



AUDITOR GENERAL'S REPORT ACTION REQUIRED

2014 Annual Report – Demonstrating the Value of the Auditor General's Office

Date:	February 6, 2015
To:	Audit Committee
From:	Auditor General
Wards:	All
Reference Number:	

SUMMARY

This report provides information on the Auditor General's 2014 activities and financial and non-financial benefits. Specific responsibilities of the Auditor General are set out in Chapter 3 of the Toronto Municipal Code. The Code requires that the Auditor General report annually to Council on the activities of the Office and savings achieved.

In 2014, the Office issued a total of 26 reports including 11 performance audit reports, 3 continuous controls monitoring reports and 12 other reports. In addition, the Auditor General's Fraud and Waste Hotline Program processed 687 complaints in 2014.

The return on investment for the Auditor General's Office is based on estimated cost savings and revenue increases relating to audit reports and fraud investigations during the five-year period from 2010 to 2014. Cost savings and revenue increases from audit reports issued or investigations conducted prior to 2010 are not included in the current calculation of return on investment, even though these amounts are significant.

Since 2010, total one-time and projected five-year cost savings and revenue increases are approximately \$235.6 million. The cumulative costs of operating the Auditor General's Office since 2010 were approximately \$19.9 million. In simple terms, for every \$1 invested in the Auditor General's Office the return on investment was approximately \$11.8.

The identification of cost savings and increased revenue is only one component of the Auditor General's mandate. Equally important is the ongoing evaluation of governance, risk management and internal controls. However, the benefits resulting from these audits are not easily quantified in financial terms.

RECOMMENDATION

The Auditor General recommends that:

1. Council receive this report for information.

Financial Impact

The adoption of this report has no direct financial implication.

DECISION HISTORY

In May 2002, City Council approved an independent Auditor General's Office for the City of Toronto in conjunction with the implementation of a new audit framework.

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.”*

In accordance with the Audit Committee request, the Auditor General has consistently provided annual reports on the benefits of the work completed by the Office.

Specific responsibilities of the Auditor General are set out in Chapter 3 of the Toronto Municipal Code. The Code requires that the Auditor General, as one of the City's accountability officers, report annually to Council on the activities of the Office and savings achieved.

COMMENTS

The Auditor General's report entitled “2014 Annual Report - Demonstrating the Value of the Auditor General's Office” is attached as Appendix 1.

The report includes an overview of major activities conducted by the Auditor General's Office in 2014, and the financial and non-financial benefits resulting from implementation of audit recommendations and operation of the Fraud and Waste Hotline Program.

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SIGNATURE

Beverly Romeo-Beehler, Auditor General

ATTACHMENT

Appendix 1: 2014 Annual Report – Demonstrating the Value of the Auditor General’s Office

AUDITOR GENERAL'S REPORT

2014 Annual Report

**Demonstrating the Value of
the Auditor General's Office**

February 9, 2015

Beverly Romeo-Beehler, CPA, CMA, B.B.A., JD
Auditor General



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EXECUTIVE SUMMARY

***Auditor General's
authority is
prescribed in the
City of Toronto
Act***

In May 2002, City Council approved an independent Auditor General's Office for the City of Toronto. The *City of Toronto Act, 2006* subsequently formalized the establishment of the Auditor General.

Per Section 178 of the 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 are set out in Chapter 3 of the Toronto Municipal Code. The Code also requires that the Auditor General, as one of the City's accountability officers, reports annually to Council on the activities of the Office and the savings achieved.

This annual report accordingly provides information on the Auditor General's Office 2014 activities, quantifiable financial benefits and non-financial benefits.

Major Activities and Accomplishments in 2014

***Major activities in
2014***

- Completed and issued 11 performance audit reports providing 110 recommendations
- Processed 687 complaints to the Fraud and Waste Hotline. Since many complaints include multiple allegations, the number of allegations addressed by the Hotline approximated 1,300 in 2014
- Completed three Continuous Controls Monitoring processes for the City and the Toronto Transit Commission
- Conducted an annual follow-up on the implementation status of approximately 400 audit recommendations issued to City divisions, agencies and corporations. Three reports were issued on the follow-up results

- Initiated a City-wide risk assessment including risk assessments of certain agencies and corporations
- Ongoing management, coordination and oversight of external attest audits.

Return on Investment for the Office

Auditor General audits may identify cost savings and revenue increases

In fulfilling her mandate, the Auditor General performs various audits of City divisions, agencies and corporations, often identifying opportunities for cost savings and revenue increases.

Return on investment is based on audits and investigations from 2010 to 2014

The return on investment for the Auditor General's Office is based on estimated cost savings and revenue increases relating to audit reports and fraud investigations during the five-year period from 2010 to 2014. Cost savings and revenue increases from audit reports issued or investigations conducted prior to 2010 are not included in the current calculation of return on investment, even though these amounts are significant.

Projected savings are for five years only

Cost savings or revenue increases may be one-time or ongoing. For the purposes of this report, we have projected ongoing cost savings or revenue increases for a five-year time period only. In most cases, cost savings or revenue increases extend far beyond that time frame.

Estimated \$11.8 savings for every dollar invested in the Auditor General's Office

Since 2010, the one-time and projected five-year cost savings and revenue increases, net of implementation costs, total approximately \$235.6 million. The total cost of operating the Auditor General's Office for the five years 2010 to 2014 was \$19.9 million. The return on every dollar invested in the Auditor General's Office was approximately \$11.8.

This is a conservative estimate. The savings only relate to reports issued and investigations conducted since 2010. The recurring savings are only projected for a five-year time period.

Financial Benefits Realized in 2014

Table 4 provides details of financial benefits realized in 2014

In 2014, additional savings were identified from six previously issued audit reports. The additional one-time and annual recurring savings from these reports were approximately \$1.5 million and \$2.5 million respectively. These savings were undeterminable at the time the reports were issued and consequently were not included in previous Auditor General annual reports.

Part of the savings from 2014 Telecom audit are quantifiable in 2014

In addition, the 2014 telecommunications audit recommended better management of telephone accounts and data usage. In response to the audit, management has taken action to cancel, suspend and re-assign a considerable number of phones. Based on this information, we were able to estimate one-time savings of \$234,000 and ongoing annual savings of \$623,000 as a result of implementing audit recommendations. These savings amounts are included in the current benefits report.

Savings estimate is conservative

Other 2014 audits also identified cost saving opportunities. However, to ensure our annual savings estimate is conservative, these potential savings are not included in the current year savings calculation. These potential savings will be recognized and quantifiable after the audit recommendations have been implemented.

With respect to savings from Fraud and Waste Hotline related matters, the amounts of one-time cost recovery and avoided future loss identified in 2014 are shown in Table 6. Section 3.3 highlights the full financial impact of the Fraud and Waste Hotline Program.

Recommendations relating to improving controls are important but benefits may not be quantifiable

Non-Quantifiable Benefits

A number of 2014 audit reports have led to improved internal controls, improved governance, increased operational effectiveness and efficiency, and better customer service, but have not resulted in quantifiable savings.

The audit of Toronto Building, for example, identified significant issues in building permit inspections, and the Social Housing Program audit highlighted the need for improved City oversight of the social housing program.

The 2014 audit of the Sony Centre for the Performing Arts not only identified key issues in the redevelopment of the Centre, but it also identified opportunities for improved coordination and cooperation between the City and its agencies and corporations in major construction projects undertaken by agencies and corporations. Abstracts of these individual audits are provided in Section 4 of this report.

2015 and Ahead

The Auditor General is committed to continuing with a risk-based audit approach and to build on the valuable work that has been undertaken by the Auditor General's Office.

Examples of planned 2015 audit projects

The Office is currently finalizing its 2015 Work Plan. Examples of planned 2015 audit projects are:

- Procurement of City-wide major service contracts for construction, paving and possibly snow removal
- Information Technology network vulnerabilities
- Long term disability (LTD) approval and payment processes
- Information Technology major infrastructure and other projects

The 2015 Audit Work Plan includes projects identified from preliminary results of the risk assessment. The final risk assessment will be reported to the May 22, 2015 Audit Committee meeting. The results will be used to update the 2015 Audit Work Plan and to prepare the Audit Work Plans for future years.

In addition to conducting performance audits and operating the Fraud and Waste Hotline, the Office will be completing activities in 2015 that enhance the quality of work conducted by the Office.

2015 activities include a City- wide risk assessment and a peer review

These activities include:

- Completing a City-wide risk assessment
- Developing a formal strategic plan and an annual operating plan
- Undergoing a peer review to ensure adherence to auditing standards
- Enhancing in-house training.

Conclusion

The role of the Auditor General is to assist City Council in holding itself and City administrators accountable for ensuring the quality of stewardship over public funds and for achievement of value for money in operations. The Auditor General selects projects based on risk, and frequently a by-product of the audit work is identifiable cost savings.

This report shows that the cost savings from recent audits and investigations equate to \$11.8 return on investment for every dollar invested in the Auditor General's Office. Cost savings only reflect the quantifiable financial benefits of the Auditor General's work. Equally important is the work conducted to safeguard City resources, address internal control weaknesses, and ensure proper use of public funds. Many non-financial audit reports have significant and long-term benefits to the City.

1.0 THE AUDITOR GENERAL'S OFFICE

1.1 The Responsibilities of the Auditor General Under the City of Toronto Act

City Council approved an independent Auditor General's Office in 2002

In May 2002, City Council approved an independent Auditor General's Office for the City of Toronto in conjunction with the implementation of a new audit framework. The *City of Toronto Act, 2006* (the *Act*) subsequently formalized the establishment of the Auditor General. Section 177 of the *Act* requires that "The City shall appoint an Auditor General".

Responsibilities under the City of Toronto Act

Under Section 178 of the *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."

Annual 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."*

In accordance with the Audit Committee request, the Auditor General has been providing an annual report on the benefits of the work completed by the Office.

Specific responsibilities of the Auditor General are set out in Chapter 3 of the Toronto Municipal Code:

Annual reporting requirement

- Reporting annually to Council on the activities of the Office including the savings achieved
- Conducting audit projects identified by the Auditor General, or approved by a two-thirds majority resolution of City Council

Fraud investigations

- Conducting forensic investigations, including suspected fraudulent activities

Manage the Fraud and Waste Hotline

- Managing the Fraud and Waste Hotline Program, including the referral of issues to divisional management

Audit of agencies and corporations

- Undertaking financial (excluding attest), compliance and performance audits and provide recommendations to City-controlled agencies and corporations
- 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

In accordance with the audit framework policy approved by City Council in 2002, the Auditor General's Office also performs the following duties:

Oversee external audit contract

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

Coordination with Internal Audit Division

- Coordinating audit activities with the City Manager's Internal Audit Division to ensure the efficient and effective use of audit resources
- Coordinating audit activities with internal auditors of the City's agencies and corporations

Coordination with other Accountability Officers

- Coordinating activities with the City's three other Accountability Officers: the Ombudsman, the Lobbyist Registrar and the Integrity Commissioner.

1.2 Professional Standards

Audits conducted in accordance with 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.

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.

Audit staff are also bound by the standards and ethics of their respective professional organizations, which include the Chartered Professional Accountants of Canada, 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. Details of staff qualifications are available on the Auditor General's Office web site:

<http://www1.toronto.ca/wps/portal/contentonly?vnextoid=68f289b44e713310VgnVCM1000003dd60f89RCRD&vnextchannel=06e3e03bb8d1e310VgnVCM10000071d60f89RCRD>

1.3 Independent Quality Assurance Review of the Auditor General's Office

Government Auditing Standards require an independent review

Government Auditing Standards require that audit organizations performing audits in accordance with Generally Accepted Government Auditing Standards undergo an external independent quality assurance review 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 Office received the highest rating possible in its third quality assurance review in 2012

The Auditor General's Office underwent its third quality assurance review in 2012. The Auditor General received an "unqualified opinion" for the review. An "unqualified opinion" is the highest rating possible and indicates that audit work is conducted in accordance with Generally Accepted Government Auditing Standards.

A written opinion letter and a management letter 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 2012 External Quality Assurance Review and ALGA letters are available at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2012.AU9.5>

The Auditor General's Office is currently planning for its fourth quality assurance review in 2015. Results of the review will be provided to the Audit Committee in 2015.

1.4 Annual Compliance Audit

Annual audit completed by independent audit firm

The Auditor General's Office is required to undergo an annual compliance audit by an external independent auditor engaged by the City Manager's Office. The annual compliance report for the year ended December 31, 2013 was presented to the Audit Committee at its May 28, 2014 meeting. The report issued by Hilborn LLP the independent external auditor is available at:

<http://www.toronto.ca/legdocs/mmis/2014/au/bgrd/backgroundfile-68512.pdf>

The external auditor reviewed a sample of transactions and came to the conclusion that "*As a result of applying the above procedures, we found no exceptions to the adherence to the policies, procedures and delegated authorities as they applied to our test sample*"

2.0 ACTIVITIES AND ACCOMPLISHMENTS IN 2014

2.1 Performance Audits and Recommendations

Audit is an independent, objective process to improve governance and controls

An 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 to evaluate and improve the effectiveness of risk management, internal control and governance processes.

Issued 11 performance audit reports in 2014 providing 110 recommendations

In 2014, the Auditor General issued 11 performance audit reports providing 110 recommendations, 3 Continuous Controls Monitoring reports, and 12 other reports. Exhibit 1 provides a list of reports issued in 2014. Exhibit 2 lists reports issued between 2010 and 2013.

Recommendations take into account cost of implementation

The Auditor General, in making audit recommendations, is cognizant 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, develop new revenue streams, and reduce operating costs
- better manage or utilize City resources, including the management of public funds, personnel, property and equipment
- eliminate inefficiencies in management information systems, internal and administrative procedures, use of resources, allocation of personnel and purchasing procedures.

Audits also assist management to:

- safeguard assets
- detect unauthorized acquisition, use or disposal of assets
- ensure compliance with laws, regulations, policies, procedures or generally accepted industry standards.

2.2. Operation of the Fraud and Waste Hotline

Prevention and detection are key to managing risk of fraud and other wrongdoing

The Auditor General's Office has been administering the Fraud and Waste Hotline Program since its inception in 2002. The Auditor General's Forensic Unit is dedicated to managing the Hotline Program and is responsible for conducting investigations and providing oversight over management investigations.

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 indirect costs such as additional management resources to investigate and correct wrongdoing.

687 complaints were received in 2014

In 2014, the Program received 687 complaints, a seven per cent increase from the number of complaints in 2013. A number of complaints received in 2014 included two or more allegations. As a result, approximately 1,300 allegations were processed by the Program staff.

Complaint activity may increase or decrease because of the dynamic nature of a Hotline Program and as a result of various factors. Activity may peak following coverage of an audit report or incidents of fraud in the media. For example, in 2011, there was a peak in complaints in response to various high profile Auditor General reports regarding Toronto Community Housing Corporation (TCHC). However, over the past two years the number of complaints received has decreased with the introduction of an independent audit process and complaint hotline by TCHC.

Program has both financial and non-financial benefits

Ultimately, the effectiveness of the Hotline Program does not depend on the number of complaints reported in any given year, but on the action taken to investigate, manage and reduce the risk of fraud.

While the financial benefits of the Program are highlighted in Section 3, it is important to recognize the non-financial benefits:

Non-financial benefits of the Hotline

1. The resolution of complaints leads to improvements relating to internal controls, policies and procedures and mitigates potential misuse of City resources.
2. Collecting, monitoring and analyzing complaint data helps in identifying trends that may point to more systemic problems, address risks and make action-oriented recommendations to management. For example, in 2013, the Auditor General issued a report entitled "Auditor General's Hotline Investigation Report: Fleet Services Division - Review of Equipment Maintenance Practices". The report was the result of investigative work conducted in response to a number of complaints received through the Hotline. The report contained nine recommendations to help improve the City's fleet equipment maintenance practices.
3. The Hotline Program allows employees and the public to report complaints anonymously. This encourages the reporting of wrongdoing to help detect and prevent losses to the City.
4. The Hotline Program is a key component in deterring fraud or wrongdoing by increasing the probability of being detected. Tips remain the most common method for detecting fraud as reported in the *2014 Report to the Nations on Occupational Fraud and Abuse*, issued by The Association of Certified Fraud Examiners, a global professional organization.

While these non-financial benefits are significant, it is not possible to quantify their value.

2.3 Continuous Controls Monitoring

Continuous Controls monitoring process to monitor financial transactions on an ongoing basis

The objective of the Auditor General's Continuous Controls Monitoring (CCM) Program is to provide management with periodic reports that assist in proactively monitoring financial transactions, detecting unusual expenses and identifying areas where internal controls could be strengthened. Exception reports are produced using specialized data analysis software.

The CCM program was first applied to analyze City employee overtime and other payroll related expenses in 2011. The process was extended in 2012 and 2013 to include periodic reviews of City staff absenteeism and Toronto Transit Commission (TTC) employee overtime, mileage and meal allowance expenses.

Telecommunication expenses were added to CCM Program in 2014

In late 2014, the CCM program was extended to include monitoring of telecommunication expenses, with the first report expected in the first half of 2015. Telecommunication expenses were added to the program after the Auditor General's 2014 review identified control weaknesses related to these expenses.

In 2014, the Auditor General issued the following three CCM reports relating to:

- City employee overtime and mileage expenses
- City staff absenteeism
- TTC employee overtime and payroll related expenses

A brief summary of key results in each report is provided below.

Continuous Controls Monitoring, 12-Month Review of City Overtime, Standby Pay and Mileage Expenses, 2013

Since inception in 2011, the CCM program has resulted in decreases in City overtime and mileage with the exception of 2013 when expenses increased due to overtime related to adverse weather related emergencies. Table 1 outlines staff overtime and mileage expenses from 2010 to 2013.

**Table 1: 2010-2013 Staff Overtime and Mileage Expenses
(in \$millions)**

	2010	2011	2012	2013
Overtime	\$45.0	\$41.0	\$38.8	\$43.0
Mileage	\$4.2	\$3.9	\$3.4	\$3.4
Total	\$49.2	\$44.9	\$42.2	\$46.4

The CCM report for 2013 City employee overtime and mileage expenses is available at:

<http://www.toronto.ca/legdocs/mmis/2014/au/bgrd/backgroundfile-66986.pdf>

That report identifies two significant weather events as the major factors contributing to the increase in overtime in 2013.

The report for the year ended 2014 will be presented at the May 2015 Audit Committee meeting.

Continuous Controls Monitoring extended to include staff absences

Continuous Controls Monitoring, 12-Month Review of City Staff Absenteeism, 2013

In 2013, the Auditor General extended the CCM Program to include staff absences including sick leave and ill dependent leave. Staff absences have a direct impact on divisional productivity and operating costs.

Since 2013, the Auditor General has continued to provide management with periodic exception reports detailing staff absenteeism. The results for 2013 staff absences were reported to Audit Committee in May 2014. The CCM report is available at:

<http://www.toronto.ca/legdocs/mmis/2014/au/bgrd/backgroundfile-69293.pdf>

Paid staff absences in 2013 declined by \$8.7 million or 9% when compared with 2012

Similar to the initial impact of continuous monitoring of staff overtime, paid staff absenteeism declined by \$8.7 million or nine per cent in 2013 when compared to 2012.

Table 2: 2012-2013 Staff Absenteeism for Selected Absentee Types (in \$millions)

Description	2012	2013
Sick Leave	\$81.4	\$71.7
Ill Dependent Leave	\$16.6	\$17.6
Total*	\$98.0	\$89.3

***Notes:**

1. Amounts are equivalent salary amounts based on employee annual salaries.
2. Includes \$1.2 million in 2013 and \$1.1 million in 2012 for sick pay adjusted against vacation and lieu time banks.

The Auditor General will continue to provide continuous controls monitoring results to assist in managing staff absenteeism and improve controls.

Continuous Controls Monitoring – Toronto Transit Commission (TTC), 12-Month Review of Employee Overtime and Related Expenses, 2013

Auditor General initiated continuous controls monitoring at TTC in 2012

In 2012, the Auditor General initiated CCM for the TTC. Results of the analysis of overtime and related expenses are reported to TTC management and City Council on a regular basis. In 2014, the program was extended to include staff absenteeism, with the results to be reported in 2015.

The report on TTC staff overtime and related expenses for 2013 is available at:

<http://www.toronto.ca/legdocs/mmis/2014/au/bgrd/backgroundfile-70229.pdf>

In 2012, total TTC overtime expenses decreased by \$5.5 million or eight per cent when compared to 2011. In 2013, this trend was reversed as TTC overtime increased by \$11 million or 17 per cent from \$66.5 million in 2012 to \$77.5 million in 2013.

Various reasons cited for 2013 increase in TTC overtime

According to management, overtime increased for various reasons including retroactive wage increases for 2011 and 2012 paid in 2013 and work force gapping. Extreme weather conditions during 2013 including summer flooding and a winter storm were also cited as factors in increased overtime. Staff absenteeism was also cited as a contributing factor to increased overtime.

Continuous controls monitoring results for 2014 will be reported to the Audit Committee in 2015.

2.4 Follow-Up on Implementation of Audit Recommendations

Value of audit process depends on implementation of audit recommendations

The responsibility of the Auditor General is to present accurate and convincing information clearly supporting recommendations made. Management's responsibility is to implement agreed upon audit recommendations. The value gained from the audit process is derived from timely implementation of audit recommendations.

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.

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

The Auditor General conducts a systematic follow-up of outstanding recommendations made to City divisions, agencies and corporations on an annual basis and the process is incorporated in the Auditor General's annual work plan.

Each year, the Auditor General forwards a list of outstanding audit recommendations to management. Management responds with information detailing actions taken on recommendations implemented. The Auditor General verifies information provided by management and communicates follow-up results to the Audit Committee.

Implementation Status of Audit Recommendations for City Divisions

City divisions have implemented 70 per cent of Auditor General recommendations

The results of the 2014 follow-up review indicate that management has fully implemented 389 or 70 percent of 556 recommendations made by the Auditor General during the five-year period from July 1, 2008 to June 30, 2013. Management is taking steps to implement the remaining recommendations.

The 2014 follow-up review report entitled “Auditor General’s Status Report on Outstanding Audit Recommendations for City Divisions” is available at:

<http://www.toronto.ca/legdocs/mmis/2014/au/bgrd/backgroundfile-70627.pdf>

Implementation Status of Audit Recommendations for City Agencies and Corporations

City agencies and corporations have implemented 77 per cent of Auditor General recommendations

The Auditor General also follows up on outstanding recommendations made to City agencies and corporations. The results of the 2014 review indicate that City agencies and corporations have implemented 122 or 77 per cent of 159 recommendations made by the Auditor General during the five-year period from July 1, 2008 to June 30, 2013.

The 2014 “Auditor General’s Status Report on Outstanding Audit Recommendations for City Agencies and Corporations” is available at:

<http://www.toronto.ca/legdocs/mmis/2014/au/bgrd/backgroundfile-70598.pdf>

Management has implemented 48% of recommendations made through the City's Fraud and Waste Hotline Program

Implementation Status of Recommendations Made Through the Operation of the City's Fraud and Waste Hotline Program

Since January 2007, the Auditor General has issued various reports highlighting issues identified by the Fraud and Waste Hotline Program. Since that time, a total of 27 recommendations have been reported publicly. The results of the 2014 follow-up review indicate that management has fully implemented 48 per cent or 13 of these 27 recommendations. As well, an additional 23 recommendations were made to management staff in the context of confidential investigation reports and those recommendations have been fully implemented. The 2014 follow-up review report entitled “Auditor General’s Office –Forensic Unit Status Report on Outstanding Recommendations” is available at:

<http://www.toronto.ca/legdocs/mmis/2014/au/bgrd/backgroundfile-70639.pdf>

2.5 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 the Audit Committee and City Council for information. The 2014 Audit Work Plan was received by the City Council at its November 13-18, 2013 meeting. The purpose of the Work Plan is to provide an overview of how resources allocated to the Auditor General's Office are used during the year.

The 2014 Audit Work Plan is available at:

<http://www.toronto.ca/legdocs/mmis/2013/au/bgrd/backgroundfile-62630.pdf>

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

The development of the work plan is the sole responsibility of the Auditor General. The Plan is not subject to approval by City 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 and concerns of City Council are also considered in selecting audit projects.

The extent of audit projects included in the annual work plan is also a function of available staff resources.

City Council may request the Auditor General to conduct reviews on areas of concern. Council has previously requested the Auditor General to conduct reviews of City sole source contracts and the filing of election financial statements by members of City Council.

Reviews requested by the Toronto Police Services Board

In addition, the Toronto Police Services Board has, in the past, requested reviews of the police paid duty system and the police Integrated Records and Information System. In view of the potential for cost savings and cost avoidance, the Auditor General determined that both projects should be added to his Work Plan and completed the projects in 2011.

2013 work plan amended to respond to Executive Committee's request

More recently, the City's Executive Committee requested the Auditor General to consider undertaking an audit of the Sony Centre for the Performing Arts. In view of the significant funds involved, the audit of the Sony Centre redevelopment project was included in the Auditor General's 2013 work plan. The audit was completed in 2014 and the audit report was presented to the Sony Centre Board of Directors and the Audit Committee in May 2014 and to City Council in June 2014.

The Auditor General also considered a request from the City's Budget Committee to conduct a value for money review of Build Toronto and Invest Toronto. The Build Toronto audit was completed in 2014 and the audit report was presented at the Build Toronto Board of Directors meeting on January 26, 2015. The Invest Toronto audit was completed in 2014 and the audit report has been submitted for presentation to the Board in the first quarter of 2015.

2.6 Risk Assessment

A detailed City-wide risk assessment is conducted every five years

Every five years, the Auditor General's Office performs a detailed risk assessment of the operations of the City and those agencies and corporations included within its mandate. The purpose of the risk assessment is to ensure that all significant areas of the City are evaluated from an audit risk perspective by using uniform criteria and quantitative evaluations to identify areas that may warrant audit attention. Determining which areas to audit and the appropriate allocation of audit resources are critical to maximizing the value of an audit process.

The last risk assessment was completed in 2009. There were 56 high risk areas identified during the risk assessment. The majority of these high risk areas have been the subject of an audit by the end of 2014.

The latest risk assessment was commenced in late 2014

In late 2014, the Auditor General's Office commenced a detailed risk assessment of the City and its agencies and corporations. An overview of the process was provided in a report to the Audit Committee at its May 28, 2014 meeting.

<http://www.toronto.ca/legdocs/mmis/2014/au/bgrd/backgroundfile-69290.pdf>

The results of the 2014 risk assessment will be used in the development of the Auditor General's annual work plans over the next five years. The results of the risk assessment process are expected to be reported to the May 22, 2015 meeting of the Audit Committee.

The service of a risk assessment has been offered to the Boards and Toronto Hydro Corporation

Based on the Auditor General's responsibility to conduct audits as specified in the Toronto Municipal Code, Toronto Police Services Board, Toronto Public Library Board, Toronto Board of Health, and Toronto Hydro Corporation are not included in the Auditor General's 2014 risk assessment process. However, the Auditor General has offered the service of a risk assessment to these entities.

2.7 External Audit Coordination

Management of external auditor contract

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

A Request for Proposal for an external auditor performing financial statement audits was issued in 2014

The existing *five-year* contract for external audits of the City and its major agencies and corporations will expire with the completion of the 2014 year-end audits. A Request for Proposal to select an external auditor to perform annual financial statement audits for years 2015 to 2019, as well as other attest audits of financial information required during this period, closed on December 5, 2014. The results of the Request for Proposal will be presented to the Audit Committee at its February 27, 2015 meeting.

The external auditor 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 2013 to 2017 was approved by City Council in November 2012.

3.0 QUANTIFIABLE FINANCIAL BENEFITS

3.1 Return on Investment

At the request of Audit Committee and in accordance with the Toronto Municipal Code, we have estimated the extent of the quantifiable financial benefits resulting from the audits and investigations conducted by the Auditor General's Office.

Issued 89 audit reports and handled 3,499 complaints to the Hotline over the past 5 years

From January 2010 to December 2014, the Auditor General's Office completed 89 performance audits providing a total of 780 recommendations. The Office also handled 3,499 individual complaints to the Fraud and Waste Hotline over the same five-year period.

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

Cost savings over last five years are approximately \$235.6 million

A comparison of audit costs from 2010 to 2014 to the estimated potential savings is shown in Figure 1. Since 2010, the cumulative audit expenditure has been approximately \$19.9 million and the estimated cost reductions and revenue increases are approximately \$235.6 million. Many of the cost savings are ongoing and recur annually. The estimated cost savings are projected on a five-year forward basis only, even though the cost savings in most instances will extend beyond five years.

Estimated \$11.8 return on investment for every \$1 invested in the Office

In simple terms, for every \$1 invested in the Auditor General's Office the return on this investment has been approximately \$11.8.

Figure 1 Five Year Estimated Savings (\$millions) Compared to Audit Costs 2010-2014

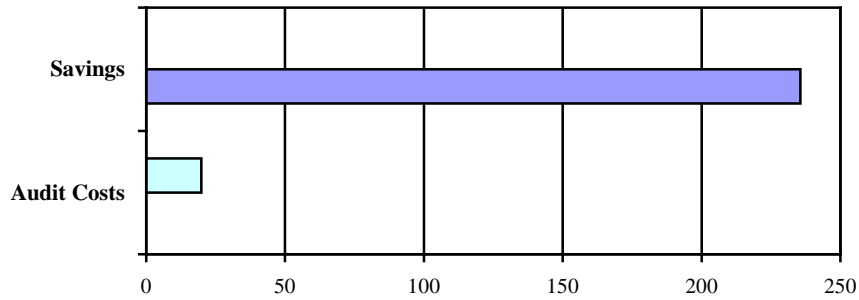
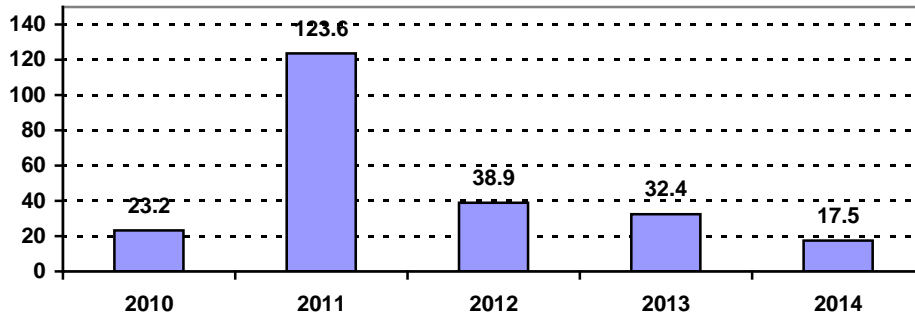


Table 3 provides a summary of the one-time and five-year projected cumulative savings resulting from audit work conducted from 2010 through 2014. Figure 2 depicts the year to year variation in estimated savings.

Table 3: Summary - Cumulative One-Time and Projected Estimated Savings

ESTIMATED SAVINGS \$000's						
Year of Savings	Year of Annual Report					
	2010	2011	2012	2013	2014	Total
	\$	\$	\$	\$	\$	\$
2010	443					443
2011	2,943	798				3,741
2012	4,943	21,629	5,747			32,319
2013	4,943	24,379	7,670	453		37,445
2014	4,943	25,079	7,570	5,227	1,776	44,595
2015	4,943	25,629	7,560	6,370	3,173	47,675
2016		26,079	7,920	6,565	3,141	43,705
2017			2,461	6,788	3,141	12,390
2018				7,041	3,141	10,182
2019					3,095	3,095
Total	\$23,158	\$123,593	\$38,928	\$32,444	\$17,467	\$235,590

Figure 2 Estimated yearly savings (\$millions) 2010 -2014



3.2 Financial Benefits Realized in 2014

The specific audit reports and one-time and recurring savings realized in 2014 are listed in Table 4 in the following order:

- Savings from audit reports issued prior to 2014
- Savings from audit reports issued in 2014
- Savings from investigation of fraud related matters

A brief explanation of each audit report and estimated savings are provided after Table 4.

The savings estimates are based on the amounts identified by management in implementing audit recommendations, or potential revenue increases or cost reductions identified in specific audits. In certain instances, the savings were projected based on a range of assumptions. In each case, the amounts listed in Table 4 have been estimated conservatively.

Additional savings from six previously issued audit reports

In 2014, additional savings were noted from six audit reports issued between 2010 and 2013. These additional savings were not included in the Auditor General's previous annual reports, and are therefore added to the current year benefit estimates. Consistent with our method of accounting for recurring annual savings, the new savings identified are projected on a five-year forward basis. These audit reports and saving estimates are detailed in Table 4.

***Savings estimates
are conservative
and achievable***

It is not always possible to quantify all potential cost savings when audit reports are issued. Among the 11 performance audit reports issued in 2014, a number of them have identified opportunities for cost savings or increased revenues. However, to ensure our annual savings estimates are conservative and achievable, these potential savings are not included in the current year savings calculation. These potential savings will be realized when management has fully implemented the audit recommendations such that the savings can be quantified.

***Part of the savings
from 2014
Telecom audit are
quantifiable in
2014***

The 2014 audit of City telecommunications resulted in quantifiable savings in the current year. The audit recommended better management of telephone accounts and data usage. In response to the audit, management staff took action to cancel, suspend and re-assign a considerable number of phones. Based on this information, we were able to estimate one-time and annual savings as a result of implementing the audit recommendations. These estimated savings are included in the current benefits report and further savings may be realized in the future through continued management monitoring and action.

Table 4: Estimated Savings (\$000's) Recognized in 2014 From Reports Issued Between 2010 and 2014

	2014 One-time	2015 Recurring	2016 Recurring	2017 Recurring	2018 Recurring	2019 Recurring	Total
Audit reports issued prior to 2014							
Appraisal Services Unit – Opportunities for Improving Economy, Efficiency and Effectiveness, 2013	\$12	\$84	\$84	\$84	\$84	\$84	\$432
Toronto Community Housing Corporation – The City and Toronto Community Housing Corporation Needs to Strengthen its Oversight of Subsidiaries and Other Business Interest, 2012	-	\$416	\$416	\$416	\$416	\$416	\$2,080
Toronto Community Housing Corporation (TCHC) – Review of Controls Over Procurement and Payment Functions at TCHC Subsidiary: Housing Services Inc., 2012	\$600	\$90	\$90	\$90	\$90	\$90	\$1,050
Review of Wheel-Trans Services – Sustaining Level and Quality of Service Require Changes to the Program, 2012	\$46	\$92	\$92	\$92	\$92	\$46	\$460
Toronto Police Service, Police Paid Duty – Balancing Cost Effectiveness and Public Safety, 2011	\$846	\$1,710	\$1,710	\$1,710	\$1,710	\$1,710	\$9,396
Insurance and Risk Management Review, 2010	-	\$77	\$77	\$77	\$77	\$77	\$385
2014 Audit reports							
Controls Over Telecommunication Expenses Need Improvement	\$234	\$655	\$623	\$623	\$623	\$623	\$3,381
Investigations of Fraud Related Matters*							
2014 Cost Recovery and Loss Prevention	\$38	\$49	\$49	\$49	\$49	\$49	\$283
Total 2014 and 5-Year Savings	\$1,776	\$3,173	\$3,141	\$3,141	\$3,141	\$3,095	\$17,467

*Savings associated with complaint investigations excluding referrals from divisions. See Section 3.3 for financial impact of the Fraud and Waste Hotline Program.

The following section provides a brief overview of each of the reports in Table 4 and the cost savings information.

Appraisal Services Unit – Opportunities for Improving Economy, Efficiency and Effectiveness, 2013

In July 1998, City Council approved a standardized fee structure for recovering the costs for appraisals performed to assist in determining parks levy payments required under Section 42 of the Planning Act. The fee structure had not been revised since it was set in 1998.

The audit recommended that the fees be revised annually to account for inflationary impacts on costs.

Increase in annual revenue of \$84,000 from improving cost recovery for the provision of appraisal services

As a result of the audit recommendation, City Council approved the staff recommendation to increase the user fee maximum from \$6,000 to \$8,000 effective April 2014, to be adjusted annually for inflationary impacts. This resulted in a revenue increase of \$12,000 in 2014. The annualized revenue increase is estimated to be approximately \$84,000 based on 42 appraisals assessed at the maximum fee per year.

The audit report is available at:

<http://www.toronto.ca/legdocs/mmis/2013/au/bgrd/backgroundfile-55751.pdf>

Toronto Community Housing Corporation (TCHC) – The City and Toronto Community Housing Corporation Needs to Strengthen its Oversight of Subsidiaries and Other Business Interest, 2012

The 2012 audit recommended that *“The Chief Executive Officer evaluate the feasibility and associated risks of integrating subsidiaries within Toronto Community Housing Corporation, giving consideration to potential operational efficiencies, staff resource re-allocation, and cost savings that can be gained from a more integrated operating structure.”*

The audit report is available at:

<http://www.toronto.ca/legdocs/mmis/2012/ex/bgrd/backgroundfile-46601.pdf>

At the time the audit report was issued, the financial savings from integrating the subsidiaries could not be quantified.

***TCHC Board
decided to dissolve
its Housing
Services Inc***

In October 2012, the TCHC Board of Directors passed a resolution to dissolve its operating subsidiary, Housing Services Inc (HSI). The operations of HSI ceased in late 2013 and TCHC is in the process of dissolving this corporation in 2014.

***Estimated
\$416,000 annual
savings from
dissolution of HSI***

In an October 2012, TCHC staff report recommending the dissolution of HSI, staff identified annual savings of \$416,000 comprised of:

- Approximately \$358,000 reduction in annual Workplace Safety and Insurance Board (WSIB) premium
- Elimination of \$30,000 annual HSI Board remuneration, and
- Elimination of the approximately \$28,000 cost for the annual financial statement audit.

An annual savings of \$416,000 are included in Table 4 for 5 years from 2015 to 2019.

In addition, the reorganization allows for more effective use of staff resources in addressing persistent problems such as the capital repairs backlog.

The TCHC staff report is available at:

<http://www.toronto.ca/legdocs/mmis/2012/cc/bgrd/backgroundfile-52390.pdf>

**Toronto Community Housing Corporation (TCHC) –
Review of Controls Over Procurement and Payment
Functions at TCHC Subsidiary: Housing Services Inc., 2012**

The 2012 audit report recommended that “*The Chief Executive Officer explore opportunities to enter into cooperative purchasing agreements with the City and its Agencies, Boards, Commissions and Corporations, other municipalities, public organizations, and other levels of government.*”

The audit report is available at:

<http://www.toronto.ca/legdocs/mmis/2012/ex/bgrd/backgroundfile-46600.pdf>

When the report was issued, the potential cost savings resulting from implementing the audit recommendations were not determinable.

Leveraging provincial IT contracts resulted in one-time \$600,000 and annual \$90,000 savings

In a July 2013 TCHC staff report entitled "Award of Contracts – IT Hardware and Software", staff indicated that TCHC had realized savings by leveraging opportunities through three Vendor of Records ("VOR") pre-established by the Province of Ontario. These VORs allowed TCHC to purchase items at a considerable discount (approximately 40 per cent). TCHC staff estimated one-time savings of at least \$600,000 for purchases of new IT hardware and software through the use of the VOR, and a reduction of \$90,000 annual software maintenance costs.

The TCHC staff report is available at:
(http://www.torontohousing.ca/webfm_send/9712/1?#)

Overall TCHC Savings To Date

Auditor General has issued 5 audit reports on TCHC and its subsidiaries

Between 2011 and 2012, the Auditor General issued five audit reports on TCHC and its subsidiaries. Implementation of recommendations in these audit reports have resulted in significant cost savings. These savings were quantified and included in previous Auditor General's annual benefits reports based on TCHC staff information.

TCHC estimated savings in annual benefits reports are conservative or even under estimated

In a letter dated December 8, 2014 to the former Auditor General, the Chair of the TCHC Board itemized specific savings recognized in 2014 as a result of implementing audit recommendations. Certain of these savings were significantly higher than the estimates included in previous Auditor General's annual benefits reports. However, to be conservative, we have not adjusted our previous savings estimates as we have not reviewed in detail the saving figures contained in the Chair's letter.

The TCHC Board Chair letter is provided in Exhibit 3.

Review of Wheel-Trans Services – Sustaining Level and Quality of Service Require Changes to the Program, 2012

Audit report included five recommendations to improve future procurement of contracted taxi service

The 2012 audit report contained 22 recommendations, five of which were intended to improve future acquisition of contracted taxi service. Over 60 per cent of Wheel-Trans trips were delivered by contracted taxi at a cost of approximately \$33 million in 2011. Both the accessible and sedan contracts were expiring at the end of 2013.

Recommendation 19 in the audit report requested that:
"The Commission request the Chief Executive Officer, in developing future Requests For Proposal for Wheel-Trans contracted taxi services, to replace the bonus entitlement with a financial penalty clause to deter inadequate contractor performance or non-compliance with contract terms and conditions."

Annual savings of \$92,000 from eliminating taxi contractor bonus entitlement

At its May 28, 2014 meeting, the TTC Board authorized the award of five-year contracts to two companies to provide sedan meter-based taxi service. Based on the staff report to the Board, staff have implemented the audit recommendation in the latest sedan meter-based taxi service procurement process. Annual savings of \$92,000 will result from eliminating contractor bonus entitlement.

In calculating the estimated savings in Table 4, only half of the first year contract cost reduction is realized for 2014 as the new contracts became effective July 5, 2014.

The staff report entitled "Procurement Authorization –Meter-Based Taxi Service for Wheel-Trans" to the Toronto Transit Board is available at:

http://www.ttc.ca/About_the_TTC/Commission_reports_and_information/Commission_meetings/2014/May_28/Supplementary_Reports/Sedan_TaxivReport.pdf

The audit report is available at:

<http://www.toronto.ca/audit/2012/Wheel-Trans-Sustaining-Level-and-Quality.pdf>

Toronto Police Service, Police Paid Duty - Balancing Cost Effectiveness and Public Safety, 2011

The audit was conducted at the request of the Toronto Police Services Board. The objective of the audit was to assess the operating effectiveness and efficiency of the paid duty system, and officer compliance with police paid duty policies.

Audit recommended automating the manual paid duty distribution procedures performed by uniformed officers

Audit Recommendation 4 requested that *"The Chief of Police take steps to reduce current paid duty system administrative costs. Such steps should include but not be limited to:*

- a. Exploring the use of information technology to replace manual procedures; and*
- b. Ensuring uniformed police resources are not used to perform clerical functions."*

The audit report is available at:

<http://www.toronto.ca/legdocs/mmis/2011/au/bgrd/backgroundfile-37754.pdf>

At its June 19, 2014 meeting, the Toronto Police Services Board received a report entitled "Chief's Internal Organization Review: Paid Duty System Review – Status Update". According to the Chief's report, a new Paid Duty Management System (PDMS) went live on March 3, 2014. The Chief stated in the report that:

17 uniformed officers have been redeployed to policing duties as a result of the new Paid Duty Management System

"With the automated PDMS, divisional staff are no longer involved in the distribution of paid duties... As a result, 17 uniform officer FTE's have been removed from the process, allowing the Service to redeploy those individuals to duties directly associated with policing."

The Police Chief's report is included in the Board's June 19, 2014 meeting minutes:

<http://www.tpsb.ca/FS/Docs/Minutes/2014/>

In implementing the PDMS, police staff have also initiated a number of new accounting and other processes beyond the audit recommendation. Staff advised that these new processes were still in progress and as such a final analysis of savings achieved could not be undertaken at present.

Redeployment of 17 uniformed officers is equivalent to \$1.7 million cost avoidance per year after deducting ongoing operating costs for the new system

A preliminary analysis of the potential financial benefits focusing only on the redeployment of 17 uniformed officers was undertaken by audit staff. Based on the cost and salary data in a comprehensive police business case for developing the PDMS and factoring in additional staffing requirements during system implementation, the redeployment of 17 uniformed officers is equivalent to \$1.7 million per year in cost avoidance. The estimated cost avoidance for 2014 when the PDMS was first introduced was lower at approximately \$0.85 million after deducting capital system development costs and accounting for ten months of system implementation.

Insurance and Risk Management Review, 2010

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

Audit Recommendation 10 requested that "*The City Solicitor in consultation with the Director, Corporate Finance, prepare a cost-benefit analysis to determine if it would be advantageous to transfer a certain level of legal services currently provided by external private sector legal firms to internal solicitors. Such an exercise be conducted prior to the next City budget cycle.*"

The audit report is available at:

<http://www.toronto.ca/legdocs/mmis/2010/au/bgrd/backgroundfile-30571.pdf>

Audit resulted in initial \$600,000 cost savings from reducing fees paid to external law firms

In accordance with the audit recommendation, the City Solicitor prepared and submitted a business case as part of Legal Services 2011 Operating Budget. City Council approved the creation of four solicitor positions and one support assistant position. This resulted in annual cost savings of \$600,000, which had been included in the Auditor General's previous benefits report.

Additional savings realized in 2015 by further increasing in-house legal staff complement

Legal Services has since identified that further savings could be achieved by performing additional work in house. In its 2014 Operating Budget, the Division received approval to increase the complement of lawyer positions to further reduce outsourcing insurance claims related work to external law firms. The net annual savings would be \$77,000 commencing 2015. The additional savings are reflected in Table 4 for a five-year period consistent with our method of realizing annual recurring savings.

Controls Over Telecommunication Expenses Need Improvement, 2014

\$19.2 million telecommunication costs in 2013

The objective of the review was to assess internal controls over the management of telecommunication contracts, payment of vendor invoices, telecommunication device inventory, and oversight of telecommunication expenses. City telecommunication costs in 2013 were \$19.2 million for Voice Over Internet Protocol and telephone landlines, wireless devices and services, internet and data services, and traffic light circuits.

20 recommendations to help reduce costs and improve controls over expenses

The audit report and its confidential attachment combined contain 20 recommendations to help reduce telecommunication costs and improve controls over expenses.

The report is available at:
<http://www.toronto.ca/legdocs/mmis/2014/au/bgrd/backgroundfile-70658.pdf>

Detailed results were provided to management staff throughout the audit and subsequent CCM process

Throughout the course of the audit, audit staff provided detailed telephone and data usage analytic results to management staff for comment and action. Subsequent to the release of the audit report in June 2014, the Auditor General's Office conducted further analysis of telecommunication usage data through a Continuous Controls Monitoring (CCM) process. The results of this analysis were also provided to management staff.

Estimated annual savings of \$623,000 from cancellation, suspension, or re-assignment of phones

Based on management's responses to date, an estimated annual savings of \$623,000 will be realized commencing 2015 by:

- Cancellation, suspension, or re-assignment of phones with no activity
- Cancellation, suspension, or re-assignment of multiple phones issued to the same users
- Cancellation of suspended phones
- Reducing excessive data/roaming/texting and other charges

One-time savings of \$32,000

In addition to the annual savings, the audit and CCM process identified approximately \$32,000 one-time cost savings, comprised of \$29,000 in reimbursements from employees for personal phone usage, and \$3,000 in cost reduction from temporary suspension of inactive phones for one year. The one-time savings are included in 2015 savings totalling \$655,000 (i.e. annual plus one-time).

Because the identified phones were cancelled, suspended or re-assigned at different times during 2014, only a portion of the annual savings are included in the 2014 savings estimate. The estimated savings for 2014 are \$234,000 as shown in Table 4.

Implementation of audit recommendations may result in further savings in future years. The follow-up on audit recommendation implementation status will take place in 2016, and further savings, if any, will be reported to the Audit Committee.

3.3 Financial Impact of the Fraud and Waste Hotline Program

2014 quantifiable financial benefits included one-time cost recovery and prevention of future losses

Without the Hotline Program certain losses from incidents of fraud and waste might not have been identified or recovered.

The savings included in Table 4 reflect the resolution of complaints reported to the Hotline Program (from all sources, other than complaints reported by divisional management which are discussed below), that resulted in one-time cost recovery and annual savings of approximately \$38,000 and \$49,000 respectively.

A significant number of complaints are referred by division management to the Hotline Program. The Office does not have sufficient resources to lead certain key investigations (whether reported to the Hotline Program by management or any other source). Consequently, City Management is expected to lead the investigations. While Hotline staff provide oversight for most investigations led by management, including those that result in one-time savings and cost recovery, any associated savings and losses are tracked separately and have not been included in Table 4. The value of recurring losses for complaints reported by management is estimated at approximately \$188,000.

4.0 REPORTS WITH NON-QUANTIFIABLE BENEFITS IN 2014

Audit reports identify 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 audit projects with the intent of realizing such results.

Better internal control and operational efficiencies may have no immediate or direct financial benefit

Many of the recommendations 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
- level of customer services.

Certain financial benefits are not determinable at the time of report issuance

In addition, certain audit reports contain recommendations that can potentially lead to financial savings, but the extent of the savings is not determinable until the recommendations are implemented by management.

The following are examples of 2014 audit reports for which the benefits are either non-financial in nature or the financial benefits were not determinable at the time the reports were issued.

Toronto Building – Improving the Quality of Building Inspections

Toronto Building inspections are prescribed in the Building Code Act

Toronto Building inspectors conduct building inspections and issue building permits in accordance with the Building Code Act. In 2012, Toronto Building's inspection function included 161 staff members of which 136 were Building Inspectors.

Audit objective

The objective of the review was to identify opportunities to improve the operational efficiency and effectiveness of building inspection services provided by Toronto Building. The review also assessed compliance with legislative requirements and Divisional policies and procedures.

Results will improve the quality of building inspections

Key issues identified in this report relate to the following areas:

- No inspection of 98,000 permits for over a year in 2012
- No inspection of 70 per cent of open violations
- Need to strengthen inspection activity monitoring information
- Inadequate and inconsistent inspection documentation
- Quality assurance process needs improvement
- Need for developing an annual training plan.

Implementation of the recommendations in the report will improve the quality of building inspection services, assist the Division in complying with legislative requirements and ensure consistent City inspection practices.

The audit report is available at:

<http://www.toronto.ca/legdocs/mmis/2014/au/bgrd/backgroundfile-67006.pdf>

Review of Toronto Transit Commission Bus Maintenance and Shops Department, Phase One: Bus Maintenance and Warranty Administration

The Toronto Transit Commission (TTC) Bus Maintenance and Shops Department provides regular maintenance and repair services to a large fleet of vehicles including 1,867 conventional buses, 221 Wheel-Trans accessible buses, and 404 non-revenue vehicles.

Phase One focused on bus maintenance operations

The objective of the Phase One audit was to assess the operating effectiveness and efficiency of bus maintenance. The audit provided 18 recommendations to help improve the effectiveness, efficiency and the economy of bus maintenance operations.

The key issues identified by the audit were:

Warranty administration requires immediate attention

- Approximately 70 per cent of bus repairs eligible for warranty claims were not processed by the Department due to missing defective parts to return to manufacturers or incomplete information to support the claims
- Need for assessing the merits of the Department's existing 5,000 km maintenance interval in preventing mechanical failures
- Need for improving quality of repairs to reduce incidence of in-service breakdowns
- Need for enhancing training to ensure technicians stay current with new bus technologies
- Better alignment of preventive maintenance inspections to avoid duplication of inspections, and
- Need for assessing the economy of the Department's bus rebuild program by conducting a detailed cost analysis comparing internal rebuild costs with market prices.

The implementation of recommendations in the report will result in cost savings and improved operations. The exact amount of cost savings was not determinable when the report was issued in 2014.

The audit report is available at:
<http://www.toronto.ca/legdocs/mmis/2014/au/bgrd/backgroundfile-67395.pdf>

Review of the Redevelopment of the Sony Centre for the Performing Arts

The \$40 million redevelopment of the Sony Centre has been the largest investment at the Centre since its original construction in October 1960. The objective of this review was to assess the effectiveness of the Centre's redevelopment in achieving its business plan objectives.

Audit identified significant issues

The review identified a number of significant issues including:

- City involvement in the redevelopment project was minimal
- Policies and procedures at the Sony Centre did not adequately address legislated or Council-directed requirements
- The redevelopment project did not meet objectives set out in the original business plan, in particular, the City continues to subsidize the Sony Centre's ongoing operating and capital requirements
- Certain transactions were not appropriately accounted for
- Deficiencies in procurement, construction management and contract administration procedures.

Report will have a broader impact for all City agencies and corporations

The recommendations in this report are expected to have a broader impact for all City agencies and corporations. In particular, all agencies and corporations will benefit from improved coordination and cooperation with the City through implementation of:

- A protocol to address the extent of the City's involvement in major construction projects undertaken by the City's agencies and corporations
- A centralized resource containing City of Toronto Act requirements and City policies and procedures that City agencies and corporations are required to follow.

The implementation of the audit recommendations will also improve Board oversight, existing policies and procedures, and management and administrative controls at the Sony Centre.

City Council appointed an interim Board subsequent to adopting the audit report

Subsequent to the issuance of the audit report, City Council adopted further recommendations to:

- Appoint an interim Board of Directors comprised of members of City Council and City staff
- Direct staff to post Board agendas, background documents and public meeting minutes on the City's website
- Direct staff to provide written documentation for agenda items to ensure that the Board's decision-making is open and transparent to the public.

The audit report is available at:

<http://www.toronto.ca/legdocs/mmis/2014/au/bgrd/backgroundfile-69062.pdf>

Strengthening the City's Oversight of Social Housing Program

\$466 million for the Social Housing Unit in 2013

Social housing subsidies are administered by the Social Housing Unit in the Shelter, Support and Housing Administration Division. In 2013, the Unit's expenditures were \$466 million.

67,000 households receiving RGIs

Social Housing provided rent geared to income (RGI) assistance to more than 67,000 households. Most of the housing units belong to Toronto Community Housing Corporation although 15,000 are supplied by 246 other social housing operators.

Audit objective

The objective of the review was to assess the adequacy of the City's oversight of social housing. More specifically, we reviewed whether the measures in place were adequate to ensure that accurate amounts of RGI subsidies were provided to households, and whether correct amounts of funding were provided to the 246 social housing operators.

***Improvements
needed***

The review identified the following key issues:

- Inadequate controls to ensure the providers are effectively administering RGI assistance
- An effective strategy is needed to prevent and detect RGI related fraud
- Opportunities to achieve corporate efficiencies across City Divisions
- A number of improvement opportunities in the administration of operating subsidies

***Getting the right
subsidy to right
person for right
housing unit***

The report contained 14 recommendations to strengthen the City's oversight role as the service manager of social housing. Implementation of the recommendations will ensure the right subsidy amount is provided to the right people for the right housing unit.

The audit report is available at:

<http://www.toronto.ca/legdocs/mmis/2014/au/bgrd/backgroundfile-70649.pdf>

5.0 2015 and Ahead

The Auditor General will continue to implement a risk-based audit approach, and build on the valuable work that has been undertaken by the Office.

*Examples of
planned 2015
audit projects*

The Office is currently finalizing its 2015 Work Plan. Examples of the planned 2015 audit projects are:

- Procurement of City-wide major service contracts for construction, paving and possibly snow removal
- Information Technology network vulnerabilities
- Long term disability (LTD) approval and payment processes
- Information Technology major infrastructure and other projects

The 2015 Audit Work Plan includes projects identified from preliminary results of the risk assessment. The final risk assessment will be reported to the May 22, 2015 Audit Committee meeting. The results will be used to update the 2015 Audit Work Plan and to prepare the Audit Work Plans for future years.

*2015 activities
include a City-
wide risk
assessment and a
peer review*

In addition to conducting performance audits and operating the Fraud and Waste Hotline, the Office will be completing activities in 2015 that enhance the quality of work conducted by the Office. These activities include:

- Completing a City-wide risk assessment
- Developing a formal strategic plan and an annual operating plan
- Undergoing a peer review to ensure adherence to auditing standards, and
- Enhancing in-house training.

CONCLUSION

*Eleventh annual
report*

This report, initially requested by the Audit Committee in 2004, is the eleventh such annual report. By its nature, many of the amounts categorized as cost savings or revenue reductions are estimates. However, these estimates are conservative.

Estimated \$11.8 savings for every dollar invested in the Office

Based on our analysis, over the five-year period commencing January 1, 2010, the estimated potential savings to the City are approximately \$235.6 million compared to a cumulative audit expenditure of nearly \$19.9 million. In simple terms, for every \$1 invested in the audit process the return on this investment has been approximately \$11.8.

The Auditor General selects projects based on risk, and frequently a by-product of the audit work is identifiable cost savings. 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 improvements to operational efficiency.

Achievement of savings and improved efficiency depends on efforts by management and City Council

Auditing by itself does not directly produce these benefits. Management is responsible for implementing the recommendations and City Council is responsible for ensuring that agreed upon changes and improvements occur. To assist Council in exercising this responsibility, the Auditor General's Office conducts an annual follow-up to determine the implementation status of audit recommendations.

**AUDITOR GENERAL'S OFFICE
Reports Issued in 2014**

2014 Audit Reports

- Toronto Building - Improving the Quality of Building Inspections
- Review of Toronto Transit Commission Bus Maintenance and Shops Department, Phase One: Bus Maintenance and Warranty Administration
- District 2 Curbside Collection Contract - Review of Cost Savings and Opportunities for Improving Contract Monitoring - February 6, 2014
- Review of Training, Conference and Related Travel Expenses
- Opportunities to Enhance Employee Absenteeism Performance Measures and Reporting of Results
- Review of 2015 Pan American/Parapan American Games' Capital Projects
- Review of the Redevelopment of the Sony Centre for the Performing Arts
- Cost Benefits of Extended Warranties for Construction Projects Are Unknown
- Strengthening the City's Oversight of Social Housing Programs
- Controls Over Telecommunication Expenses Need Improvement
- Opportunities to Enhance the Oversight of Non-Union Employee Separation Costs

2014 Continuous Controls Monitoring Reports

- Continuous Controls Monitoring - 12-Month Review of City Overtime, Standby Pay and Mileage Expenses, 2013
- Continuous Controls Monitoring Program - Toronto Transit Commission, 12-Month Review of Employees Overtime and Related Expenses, 2013
- Continuous Controls Monitoring Program – 12-Month Review of City Staff Absenteeism, 2013

2014 Annual Reports

- 2013 Annual Report on Fraud Including the Operations of the Fraud and Waste Hotline
- 2013 Annual Report Requested by the Audit Committee - Demonstrating the Value of the Auditor General's Office - February 7, 2014
- Auditor General's Status Report on 2014 Audit Work Plan
- 2014 Interim Report on Fraud Including the Operations of the Fraud and Waste Hotline
- Auditor General's Office - Forensic Unit Status Report on Outstanding Recommendations
- Auditor General's Status Report on Outstanding Audit Recommendations for City Divisions
- Auditor General's Status Report on Outstanding Audit Recommendations for City Agencies and Corporations

2014 Other Reports

- The Charbonneau Commission - An Opportunity for the City to Re-evaluate its Procurement Practices
- Audit Reports Relating to the City's Agencies
- Toronto Community Housing Corporation - Results of Follow-up of Previous Audit Recommendations
- Auditor General's Risk Assessment of the City and its Major Agencies and Corporations -
- Process to Obtain External Audit Services - 2015 to 2019 Inclusive

AUDITOR GENERAL'S OFFICE
Audit and Continuous Controls Monitoring Reports, 2010 to 2013
(List does not include annual and other reports issued by
the Auditor General's Office)

2013 Audit and Continuous Controls Monitoring Reports

- Emergency Medical Services - Payroll and Scheduling Processes Require Strengthening
- Toronto Employment and Social Services - Review of Employment Services Contracts
- Local Road Resurfacing - Improvements to Inspection Process Required to Minimize Incorrect Payments to Contractors
- IT Service Desk Unit - Opportunities for Improving Service and Cost-Effectiveness
- Toronto Fire Services - Improving the Administration and Effectiveness of Firefighter Training and Recruitment
- Auditor General's Hotline Investigation Report: Fleet Services Division - Review of Various Equipment Maintenance Practices
- Local Road Resurfacing - Contract Management Issues
- Toronto Water - Review of Construction Contracts
- Financial Planning Analysis and Reporting System (FPARS) - A Large Scale Business Transformation/Information Technology Project
- Reliable Data is Needed for Effective Fleet Management
- Municipal Licensing and Standards, Investigation Services Unit – Efficiencies Through Enhanced Oversight
- Appraisal Services Unit - Opportunities for Improving Economy, Efficiency and Effectiveness
- Municipal Grants – Improving the Community Partnership and Investment Program
- City Accounts Payable - Payment Controls and Monitoring Require Improvement
- Electronic Data - Standardizing Data Formats Across City Information Systems
- Continuous Controls Monitoring Program - Toronto Transit Commission, Six-month Review of Employees Overtime and Related Expenses
- Continuous Controls Monitoring Program - Six-month Review of City Overtime, Standby Pay and Mileage Expenses

- Continuous Controls Monitoring Program–Review of City Staff Absenteeism
- Toronto Transit Commission Employees Overtime and Related Expenses - Continuous Controls Monitoring
- Continuous Controls Monitoring Program - Review of City Staff Absenteeism
- Continuous Controls Monitoring Program – Review of City Overtime and Mileage Expenses

2012 Audit and Continuous Controls Monitoring Reports

- Toronto Building Division – Building Permit Fees, Improving Controls and Reporting
- Review of Controls Over Procurement and Payment Functions at TCHC Subsidiary: Housing Services Inc.
- Review of Coordinated Street Furniture Contract – Public Realm Section, Transportation Services Division
- Toronto Community Housing Corporation - The City and Toronto Community Housing Corporation Needs to Strengthen its Oversight of Subsidiaries and Other Business Interests
- Toronto Community Housing Corporation Fleet Management – Lack of Central Oversight Has Led to Control Deficiencies
- Continuous Controls Monitoring – Review of Employee Overtime and Mileage Reimbursements
- Front Yard and Boulevard Parking – Improvements Needed to Enhance Program Effectiveness
- Review of the Energy Retrofit Program at Community Centres and Arenas
- Review of The Management of the City’s Divisional Accounts Receivable
- Inventory Controls Over Traffic Control Devices in Transportation Services Need to be Improved
- Review of Reporting on Use of Consultants
- Improving Reporting and Monitoring of Employee Benefits
- Procurement of 311 Toronto’s Information Technology System – Lessons for Future Procurement Processes
- Toronto Transit Commission Employees Overtime and Related Expenses – Continuous Controls Monitoring
- Continuous Controls Monitoring Program – Review of City Overtime and Mileage Expenses
- Parks, Forestry and Recreation Division - Review of the Management of the City's Golf Courses

- A Mid-Term Review of the Union Station Revitalization: Managing Risks in a Highly Complex Multi-Year, Multi-Stage, Multi-Million Dollar Project
- eCity Initiative – Improvements Needed in Governance, Management and Accountability
- City Stores: Maximize Operating Capacity to Be More Efficient
- Toronto Employment and Social Services – Income Verification Procedures Can Be Improved
- Review of Wheel-Trans Services – Sustaining Level and Quality of Service Requires Changes to the Program

2011 Audit and Continuous Controls Monitoring Reports

- 311 Toronto – Full Potential For Improving Customer Service Has Yet To Be Realized
- Toronto Police Service, Police Paid Duty – Balancing Cost Effectiveness and Public Safety
- The Deep Lake Water Cooling Project – Total City Costs and Benefits Need to be Reported
- Toronto Animal Services – License Compliance Targets Need to be More Aggressive
- Review of Infrastructure Stimulus Funding – Opportunities Exist to Improve Controls over Construction Projects
- Toronto Police Service, Parking Enforcement Review
- Continuous Controls Monitoring – Employee Overtime
- Remote Access to the City's Computer Network – The Management of the Process Requires Improvement
- Toronto Police Service – Review of the Integrated Records and Information System
- Red Light Camera Program - Although Red Light Cameras Have Contributed to a Reduction in Accidents, Opportunities Exist to Improve Financial Results and Program Effectiveness
- Disposal of Digital Photocopiers – Protection of Sensitive and Confidential Data Needs Strengthening
- Transportation Services – Review of Winter Maintenance Services
- City Planning Division – Community Benefits Secured Under Section 37 or 45 of The Planning Act
- Facilities Management Division Energy Efficiency Office - Management of Energy Loans and Grants Funded by the Ontario Power Authority
- Toronto Environment Office – Review of Administration of Environmental Grants
- Governance and Management of City Computer Software Needs Improvement
- Previous Audit Reports – Common Themes and Issues
- Protecting Whistleblowers from Retribution

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
- Governance and Management of City Wireless Technology Needs Improvement
- Parks, Forestry and Recreation Division – Controls Over Ferry Service Revenue Need Strengthening
- Insurance and Risk Management Review
- 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
- Police Training, Opportunities for Improvement Toronto Police Service – Follow-up Review
- Review of the City SAP Competency Centre
- Administration of Municipal Land Transfer Tax, Revenue Services Division
- Administration of Development Funds, Parkland Levies and Education Development Charges
- 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