2010. These two reports are available at:

[http://www.toronto.ca/audit/reports2010\\_april9.htm](http://www.toronto.ca/audit/reports2010_april9.htm)  
<http://www.toronto.ca/audit/reports2010-june1.htm>

## **4.2 Continuous Controls Monitoring**

### ***Development of a system for continuous controls management reports***

The Auditor General is in the process of developing a program known as continuous controls monitoring. In simple terms, data extraction software is used to identify, on an ongoing basis, transactions that are unusual. Reports generated by this program will be used by the Auditor General in identifying significant trends, control risks and exposures and preventing and detecting fraud. The City's payroll system has been selected as the pilot project for the development of continuous control reports. In future, the development of continuous monitoring reports will be extended to other areas of the City.

## **4.3 External Audit Coordination**

The Auditor General's responsibilities include the management, coordination and oversight of the external attest audits of the City, its Agencies, Boards and Commissions, the Boards of Management of Community Centres and Committees of Management for Arenas.

The request for proposal for external audit services for audits from 2010 to 2014 for the City and its major ABCs was issued in November 2009. City Council, at its February 2010 meeting, approved the selection of external auditors for the City and its major Agencies, Boards and Commissions for audits from 2010 to 2014. The external auditors for the City Arenas, Community Centres and Miscellaneous Entities (Heritage Toronto, Yonge-Dundas Square, the Toronto Atmospheric Fund and the Clean Air Partnership) for the years 2008 to 2012 were approved by City Council in May 2008.

## **4.4 Performance Reviews of City Divisions, Agencies, Boards, Commissions and Corporations**

### ***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, although we often select our projects with the intent of realizing such results. In certain cases, divisions may incur additional costs 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. Details of all reports issued in 2010 are on the Auditor General's web site:

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

The following highlighted reports and benefits identified are reflective of audit reports issued by the Auditor General's Office during 2010.

## **5.0 OVERVIEW OF SIGNIFICANT REPORTS ISSUED IN 2010**

### **5.1 Procurement Policies and Procedures – Toronto Community Housing Corporation**

*First Auditor General review carried out on TCHC*

This was the Auditor General's first review of Toronto Community Housing Corporation (TCHC), Canada's largest social housing provider. The objective of this review was to assess the extent to which TCHC's administrative structure and control framework supported sound financial management and compliance with purchasing policies and procedures. This review did not encompass the procurement process at TCHC's subsidiary companies.

*Increased coordination with the City is required- recommended by Auditor General in many reports*

Our review identified opportunities for cost savings in many areas, including the procurement process, as a result of closer co-operation and coordination by the TCHC with the City. In fact, this concern has been raised by the Auditor General in a number of audit reports issued over the past number of years. This matter should receive immediate priority and is an issue that should be reviewed by both the Chief Executive Officer of the TCHC and the City Manager.

***Significant changes required***

Significant changes need to be made to the procurement process at the TCHC. While TCHC policies and procedures for the most part are adequate and complete, there is little point in having policies and procedures if they are routinely ignored. Certain single tendered contracts require further review in order to determine whether they represent value for money and also to ensure that they were awarded appropriately.

***Cost savings between \$4 million to \$10 million may be possible***

Finally, significant cost savings are possible if the recommendations contained in this report as well as other Auditor General reports which may have relevance to the TCHC are implemented. Procurement at the TCHC is in the range of \$200 million. Savings as a result of increased competition could conservatively be anywhere from 2 to 5 per cent of this amount. Consequently, cost savings of approximately \$4 million to \$10 million may be possible.

This audit report is scheduled to go to meetings of the TCHC's Corporate Affairs Committee and the Board of Directors in March 2011 before being presented to the City's Audit Committee and City Council for information.

**5.2 Employee Expense Practices – Toronto Community Housing Corporation**

During the review of TCHC's procurement process in 2010, we identified certain issues pertaining to employee expenses even though this was not the focus of our review. In view of these issues, we prepared a separate report on the management of employee related expenses.

***Policies are not being followed***

Our review of the Expense Policy at the TCHC indicated that for the most part it is comparable to the City's. While the policies are adequate, they serve no purpose if they are not being followed. This was the case in many instances at the TCHC.

If TCHC's expense claim approval process had been working effectively, we would have expected many of the instances of non-compliance to be addressed. This was not the case and we have identified certain expenses which are inappropriate.

We were advised by the Chief Executive Officer that expenses of the nature identified in this report will be discontinued. Policies and procedures are in the process of being amended to address areas which lack clarity.

This audit report is also scheduled to go to meetings of the TCHC's Corporate Affairs Committee and the Board of Directors in March 2011 before being presented to the City's Audit Committee and City Council for information.

### **5.3 Management of Capital Project 129 Peter Street – Shelter, Support and Housing Administration, Facilities Management and Real Estate Divisions**

The objective of this review was to assess whether there were appropriate controls over the management of construction projects.

#### ***Significant cost and time over run***

The 129 Peter Street renovation project was significantly over budget with completion taking two years longer than anticipated. During this time, the total project cost climbed to approximately \$11.5 million compared to an initial budget of \$5.5 million. There was also a lack of clarity in terms of responsibility for the project. The contractor was accountable to Facilities Management staff while the architect reported to Shelter staff.

Our review identified opportunities to improve monitoring of project timelines and budgets for projects with a short time frame for completion.

#### ***Expedited planning process was necessary***

Many of the issues identified in this report point to an expedited planning process that was necessary to take advantage of time limited federal funding. This was evidenced by:

- The significant and ongoing amendments to the tender document immediately prior to the tender submission deadline.
- The significant and ongoing change orders caused in certain instances by site conditions and scope changes to the renovation project. Work in connection with the change orders by necessity was completed by the on-site contractor without the benefit of a competitive process.

The implementation of the recommendations in this report will improve the management of construction contracts to minimize change orders, facilitate meeting project timelines and budgets and ensure that significant capital projects and requests for capital funding are accurately reported to Council. The Auditor General's report is available at:

[http://www.toronto.ca/audit/reports2010\\_may31.htm](http://www.toronto.ca/audit/reports2010_may31.htm)



## 5.4 Insurance and Risk Management

### *Audit objective*

The objective of this audit was to review the adequacy and effectiveness of current practices for the management of the City's insurance and risk management program, with a view to identifying opportunities for improvements and cost savings.

We have made a number of recommendations in this report that may impact overall costs. Cost impacts and savings are possible by:

- Increasing levels of self insurance
- Eliminating the current "fronting" agreement
- Increasing staff at the City Legal Division and at the same time reducing the reliance on external legal council

### *Changing staffing levels in the Legal Services Division would result in annual savings*

Given the complexities of the City's insurance arrangements, we are unable to quantify the cost impacts of addressing certain of the recommendations in this report. Nevertheless, changing staffing levels in the Legal Services Division should result in savings in the range of \$600,000 per year.

### *Certain other recommendations will improve the effectiveness of the program*

The implementation of other recommendations in this report will in our view improve the effectiveness of this program. The Auditor General's report is available at:  
[http://www.toronto.ca/audit/reports2010\\_april26.htm](http://www.toronto.ca/audit/reports2010_april26.htm)

## 5.5 Administration of Development Funds, Parkland Levies and Education Development Charges

### *Audit objective*

The objective of this review was to assess the adequacy of procedures to ensure that development charges, parkland levies and education development charges are being effectively and efficiently administered.

### *13 areas for improvement*

Our review identified a number of opportunities for administrative improvements. The implementation of the 13 recommendations made in this report will strengthen internal controls for collecting development charges and parkland levies, achieve processing efficiencies by automating manual business processes and improve accountability for the administration of development funds.

***Collected approximately \$165,000 in additional development charges***

***Potential to collect \$1.3 million in parkland levy***

Improvement opportunities identified in our review include the following:

- \$165,000 in additional revenue from development charges which were not applied to non-residential parts of non-profit housing projects.
- The need to assess the possibility of recovering parkland dedication fees where the correct amount may not have been received (\$1.3 million in one development we reviewed).
- The need to review the opportunities available to make use of \$37 million in development funds collected prior to 2000.

The implementation of recommendations in the report will also improve the day-to-day management of the City's development funds. This report is available at:

[http://www.toronto.ca/audit/reports2010\\_parklands\\_june16.htm](http://www.toronto.ca/audit/reports2010_parklands_june16.htm)

## **5.6 Controls Over Parking Tags**

***Audit objective***

The objective of this review was to determine the adequacy of controls over the administration, collection and cancellation of parking tags at the City of Toronto.

The City issues approximately three million tags, valued at \$100 million, each year. Sixty per cent of parking tag revenue is collected in the year tags are issued and 20 per cent in subsequent years. City staff cancel 15 per cent of tags issued for various reasons and approximately 5 per cent of parking tags remain outstanding.

***Improvement opportunities***

Our review identified opportunities for minimizing the cancellation of parking tags, automation of the request for trial process, improvements in follow-up on outstanding parking tags, revenue controls and information technology policies and practices.

We have made 19 recommendations related to minimizing cancellations due to drive-aways, out of province tags, automating request for trial, minimizing processing delays, and improving parking tag administration. Potential revenues and savings for the most part are dependent on changes in Provincial legislation.

Implementing automated controls in cheque receipt processes and collecting NSF charges will improve efficiencies and recover revenues currently lost due to manual processes.

The amount of revenue and savings relating to recommendations for improvement in the follow-up process for outstanding tags and improvement in IT controls are undeterminable at this time. This report is available at: [http://www.toronto.ca/audit/reports2010\\_jan27.htm](http://www.toronto.ca/audit/reports2010_jan27.htm)

## **5.7 The Review of the Investigation of Sexual Assaults – A Decade Later, Toronto Police Service**

*Facilitated significant improvements to the way the Toronto Police Service investigates sexual assault cases*

In 2010, the Auditor General issued a report entitled “The Review of the Investigation of Sexual Assaults – A Decade Later, Toronto Police Service” to provide an overview of the changes that have taken place over the past decade. As indicated in the report, the original audit and the two follow-up reviews in 2004 and 2010 facilitated changes to:

- Sexual assault investigative procedures
- The Sex Crimes Unit
- The training of sexual assault investigators
- The Violent Crime Linkage System (ViCLAS)
- The provision of public information and community warnings.

These changes have improved the way the Toronto Police Service investigates sexual assaults. More important is that many of these changes help minimize the investigative impact on women reporting a sexual assault. This report is available at: [http://www.toronto.ca/audit/reports2010\\_april14.htm](http://www.toronto.ca/audit/reports2010_april14.htm)

## **5.8 Governance and Management of City Wireless Technology**

The objective of this audit was to determine what steps the City has taken to address risks related to the emerging use of wireless technology. Specifically the review was to determine if the appropriate oversight, management and safeguards are in place to mitigate such risk.

***The need to strengthen the governance, management and administration of City wireless technology***

The report provides eight recommendations that will strengthen the governance, management and administration of City wireless technology. Benefits resulting from the implementation of audit recommendations include:

- centralizing oversight of wireless technology
- implementing a comprehensive plan for wireless technology
- updating City-wide information technology policies
- implementing City-wide wireless technology standards
- development of a comprehensive IT security manual
- strengthening controls to detect unauthorized access devices
- strengthening inventory controls for wireless assets

Implementing report recommendations will provide an effective framework for overall direction and guidance in the City's use of wireless technology and also ensure more cost effective deployment of wireless technology assets. The Auditor General's report is available at:

[http://www.toronto.ca/audit/reports2010\\_april20.htm](http://www.toronto.ca/audit/reports2010_april20.htm)

## **6.0 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 2010, 573 complaints were received representing a 15 per cent decrease in the number of hotline complaints received in 2009. We do not track the individual number of allegations received per complaint. Over 56 per cent of complaints received in 2010 included at least two or more allegations. This represents approximately 900 allegations reported and managed through 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 22, 2011 meeting of the Audit Committee.

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## **7.0 CONCLUSION**

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This report represents the Auditor General's seventh 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, 2006, the estimated potential savings to the City are nearly \$97 million compared to a cumulative audit expenditure of \$18.6 million. In simple terms, for every \$1 invested in the audit process the return on this investment has been \$5.20.

The audit process is not designed with the sole purpose of identifying 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. To assist in this regard, the Auditor General's Office conducts an annual formal systematic follow-up to ensure that recommendations have been implemented.

**AUDITOR GENERAL'S OFFICE**

**2010 Audit Reports:**

- Controls Over Parking Tags Need Strengthening
- Toronto Zoo Construction Contracts Review – Tundra Project
- The Auditor General's Second Follow-up Review on the Police Investigation of Sexual Assaults
- The Review of the Investigation of Sexual Assaults – A Decade Later, Toronto Police Service
- Governance and Management of City Wireless Technology Needs Improvement
- Insurance and Risk Management Review
- Parks, Forestry and Recreation Division – Controls Over Ferry Service Revenue Need Strengthening
- Parks, Forestry and Recreation – Review of Internal Controls at the East York Curling Club
- Management of Capital Project 129 Peter Street – Shelter, Support and Housing Administration, Facilities Management and Real Estate Divisions
- Auditor General's Status Report on Outstanding Audit Recommendations for City Agencies, Boards and Commissions
- Police Training, Opportunities for Improvement Toronto Police Service – Follow-up Review
- Auditor General's Office – Forensic Unit Status Report on Outstanding Recommendations
- Auditor General's Status Report on Outstanding Audit Recommendations for City Divisions
- Review of the City SAP Competency Centre
- Administration of Development Funds, Parkland Levies and Education Development Charges
- Administration of Municipal Land Transfer Tax, Revenue Services Division
- Toronto Environment Office – Review of Administration of Environmental Grants
- Employee Expenses Practices – Toronto Community Housing Corporation
- Procurement Policies and Procedures – Toronto Community Housing Corporation
- Review of the Management and Funding for Inactive Landfill Sites
- Controls Over Concession Agreements at Parks, Forestry and Recreation Need Strengthening

**AUDITOR GENERAL'S OFFICE**

**2006 – 2009 Audits:**

- City Purchasing Card (PCard) Program – Improving Controls Before Expanding the Program
- Effectively Managing the Recruitment of Non-Union Employees in the Toronto Public Sector
- Payment of Utility Charges
- Review of Information Technology Training
- Process for Non-Competitive Procurement (Sole Source) Needs Improvement
- Review of Disposal of Surplus IT Equipment – Security, Environmental and Financial Risks
- Parks, Forestry and Recreation - Capital Program - The Backlog in Needed Repairs Continues to Grow
- Review of Management and Oversight of the Integrated Business Management System (IBMS)
- Maintenance and Administration of City Property Leases Review – Facilities and Real Estate
- Social Services Overpayment Review
- Review of Day Care Fees and Subsidies
- Audit of City Performance in Achieving Access, Equity and Human Rights Goals
- Management of City Information Technology Assets
- Fire Services Operational Review
- Various Contract Compliance Reviews including City's Construction Contracts
- Homes-for-the-Aged – Residents Fees and Trust Funds Review
- Pandemic Preparedness Review
- Committee of Adjustment Review
- Election Compliance Review
- Councillor and Staff Expenses Review
- Internet Usage Review
- Water Quality Review
- Review of Wastewater Treatment Program
- Review of the City's Disaster Recovery Plan
- Review of Toronto Water Contracts, Works and Emergency Services

- Review of Certain Affordable Housing Projects
- Toronto Parking Authority Pay and Display Parking Operations - Review of Revenue, Expenditure and Procurement Practices
- Court Services – Operational Review – Toronto Police Service
- Review of Police Training – Toronto Police Service
- Review of the Investigation of Sexual Assaults – Toronto Police Service
- Fleet Review – Toronto Police Service
- Fines and Income Review – Toronto Public Library
- The Management of Information Technology Projects – Toronto Transit Commission