



## AUDITOR GENERAL'S REPORT ACTION REQUIRED

### 2015 Annual Report – Demonstrating the Value of the Auditor General's Office

<b>Date:</b>	February 18, 2016
<b>To:</b>	Audit Committee
<b>From:</b>	Auditor General
<b>Wards:</b>	All
<b>Reference Number:</b>	

#### **SUMMARY**

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This report provides information on the Auditor General's 2015 activities and financial and non-financial benefits. Specific responsibilities of the Auditor General are set out in Chapters 3 and 192 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 2015, the Office issued a total of 35 reports including 14 performance audit reports, five Continuous Controls Monitoring reports and 16 other reports. In addition, the Auditor General's Fraud and Waste Hotline Program processed 572 complaints or 800 allegations in 2015.

The return on investment for the Auditor General's Office is based on estimated cost savings and revenue increases as a result of previous and current audit reports and fraud investigations conducted by the Office. Since 2011, total one-time and projected five-year cost savings and revenue increases are approximately \$229.7 million. The cumulative costs of operating the Auditor General's Office since 2011 were approximately \$20.6 million. In simple terms, for every \$1 invested in the Auditor General's Office the return on investment was approximately \$11.2.

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

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**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 Chapters 3 and 192 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 “2015 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 2015, 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**

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Beverly Romeo-Beehler, Auditor General

## **ATTACHMENT**

Appendix 1: 2015 Annual Report – Demonstrating the Value of the Auditor General's Office

**AUDITOR GENERAL'S REPORT**

**2015 Annual Report**

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

**February 18, 2016**

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



## AUDITOR GENERAL'S MESSAGE



Joining the City of Toronto in December 2014, this marks my first full year as the Auditor General for the City of Toronto. This past year was an eventful year for us and this Annual Report captures the major activities and accomplishments achieved by our Office.

In 2015, our Office issued a total of 35 reports including 14 performance audit reports providing 163 recommendations. In addition, the Auditor General's Fraud and Waste Hotline Program processed 572 complaints, consisting of approximately 800 allegations.

Our Office also completed its City-wide risk assessment, achieved the highest rating possible for demonstrating adherence to auditing standards from an independent international peer review, and signed a Memorandum of Understanding that sets out a framework for co-operation and collaboration amongst the City's four Accountability Officers.

Since 2011, the one-time and projected five-year cost savings and revenue increases, net of implementation costs, total approximately \$229.7 million, translating to a return on investment of \$11.2 for every dollar invested in the Office. It is also equally important to highlight the non-quantifiable benefits achieved through the audit process which resulted in improvements to internal controls, governance, operational effectiveness and efficiency, and overall better customer service. The savings we have identified and will realize in the foreseeable future would not be possible without management's commitment to implementing and effectively executing our recommendations.

Looking ahead, we will be expanding performance audits, broadening the scope of investigations by the Forensic Unit, strengthening our data analytics capabilities, enhancing in-house training, and growing our internal leaders. All of this is fundamental to generating value from the work we do. I am committed to building on the valuable work that has been undertaken by my Office and look forward to another great year ahead.

Finally, I would like to take this opportunity to commend my staff and City staff for their hard work and dedication. Your work makes a difference in the lives of Torontonians.

Sincerely,

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

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## EXECUTIVE SUMMARY

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*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 Chapters 3 and 192 of the Toronto Municipal Code. The Code requires that the Auditor General report 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 2015 activities, quantifiable financial benefits and non-financial benefits.

### **Major Activities and Accomplishments in 2015**

*Major activities in  
2015*

- Completed and issued 14 performance audit reports providing 163 recommendations
- Processed 572 complaints, consisting of approximately 800 allegations, through the Fraud and Waste Hotline
- Completed and issued five Continuous Controls Monitoring reports to 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
- Completed a City-wide risk assessment including risk assessments of certain agencies and corporations
- Underwent a peer review receiving the highest rating possible for demonstrating adherence to auditing standards

- Signed a Memorandum of Understanding that sets out a framework for co-operation and collaboration amongst the City's four Accountability Officers
- Ongoing management, coordination and oversight of financial statement audits conducted by external firms.

### **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.

The return on investment for the Auditor General's Office is based on estimated cost savings and revenue increases as a result of previous and current year audit reports and fraud investigations conducted by the Office.

*Projected savings are for five years only*

Cost savings or revenue increases may be one-time or ongoing. For the purposes of this report, the estimated cost savings or revenue increases are conservatively projected on a five-year forward basis only, even though the cost savings in most instances will extend beyond five years.

*Estimated \$11.2 savings for every dollar invested in the Auditor General's Office*

Since 2011, the one-time and projected five-year cost savings and revenue increases, net of implementation costs, total approximately \$229.7 million. The total cost of operating the Auditor General's Office for the five years 2011 to 2015 was \$20.6 million. The return on every dollar invested in the Auditor General's Office was approximately \$11.2.

### **Financial Benefits Realized in 2015**

The total savings realized in 2015 amounted to \$17.3 million. These savings were realized from five previously issued audit reports, two audit reports issued in 2015, as well as certain Continuous Controls Monitoring and investigations of fraud related matters.

*Additional savings from five previously issued reports*

In 2015, additional savings were identified from five previously issued audit reports. These savings were not determinable at the time the reports were issued and consequently were not included in previous Auditor General annual reports.



***Savings identified from audit reports issued in 2015***

In addition, the 2015 audit on the City's management of long-term disability benefits identified billing errors from the service provider since 2003. As a result of the audit findings, the City and its agencies and corporations have recovered approximately \$1.8 million from the vendor for incorrect charges to July 2015, and avoided further payment of approximately \$200,000 in the remainder of 2015 and 2016.

The 2015 Phase Two Audit of Toronto Transit Commission Bus Maintenance and Shops Department recommended better management of its long-term rental vehicles. In response to the audit, management has taken action to reduce the number of rental vehicles, which will result in ongoing annual savings of \$500,000 in 2016 and beyond.

***Savings estimate is conservative***

Other 2015 audits also identified cost saving opportunities. However, to ensure our annual savings estimate is conservative and achievable, these potential savings are not included in the current year savings calculation. These potential savings will be recognized 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 2015 are shown in Table 2. Section 3.3 highlights the full financial impact of the Fraud and Waste Hotline Program.

**Non-Quantifiable Benefits**

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

A number of 2015 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 Facilities Management, for example, identified areas in need of improved physical security and safety measures at certain City facilities, and the Software Licenses audit highlighted the need to improve management controls over the purchase and use of software licenses.

The 2015 audit of Build Toronto identified the need to strengthen oversight of Build Toronto's activities in fulfilling its mandate, refocus on the goal of creating affordable housing, and improve existing policies and controls over operational processes. The audit also reinforced that opportunities exist to improve real estate coordination across City agencies, corporations and divisions.

Abstracts of these individual audits are provided in Section 4 of this report.

### **2016 and Ahead**

The Auditor General will continue to take a risk-based audit approach when selecting and conducting audits.

The Office presented its 2016 Work Plan at the October 23, 2015 Audit Committee meeting. The 2016 Audit Work Plan includes audit projects selected based on a balancing of audit priorities and audit resources.

In addition to conducting performance audits and operating the Fraud and Waste Hotline, the Auditor General's Office will be:

#### ***Highlights of 2016 activities***

- Growing data analytics capabilities including an extension of the Continuous Controls Monitoring Program to the Toronto Police Service's accounts payable, and an assessment of cybersecurity risks
- Implementing electronic audit working papers and a new fraud hotline database to improve efficiency and data security
- Enhancing training with a focus on succession planning through a series of in-house learning sessions, rotation of special duty assignments, and individual job coaching.

### **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 \$11.2 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 Mandated Responsibilities of the Auditor General**

*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

***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.

***Investigative responsibilities reinforced with the adoption of the Toronto Public Service By-law***

In June 2014, City Council adopted the Toronto Public Service By-law. The By-law introduced a new Disclosure of Wrongdoing framework. The framework reinforces the Auditor General's independent oversight role in the investigation of reported wrongdoing. The By-law is encoded in Chapter 192 of the Toronto Municipal Code and came into effect on December 31, 2015.

Specific responsibilities of the Auditor General in relation to her role in the investigation of complaints and alleged wrongdoing are set out in the new Chapter 192:

***Operate the Fraud and Waste Hotline***

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

***Fraud investigations***

- Conducting investigations into fraud and other wrongdoing, as well as allegations of employee reprisals

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**

***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. To accomplish this, auditors apply a systematic and disciplined approach when conducting audits in order to evaluate and improve the effectiveness of risk management, internal controls, and governance processes.

***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 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 of compliance available in its fourth quality assurance review in 2015***

The Auditor General’s Office underwent its fourth quality assurance review in 2015. The external quality assurance review team found that the “*Auditor General’s Office’s internal quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with Government Auditing Standards for audits from January 1, 2012 through December 31, 2014*”. This is the highest level of compliance available in the external quality assurance review program.

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 results of the 2015 External Quality Assurance Review and ALGA letters are available at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2015.AU4.9>

### **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, 2014 was presented to the Audit Committee at its May 22, 2015 meeting.

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.*”

The report issued by Robert Gore & Associates, Chartered Accountants, the independent external auditor, is available at: <http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2015.AU2.5>

## **2.0 ACTIVITIES AND ACCOMPLISHMENTS IN 2015**

### **2.1 Performance Audits and Recommendations**

*Issued 14 performance audit reports in 2015 providing 163 recommendations*

In 2015, the Auditor General issued 14 performance audit reports providing 163 recommendations, five Continuous Controls Monitoring reports, and 16 other reports. Exhibit 1 provides a list of reports issued in 2015. Exhibit 2 lists reports issued between 2011 and 2014.

*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-led 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.

***572 complaints were received in 2015***

In 2015, the Hotline Program received 572 complaints, consisting of approximately 800 allegations.

***Hotline Program has both financial and non-financial benefits***

Ultimately, the effectiveness of the Hotline Program should not be gauged by the number of complaints received in any given year, but on the action taken to investigate, manage and reduce the risk of fraud and other wrongdoing.

While the financial benefits of the Hotline Program are highlighted in Section 3.3, it is important to recognize the non-financial benefits:

***Non-financial benefits of the Hotline Program***

- Deterrence of fraud or wrongdoing
  - 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



- Strengthened internal controls
- Improvements in policies and procedures
- Increased operational efficiencies
- Complaint data used to identify trends, address risks, make action-oriented recommendations to management
- Use of complaint data trends to inform audit work plan. Examples of audits include:
  - Various audit reports on Toronto Community Housing Corporation, 2010, 2011, 2012
  - *Emergency Medical Services – Payroll and Scheduling Process Require Strengthening*, 2013
  - *Local Road Resurfacing – Improvements to Inspection Process Required to Minimize Incorrect Payments to Contractors*, 2013
  - *Management of the City's Long-Term Disability Benefits, Phase One: Improving City Management to Address Growing Trends in Long-Term Disability Benefits*, 2015
  - In 2016, the Auditor General will be conducting an audit of employee health and dental benefits as a result of complaints received.

### **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 extraction software.

The use of data analytics will be extended to various areas within the City and its major agencies and corporations to proactively identify control exposures and prevent fraud and waste.

***Five CCM reports issued in 2015***

In 2015, the Auditor General issued the following five CCM reports relating to:

- City employee overtime, standby pay and mileage expenses
- City staff absenteeism
- City telecommunication expenses
- TTC employee overtime and payroll related expenses
- TTC staff absenteeism

All of the 2015 CCM reports are available at:

<http://www1.toronto.ca/wps/portal/contentonly?vgnextoid=a470b28063cbb410VgnVCM10000071d60f89RCRD>

***Accounts payable was added to CCM Program in 2015 and is being extended to the Toronto Police Service in 2016***

Additionally, the City's accounts payable transactions were included in the CCM Program. The accounts payable data analysis was completed in 2015, and the results will be reported at the March 7, 2016 Audit Committee meeting.

Furthermore, the Auditor General plans to extend the CCM Program to include the Toronto Police Service's accounts payable transactions in 2016, and the results will be provided to the Board in 2017.

## **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's Office conducts a 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 72 per cent of Auditor General recommendations***

The results of the 2015 follow-up review indicate that management has fully implemented 423 or 72 per cent of 585 recommendations made by the Auditor General during the five-year period from July 1, 2009 to June 30, 2014. Management is taking steps to implement the remaining recommendations.

The 2015 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/2015/au/bgrd/backgroundfile-81467.pdf>

**Implementation Status of Audit Recommendations for City Agencies and Corporations**

***City agencies and corporations have implemented 73 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 2015 review indicate that City agencies and corporations have implemented 122 or 73 per cent of 167 recommendations made by the Auditor General during the five-year period from July 1, 2009 to June 30, 2014.

The 2015 "Auditor General's Status Report on Outstanding Audit Recommendations for City Agencies and Corporations" is available at:

<http://www.toronto.ca/legdocs/mmis/2015/au/bgrd/backgroundfile-81426.pdf>

*Management has implemented 79 per cent of recommendations made through the City Fraud and Waste Hotline Program*

### **Implementation Status of Recommendations Made Through the Operation of the City 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 29 recommendations have been reported publicly. Based on the 2015 follow-up review results, management has fully implemented 79 per cent or 23 of these 29 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 2015 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/2015/au/bgrd/backgroundfile-81321.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 2015 Audit Work Plan was received by the City Council at its March 31, 2015 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 2015 Audit Work Plan is available at:

<http://www.toronto.ca/legdocs/mmis/2015/au/bgrd/backgroundfile-76340.pdf>

The Audit Work Plan was amended in May 2015 to reflect projects identified as a result of the completion of the Auditor General’s City-wide risk assessment and requests made by City Council. The amendments involved the deletion or deferral of a small number of projects to allow for the inclusion of higher risk projects identified by the risk assessment.

The Auditor General’s amended 2015 Audit Work Plan is available at:

<http://www.toronto.ca/legdocs/mmis/2015/au/bgrd/backgroundfile-79980.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. To ensure that the Auditor General remains independent, the Auditor General's Work 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.

***Reviews requested by City Council and various Committees***

City Council and various Committees 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. Additionally, the City's Executive Committee has, in the past, requested the Auditor General to consider undertaking an audit of the Sony Centre for the Performing Arts. The Auditor General undertook audits in response to these requests.

For 2014, the Auditor General considered a request from the City's Budget Committee to conduct value for money reviews 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 was presented at the Invest Toronto Board of Directors meeting on April 8, 2015.

***2016 work plan includes a review requested by the Toronto Police Services Board***

The Toronto Police Services Board has also requested audits in the past. Most recently, at its June 18, 2015 meeting the Toronto Police Services Board requested the Auditor General to consider conducting a review of Level 3 and Level 4 searches of persons carried out by members of the Toronto Police Service. In response to the Board's request, the Auditor General has incorporated this review into her 2016 Audit Work Plan. The audit is planned to start in the fall of 2016.

## 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 latest risk assessment commenced in late 2014 and was completed in early 2015***

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's May 28, 2014 meeting.

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

***High audit risk areas identified will be prioritized for future audits***

The City-wide risk assessment was completed in early 2015. The risk assessment identified 55 high audit risk areas that will be prioritized for future audits.

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. As described in the previous section of this report, the Auditor General amended the 2015 Audit Work Plan based on the 2014 risk assessment results.

***The City should evaluate the application of an integrated enterprise-wide risk management framework***

In addition, during the Auditor General's assessment of risks across the City, it became apparent that while certain elements of an integrated enterprise-wide risk management (ERM) framework are present, a complete and formal framework is not in place. Given the size and complexity of the City, a holistic approach to managing risk would be more appropriate. Consequently, the Auditor General recommended that City Council request the City Manager to review options for managing risks on an integrated basis across the City and report back to Council on a work plan and timeline for implementation.

The application of an integrated ERM framework is expected to enable management and staff to better understand the nature of risk, and to manage it more systematically.

The report highlighting the need for an ERM framework is available at:

<http://www.toronto.ca/legdocs/mmis/2015/au/bgrd/backgroundfile-81490.pdf>

***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 were not included in the Auditor General's 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.

***City Council approved the selection of the external auditor for financial statement audits from 2015 to 2019***

The existing five-year contract for external audits of the City and its major agencies and corporations expired 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, was completed in early 2015. The external auditor for the financial statements of the City and its major agencies and corporations, for the years 2015 to 2019, was approved by City Council in March 2015.

The report is available at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2015.AU1.20>

The external auditor for the financial statements of 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.

## 2.8 Memorandum of Understanding

### *Memorandum of Understanding between Four Accountability Offices signed in 2015*

On October 19, 2015, the City's four Accountability Offices signed a Memorandum of Understanding with respect to co-operation and collaboration as set out in Part V Duties of the *City of Toronto Act, 2006*.

The Memorandum of Understanding is available at:

<http://www1.toronto.ca/wps/portal/contentonly?vgnextoid=ac4d9e176dca1510VgnVCM10000071d60f89RCRD&vgnnextchannel=cf1fb7537e35f310VgnVCM10000071d60f89RCRD>

### *Framework to support co-operation between Accountability Officers*

The objective of this Memorandum of Understanding is to set out a framework to support co-operation between the Auditor General, the Integrity Commissioner, the Lobbyist Registrar and the Ombudsman (the Officers) in order to:

- Collaborate on matters of advice and interpretation in order to ensure consistency, comprehensiveness and clarity
- Enable the Officers to conduct and/or share information about joint or concurrent inquiries in matters involving overlapping witnesses, documents and issues, for public policy reasons.

## 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 80 audit reports and handled 3,498 complaints to the Hotline over the past 5 years*

From January 2011 to December 2015, the Auditor General's Office completed 80 performance audits providing a total of 736 recommendations. The Office also handled 3,498 individual complaints to the Fraud and Waste Hotline over the same five-year period.

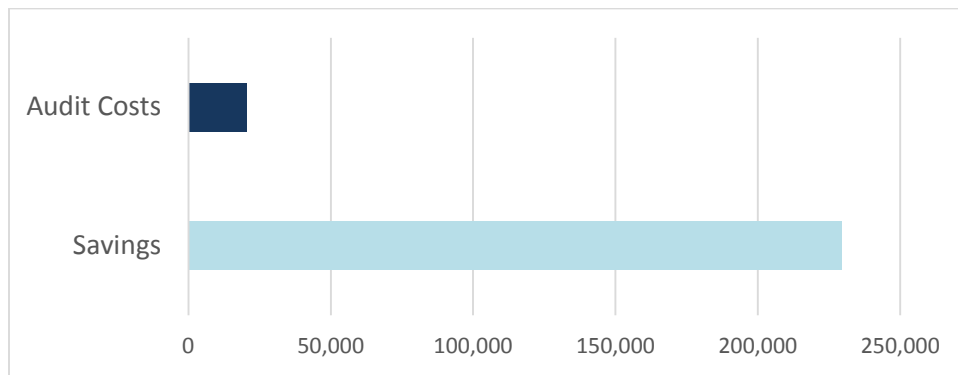
The Auditor General has been using the ratio of audit costs incurred to the estimated potential savings generated as a means of assessing the return on investment from audit.



***Cost savings over last five years are approximately \$229.7 million***

A comparison of five-year audit costs (2011 to 2015) to the estimated potential savings is shown in Figure 1. Since 2011, the cumulative audit expenditure has been approximately \$20.6 million and the estimated cost reductions and revenue increases are approximately \$229.7 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.

**Figure 1: Five-Year Audit Costs Compared to Estimated Potential Savings (\$millions), 2011 to 2015**



***Estimated \$11.2 return on investment for every \$1 invested in the Office***

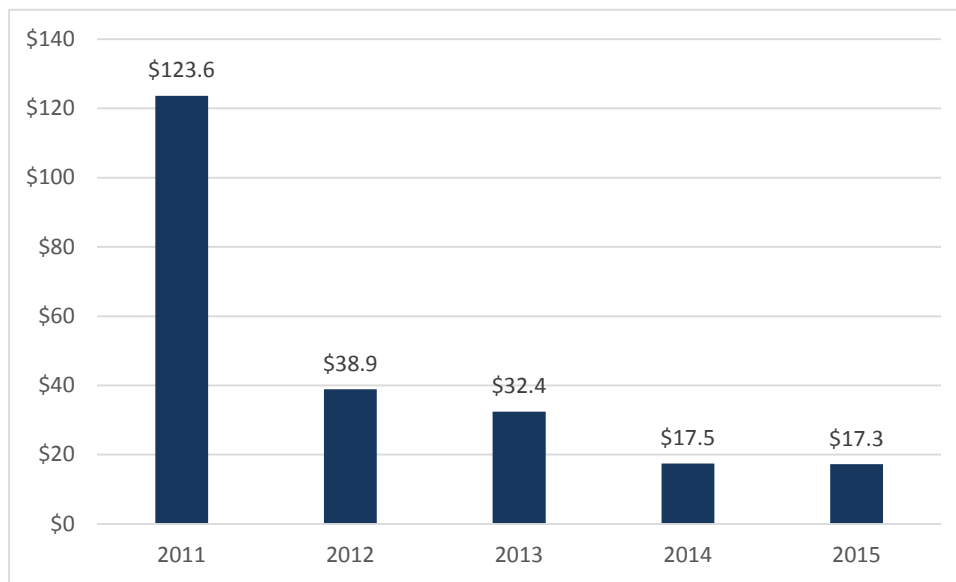
In simple terms, for every \$1 invested in the Auditor General’s Office the return on this investment has been approximately \$11.2.

Table 1 provides a summary of the one-time and five-year projected cumulative savings resulting from audit work conducted. Figure 2 depicts the year to year variation in estimated savings.

**Table 1: Summary - Cumulative One-Time and Projected Five-Year Estimated Savings, 2011 to 2015**

ESTIMATED SAVINGS \$000's						
Year of Savings	Year of Annual Report					
	2011 \$	2012 \$	2013 \$	2014 \$	2015 \$	Total \$
2011	798					798
2012	21,629	5,747				27,376
2013	24,379	7,670	453			32,502
2014	25,079	7,570	5,227	1,776		39,652
2015	25,629	7,560	6,370	3,173	4,044	46,776
2016	26,079	7,920	6,565	3,141	3,189	46,894
2017		2,461	6,788	3,141	3,032	15,422
2018			7,041	3,141	3,032	13,214
2019				3,095	3,032	6,127
2020					921	921
<b>Total</b>	<b>\$123,593</b>	<b>\$38,928</b>	<b>\$32,444</b>	<b>\$17,467</b>	<b>\$17,250</b>	<b>\$229,682</b>

**Figure 2: Cumulative One-Time and Projected Five-Year Estimated Savings (\$millions) by Year, 2011 to 2015**



*Significantly higher projected savings were realized in 2011 compared to previous and subsequent years*

The 2011 one-time and five-year projected savings of approximately \$123.6 million are significantly higher than savings reported in previous and subsequent years. This was largely due to significant cost savings identified in 2011 as a result of management implementation of recommendations contained in certain audit reports issued prior to 2011.

### **3.2 Financial Benefits Realized in 2015**

The specific audit reports and one-time and recurring savings realized in 2015 are listed in Table 2 in the following order:

- Savings from audit reports issued prior to 2015
- Savings from audit reports issued in 2015
- Savings from CCM reports issued in 2015
- Savings from investigations of fraud related matters

*\$17.3 million of savings realized in 2015*

The total savings realized in 2015 amounted to \$17.3 million.

A brief explanation of each audit report and estimated savings are provided after Table 2.

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 2 have been estimated conservatively.

*Additional savings from five previously issued audit reports*

In 2015, additional savings were noted from five previously issued audit reports. 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 realizing 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 2.

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

It is not always possible to quantify all potential cost savings when audit reports are issued. Among the 14 performance audit reports issued in 2015, 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.

**Table 2: Estimated Savings (\$000's) Recognized in 2015 From Audit Reports Issued in 2015 or Prior Years**

	2015 One-time	2016 Recurring	2017 Recurring	2018 Recurring	2019 Recurring	2020 Recurring	Total
<b>Audit reports issued prior to 2015</b>							
Review of TTC Bus Maintenance and Shops Department, Phase One: Bus Maintenance and Warranty Administration, 2014	-	\$120	\$120	\$120	\$120	\$120	<b>\$600</b>
Review of Wheel-Trans Services – Sustaining Level and Quality of Service Require Changes to the Program, 2012	\$580	\$580	\$580	\$580	\$580	-	<b>\$2,900</b>
Inventory Controls Over Traffic Control Devices in Transportation Services Need to be Improved, 2012	\$48	\$48	\$48	\$48	\$48	-	<b>\$240</b>
Insurance and Risk Management Review, 2010	-	\$68	\$68	\$68	\$68	-	<b>\$340</b>
Engineering and Construction Services - Management of Construction Contracts - Leaside Bridge Structure Review, 2007	\$1,148	\$1,148	\$1,148	\$1,148	\$1,148	-	<b>\$5,740</b>
<b>2015 Audit reports</b>							
Management of the City's Long-Term Disability Benefits Phase One: Improving City Management to Address Growing Trends in Long-Term Disability Benefits	\$1,888	\$157	-	-	-	-	<b>\$2,045</b>
Review of TTC Bus Maintenance and Shops Department, Phase Two: Non-Revenue Fleet and Equipment Management and Maintenance	-	\$500	\$500	\$500	\$500	\$500	<b>\$2,500</b>
<b>Continuous Controls Monitoring reports</b>							
CCM Program - TTC, 12-Month Review of Employee Absenteeism, 2014	\$200	\$400	\$400	\$400	\$400	\$200	<b>\$2,000</b>
CCM Program, 12-Month Review of City Telecommunication Expenses, 2014	\$135	\$135	\$135	\$135	\$135	-	<b>\$675</b>
<b>Investigations of Fraud Related Matters*</b>							
2015 Cost Recovery and Loss Prevention	\$45	\$33	\$33	\$33	\$33	\$33	<b>\$210</b>
<b>Total 2015 and 5-Year Savings</b>	<b>\$4,044</b>	<b>\$3,189</b>	<b>\$3,032</b>	<b>\$3,032</b>	<b>\$3,032</b>	<b>\$921</b>	<b>\$17,250</b>

\*Savings associated with complaint investigations exclude 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 2 and the cost savings information.

**Review of Toronto Transit Commission (TTC) Bus Maintenance and Shops Department, Phase One: Bus Maintenance and Warranty Administration, 2014**

Phase One of the bus maintenance audit focused on conventional buses. Our 2014 audit report included 18 recommendations to improve the effectiveness, efficiency and the economy of bus maintenance operations.

*TTC fleet includes 1,857 conventional buses*

The TTC Bus Maintenance and Shops Department provides regular maintenance and repair services to a large fleet of vehicles and equipment, including 1,857 conventional buses.

*PMIs are key to ensure vehicle reliability*

Preventive maintenance inspections (PMIs) are fundamental to effective vehicle maintenance. To ensure PMIs are conducted adequately, TTC has established Standard Operating Procedures detailing inspection steps and criteria for a PMI at every 5,000 km and 10,000 km interval.

*Merits of the 5,000 km maintenance interval should be reviewed*

Of the regular PMIs conducted by the Department, the 5,000 km Safety Check is not required by law and is a Departmental policy. Our audit highlighted the need for management to evaluate the merits of the 5,000 km bus preventive maintenance interval in preventing mechanical failures.

*A revised 10,000 km maintenance interval was piloted in 2015*

As a result of our audit, TTC staff piloted a revised 10,000 km interval in a small fleet of buses until the end of 2015 to ensure the change in the preventative maintenance interval would not adversely affect vehicle safety and reliability.

*Annual recurring savings of \$120,000 as a result of revising maintenance interval*

The pilot results of the 10,000 km interval were positive and is now being applied to new buses. The higher inspection interval decreases the number of inspections required. Management has estimated that the annual labour-related savings from conducting fewer inspections is approximately \$500 per bus. The revised inspection interval is being applied to a fleet of 258 new buses, resulting in annual recurring savings conservatively estimated at \$120,000.

Additionally, there is a non-quantifiable benefit from additional bus availability due to less time out of service for PMIs.

The audit report is available at:

<http://www.toronto.ca/legdocs/mmis/2014/au/bgrd/backgroundfile-67395.pdf>

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

*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.

*Annual savings of approximately \$580,000 from a reduction in the monthly administration fee*

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 \$580,000 will result from a reduction in the monthly administration fee.

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 in formation/Commission meetings/2014/May\\_28/Supplementary Reports/Sedan\\_TaxivReport.pdf](http://www.ttc.ca/About%20the%20TTC/Commission%20reports%20and%20in%20formation/Commission%20meetings/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>

### **Inventory Controls Over Traffic Control Devices in Transportation Services Need to be Improved, 2012**

The objective of this review was to assess whether the Traffic Plant Installation and Maintenance (TPIM) unit in the Transportation Services Division maintained effective controls to safeguard the inventory parts, worth \$6.7 million, used for maintaining and installing electrical traffic signal devices.

*A review of City operations with significant inventory was recommended. Savings of \$48,000 per year from eliminating rental costs for storing emergency supplies*

Recommendation No. 8 requested the Deputy City Manager and Chief Financial Officer to identify City operations that maintain a significant level of inventory and review those operations to ensure adequate inventory controls are in place.

In implementing this audit recommendation, the Office of Emergency Management consolidated the storage of emergency supplies, which were being stored in rented facilities, into the City's warehouse operations. Management reported that this action resulted in savings of \$48,000 per year from the rental costs which were no longer required.

The audit report is available at:

<http://www.toronto.ca/legdocs/mmis/2012/au/bgrd/backgroundfile-48560.pdf>

### **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.

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

In response to 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 was included in the Auditor General's previous benefits report.

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, resulting in net annual savings of \$77,000 commencing 2015, which was also included in the Auditor General's previous benefits report.



***Additional savings realized in 2016 by further increasing in-house legal staff complement***

Again in its 2015 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 \$68,000 commencing 2016. The additional savings are reflected in Table 2 for a five-year period consistent with our method of realizing annual recurring savings.

The audit report is available at:

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

**Engineering and Construction Services - Management of Construction Contracts - Leaside Bridge Structure Review, 2007**

The objective of this review was to assess controls over the award and management of construction contracts. This audit identified a number of concerns in how the City managed its construction contracts.

The confidential audit report included 11 public recommendations. Recommendation No. 9 requested the Deputy City Manager and Chief Financial Officer to consider the implementation of a policy for the recovery of administration fees relating to the management of contracts by the City on behalf of third parties.

***Annual recurring savings of \$1.148 million resulting from new administration fees***

In response to our recommendation, management in 2015 implemented a policy, and began to charge an administration fee of 18.3 per cent of construction costs on third party projects. Management reported that this action resulted in annualized revenues of \$1.148 million. The administration fees are reflected in Table 2 for a five-year period consistent with our method of realizing annual recurring savings.

The staff report containing the public recommendations is available at:

<http://www.toronto.ca/legdocs/mmis/2007/au/bgrd/backgroundfile-2694.pdf>

**Management of the City’s Long-Term Disability Benefits  
Phase One: Improving City Management to Address  
Growing Trends in Long-Term Disability Benefits, 2015**

*City has been paying for incorrect charges by Manulife since 2003*

In reviewing a sample of Manulife’s monthly billing statements, we noted that the City was charged for a service that was not consistent with Manulife’s bid proposal. Manulife acknowledged the incorrect charges, and indicated that it would refund all the charges plus interest and taxes since 2003. According to Manulife, the error inadvertently occurred when it implemented a new billing system in 2003.

*Total of \$1.82 million cost recovery for the City and its agencies and corporations*

As a result of our audit, the City and its agencies and corporations will recover approximately \$1.82 million (interest plus net of tax rebate) from Manulife for incorrect charges occurring between January 2003 and July 2015.

Had the audit not identified the billing error, the City and its agencies and corporations would have continued to pay for the incorrect monthly charges until at least December 2016 when the current contract with Manulife ends. This would result in an estimated \$65,000 of additional payments for the remainder of 2015 (August to December) and \$157,000 additional payments for 2016.

*Total of approximately \$2 million savings realized in 2015 and 2016*

The combined one-time cost recovery plus cost avoidance for 2015 is in the amount of approximately \$1,888,000. The one-time cost avoidance for 2016 would be approximately \$157,000.

The audit report is available at:  
<http://www.toronto.ca/legdocs/mmis/2015/au/bgrd/backgroundfile-84556.pdf>

**Review of Toronto Transit Commission (TTC) Bus Maintenance and Shops Department, Phase Two: Non-Revenue Fleet and Equipment Management and Maintenance, 2015**

*Four recommendations to improve future acquisition of rental vehicles*

The Auditor General’s 2015 Phase Two Review of Toronto Transit Commission (TTC) Bus Maintenance and Shops Department focused on TTC’s non-revenue fleet. The audit report included 21 recommendations, four of which were intended to improve future acquisition of rental vehicles.

***Long-term rentals should be justified and cost-effective***

As of July 2014, TTC rented 81 vehicles. The annual rental expenditures were approximately \$0.8 million. While rental vehicles should generally be for short-term purposes according to the Department's rental vehicle policy, 25 of the 81 rentals had exceeded three years. Long-term rentals run the risk of total rental fees outweighing the costs of ownership.

***Fewer rental vehicles results in \$500,000 of annual savings***

As a result of our audit, TTC management undertook a review of its long-term rental vehicles and has reduced the number of rental vehicles by 31. At a monthly rental fee averaging \$1,400 per vehicle, the annual amount of savings from a reduction in rental costs for 31 vehicles is approximately \$500,000 in 2016 and beyond.

The audit report is available at:

[http://www.ttc.ca/About\\_the\\_TTC/Audit\\_Committees/Audit\\_Committee\\_Meetings/2015/February\\_19/Reports/AGs\\_Report\\_Review\\_o.pdf](http://www.ttc.ca/About_the_TTC/Audit_Committees/Audit_Committee_Meetings/2015/February_19/Reports/AGs_Report_Review_o.pdf)

#### **CCM - Toronto Transit Commission, 12-Month Review of Employee Absenteeism (2014), 2015**

***TTC employee absenteeism was added to CCM Program in 2014***

In 2014, the Auditor General's CCM Program was extended to TTC employee absenteeism relating to sick time, occupational injury and bereavement leave. The first report on employee absenteeism at TTC was presented to the TTC Audit and Risk Management Committee at its September 11, 2015 and the City Audit Committee at its October 23, 2015 meeting.

The report is available at:

<http://www.toronto.ca/legdocs/mmis/2015/au/bgrd/backgroundfile-84623.pdf>

***CCM enabled TTC management to initiate immediate changes to reduce overtime resulting in net savings of \$0.8 million per year***

The CCM report provided an impetus for TTC to focus on management of overtime. A number of changes were initiated by TTC management to reduce overtime in bus, station and Wheel-Trans operations. TTC management reported that, by moving the after business hour Wheel-Trans trips to contracted taxi services, TTC has realized an annual savings of approximately \$0.8 million from reducing the overtime otherwise required by TTC Wheel-Trans bus operators.

It is difficult to determine the precise amount of cost reduction that is attributable to the Auditor General's Continuous Controls Monitoring process. Nonetheless, we estimate the process has likely contributed to half of the net savings from improved overtime monitoring. The annualized \$0.4 million savings are reflected in Table 2 for a five-year period consistent with our method of realizing annual recurring savings.

### **CCM, 12-Month Review of City Telecommunication Expenses (2014), 2015**

In 2014, the Auditor General extended the CCM Program to include telecommunication expenses. The process was first applied to analyze telecommunication costs incurred from January 1, 2014 to December 31, 2014.

The 2014 CCM results for telecommunication expenses were reported to Audit Committee in June 2015. The report is available at:

<http://www.toronto.ca/legdocs/mmis/2015/au/bgrd/backgroundfile-81327.pdf>

Using the CCM results, management was able to reduce telecommunications expenses by \$290,000 annually through the cancellation of inactive devices, adjustments to monthly phone plans and recoveries from staff for personal use of telecommunications devices.

*Additional annual savings of \$135,000 realized in 2015*

Due to the timing difference in reporting of the Auditor General's 2014 Annual Benefits Report and the results for the 2014 CCM telecommunication expenses, \$155,000 in annual recurring savings were previously included in the Auditor General's 2014 Annual Benefits Report for a five-year period. Additional annual recurring savings of \$135,000 were subsequently identified and are reflected in the current benefits report in Table 2 for the same five-year period.

### **3.3 Financial Impact of the Fraud and Waste Hotline Program**

*2015 quantifiable financial benefits included one-time*

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

*cost recovery and prevention of future losses*

The savings included in Table 2 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 \$45,000 and \$33,000 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 may provide oversight on investigations led by management, including those that result in one-time savings and cost recovery, any associated savings and losses are tracked separately and are not included in the Auditor General's 2015 savings calculations.

#### **4.0 REPORTS WITH NON-QUANTIFIABLE BENEFITS IN 2015**

*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
- quality and effectiveness 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 2015 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.

### **Facilities Management – Security and Safety Improvements Required**

Corporate Security, Facilities Management Division, is responsible for providing security and safety services at City facilities.

#### ***Audit objective***

The objective of this audit was to assess the adequacy and effectiveness of the physical security and safety measures at City facilities.

Overall, we found that physical security and safety measures at certain City facilities need improvement. Various security deficiencies were noted at all 10 facilities audited. The report contained 21 recommendations to improve security and safety at City facilities.

#### ***Physical security and safety measures should be strengthened***

Areas to be strengthened include:

- ensuring security access request procedures are followed
- ensuring security incident reports are investigated and closed
- verifying that work orders for maintenance of security equipment are completed and closed
- monitoring security service providers contract compliance
- ensuring payments to vendors are made in compliance with corporate procedures
- enhancing performance measures
- ensuring site emergency plans are tested

The audit report is available at:

<http://www.toronto.ca/legdocs/mmis/2015/au/bgrd/backgroundfile-76417.pdf>

## **Software Licenses – Managing the Asset and Related Risks**

*Total of \$36 million spent on software in 2014*

In 2014, the City spent approximately \$14 million on software acquisitions and \$22 million on software maintenance and support.

Currently over 7,200 different software titles are registered to the City, over 1,100 of which are licensed software and the remaining titles are freeware or non-licensed required software.

*Audit objective*

The objective of the review was to determine the adequacy of management controls over the use of software licenses.

The key issues identified by the audit were:

*Software acquired did not always consider pending changes*

- In one instance the City purchased software that later required licenses upgrade due to hardware changes at the City. Although difficult to confirm, it appears that this might have cost the City \$700,000 more than if the correct software had been acquired in the first place.

*Not all software licenses were monitored for compliance*

- Software owners are responsible to monitor their compliance with licensing agreements. The Information & Technology Division has identified owners for 77 per cent of licensed software. For those titles where the owner has not been identified, compliance monitoring with the license agreements has not been assigned to any specific staff.

*Software usage was not monitored*

- No centralized monitoring controls were in place to ensure that software purchased, and subject to annual maintenance fees, was being used.

*License reconciliations were not performed regularly*

- Software license reconciliations, comparing software purchased to software installed, were not performed on a regular basis.

The audit provided 14 recommendations to help improve compliance with software licensing agreements and enhance efficiencies over the administration and management of information technology software assets.

The audit report is available at:

<http://www.toronto.ca/legdocs/mmis/2015/au/bgrd/backgroundfile-76330.pdf>

## **Improving Controls Over Property Tax Assessments and Payment in Lieu of Taxes (PILTs)**

The audit objective was to assess the efficiency and effectiveness of processes in place to bill and collect property taxes. The review of collections was limited to the collection of Payment in Lieu of Taxes (PILTs) for government properties.

*2014 property taxes, education levy, and payment in lieu of taxes billed amounted to \$5.8 billion*

Property tax assessments are based on property assessment values provided by the Municipal Property Assessment Corporation (MPAC). The City of Toronto has the largest municipal property tax assessment base in Canada. The 2014 assessed value of nearly 740,000 properties was approximately \$525 billion. Total 2014 property taxes, education levy, and PILTs billed amounted to \$5.8 billion.

*Opportunities for potential cost savings are possible*

The audit identified a number of improvement opportunities and issues in the assessment of properties, the collection of PILTs and validation of MPAC data. The key issues include:

- Our review of sampled commercial properties indicated that approximately \$400,000 in revenue could have been billed through a more timely and comprehensive review of assessments;
- Our analysis of high value residential properties sold indicated that additional revenues could be realized with timely review and notification to MPAC;
- Property tax bill mailing costs can be reduced by expanding ePost or introducing electronic options. While reviewing property tax billing we also reviewed mailing costs of other utility bills and we estimate potential savings of approximately \$650,000 are possible;
- Information technology access controls require strengthening.

The audit provided 15 recommendations to help improve existing processes and increase revenue through improved controls over the administration and review of property assessment data, evaluation and appeal of property assessments, property tax billing, and collection of outstanding payments.



*Potential savings will be assessed at the time of recommendation follow-up in 2017*

The potential savings identified in this report are based on selected sample review. To ensure our annual savings estimates are conservative and achievable, these potential savings are not included in the current year savings calculation. The potential savings will be assessed in 2017 during the recommendation follow-up process.

The report is available at:

<http://www.toronto.ca/legdocs/mmis/2015/au/bgrd/backgroundfile-84553.pdf>

### **Operational Review of Build Toronto Inc.**

*City Council requested the Auditor General to conduct an audit of Build Toronto*

In October 2012, City Council passed a motion requesting the Auditor General to conduct a value for money audit on Build Toronto, and that the terms of reference for the value for money audit be in keeping with the business model and hybrid nature of Build Toronto.

*The review reinforced the need for improved clarity when prioritizing the strategic objectives for Build Toronto*

The results of the Build Toronto audit were considered by City Council in March 2015. The audit highlighted that, for various reasons, Build Toronto had not fulfilled its mandate. Build Toronto's focus on returning a financial dividend to the City took precedence over all other aspects of its mandate. This was particularly evident in the lack of progress in delivering on targets for the development of affordable housing.

Many of the issues identified through this review reinforced the need for improved clarity when prioritizing the strategic objectives for Build Toronto while taking into consideration the City objectives and mandate established in the Shareholder Direction. The report contained 25 recommendations to strengthen oversight of Build Toronto's activities in fulfilling its mandate and improve existing policies and controls over operational processes.

The audit report is available at:

<http://www.toronto.ca/legdocs/mmis/2015/au/bgrd/backgroundfile-76203.pdf>

***The report will have a broader impact for City divisions, agencies and corporations***

The recommendations in this report are expected to have a broader impact for other City divisions, agencies and corporations. In particular, the recommendations in this report together with observations from other Auditor General reports and third-party studies reinforced that opportunities exist to improve real estate coordination across City agencies, corporations and divisions.

Subsequent to the issuance of our audit report, in May 2015, City Council adopted staff recommendations to develop a comprehensive plan to centralize or coordinate all City-owned real estate operations.

The staff report entitled “Consolidated City-Wide Real Estate Framework” is available at:

<http://www.toronto.ca/legdocs/mmis/2015/ex/bgrd/backgroundfile-78823.pdf>

The operational review of Build Toronto also prompted an expansion of a planned audit of the Toronto Parking Authority to include a review of real estate activities undertaken by the Authority. The results of that audit were considered by City Council in November 2015.

The audit report is available at:

<http://www.toronto.ca/legdocs/mmis/2015/au/bgrd/backgroundfile-84756.pdf>

## **5.0 2016 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.

The Office presented its 2016 Audit Work Plan at the October 23, 2015 Audit Committee meeting:

<http://www.toronto.ca/legdocs/mmis/2015/au/bgrd/backgroundfile-84582.pdf>

***Examples of  
planned 2016  
audit projects***

Examples of the planned 2016 audit projects are:

- Review of business license issuance and permit enforcement
- Operational review of City-wide data centre facilities
- Review of management of employee dental and health benefits claims
- Phase Two audit of road construction and maintenance contracts
- Phase Two audit of management of long-term disability benefits
- Toronto Transit Commission – Review of procurement processes

***Auditor General to  
conduct an audit  
at the request of  
Toronto Police  
Services Board***

In addition, at its June 18, 2015 meeting the Toronto Police Services Board requested the Auditor General to consider conducting a review of Level 3 and Level 4 searches performed by members of the Toronto Police Service. This request has been included in the 2016 Work Plan.

The 2016 Audit Work Plan includes audit projects selected based on a balancing of audit priorities and audit resources.

***2016 activities will  
further enhance  
the quality of the  
Office***

In addition to conducting performance audits and operating the Fraud and Waste Hotline, the Office will be completing activities in 2016 to enhance the quality of its work. These activities include:

- Growing data analytics capabilities including a planned extension of the Continuous Controls Monitoring Program to the Toronto Police Service's accounts payable, and an assessment of cybersecurity risks
- Implementing electronic audit working papers and a new fraud hotline database to improve efficiency and data security
- Enhancing training with a focus on succession planning through a series of in-house learning sessions, rotation of special duty assignments, and individual job coaching

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## CONCLUSION

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*Twelfth annual report*

This report, initially requested by the Audit Committee in 2004, is the twelfth such annual report.

The savings we have identified and will realize in future years would not be possible without management's commitment to implementing and effectively executing our recommendations.

*Estimated \$11.2 savings for every dollar invested in the Office*

Based on our analysis, over the five-year period commencing January 1, 2011, the estimated potential savings to the City are approximately \$229.7 million compared to a cumulative audit expenditure of approximately \$20.6 million. In simple terms, for every \$1 invested in the Auditor General's Office the return on this investment has been approximately \$11.2.

The Auditor General selects projects based on risk, and frequently a by-product of the audit work is identifiable cost savings. Equally important are the non-financial benefits. 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.

**AUDITOR GENERAL'S OFFICE  
Reports Issued in 2015**

**2015 Audit Reports**

- Operational Review of Build Toronto Inc.
- Operational Review of Invest Toronto Inc.
- Facilities Management - Security and Safety Improvements Required
- Software Licenses - Managing the Asset and Related Risks
- Review of Divisional Purchase Orders
- Review of Toronto Transit Commission Bus Maintenance and Shops Department, Phase Two: Non-Revenue Fleet and Equipment Management and Maintenance
- Review of Toronto Transit Commission Non-Revenue Vehicle Fuel Card Controls Need Immediate Improvement
- Service Efficiency Consultants Studies - Extent of Value for Money from Studies Has Not Been Clearly Demonstrated
- Improving the Administration of City Training Programs
- Implementing an Integrated City-wide Risk Management Framework
- Improving Controls Over Property Tax Assessments and Payment in Lieu of Taxes (PILTs)
- Management of the City's Long-Term Disability Benefits, Phase One: Improving City Management to Address Growing Trends in Long-Term Disability Benefits
- Maximizing the Value from a Learning Management System
- Toronto Parking Authority - Phase 1: Audit of Real Estate Activities

**2015 Continuous Controls Monitoring Reports**

- Continuous Controls Monitoring - 12-Month Review of City Overtime, Standby Pay and Mileage Expenses, 2014
- Continuous Controls Monitoring Program - Toronto Transit Commission, 12-Month Review of Employees Overtime and Related Expenses, 2014
- Continuous Controls Monitoring Program – 12-Month Review of City Staff Absenteeism, 2014
- Continuous Controls Monitoring – 12-Month Review of City Telecommunication Expenses, 2014

- Continuous Controls Monitoring Program - Toronto Transit Commission, 12-Month Review of Employee Absenteeism, 2014

### **2015 Annual Reports**

- 2014 Annual Report on Fraud Including the Operations of the Fraud and Waste Hotline
- 2015 Audit Work Plan
- 2014 Annual Report - Demonstrating the Value of the Auditor General's Office
- Amendments to the 2015 Audit Work Plan
- 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
- 2016 Audit Work Plan

### **2015 Other Reports**

- Award of Request for Proposal No. 9171-14-7121 to PricewaterhouseCoopers LLP for External Audit Services for the City and Certain of its Agencies and Corporations
- The Audit Committee - Roles and Responsibilities
- Auditor General's Office - Information Security Status Report
- Auditor General's Office External Peer Review - 2015
- Review of Toronto Transit Commission Bus Maintenance and Shops Department, Phase Two Audit – Progress on Implementation of Audit Recommendations
- Results of Auditor General's Office External Peer Review - 2015
- Deferral of the Audit of Shared Services
- Response to Audit Committee's Request for Information Related to Item AU3.2f Toronto Parking Authority - 2014 Financial Statements

**AUDITOR GENERAL'S OFFICE**  
**Audit and Continuous Controls Monitoring Reports, 2011 to 2014**  
**(2011-2013 lists do not include annual and other reports issued**  
**by the Auditor General's Office)**

**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
- 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

- 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

### **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