



**AUDITOR GENERAL'S
REPORT
ACTION REQUIRED
with Confidential Attachment**

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

Date:	June 14, 2016
To:	Audit Committee
From:	Auditor General
Wards:	All
Reason for Confidential Information:	Reasons for confidentiality 1. This report involves the security of property belonging to the City or one of its Agencies and Corporations. 2. This report is about litigation or potential litigation that affects the City or one of its Agencies and Corporations.
Reference Number:	

SUMMARY

On an annual basis, the Auditor General reviews the implementation status of outstanding audit recommendations and reports the results of the review to Council through the Audit Committee. This report provides information regarding the implementation status of audit recommendations contained in various reports issued by the Auditor General to City divisions.

Since January 1, 1999, the Auditor General has issued 243 audit reports to City divisions containing 1,781 recommendations. As of April 2016, City divisions have fully implemented 82 per cent or 1,460 of the audit recommendations.

More specifically, for the five-year period from July 1, 2010 to June 30, 2015, the Auditor General issued 67 audit reports to City divisions containing a total of 605 recommendations. Twelve of these recommendations are no longer relevant due to re-organizations or changes to business practices. Of the remaining 593 relevant recommendations, City divisions have fully implemented 434 or 73 per cent of the recommendations.

Although management has made progress in implementing audit recommendations, 36 recommendations have been outstanding for over three years of which 28 have been outstanding for five or more years. Management is taking steps to implement these recommendations.

Continued efforts to implement outstanding recommendations will provide additional benefits to the City such as cost savings, improved controls, additional revenue and enhanced service delivery.

RECOMMENDATIONS

The Auditor General recommends that:

1. City Council receive this report for information.
2. City Council not authorize the public release of the recommendations contained in Confidential Attachment 3.

Financial Impact

This is a summary report. The recommendations in this report have no financial impact.

However, the implementation of audit recommendations result in significant savings and additional revenues. Although many of the benefits from audit recommendations cannot be quantified, we have included a few highlights in this report to illustrate the financial benefits and improved operational efficiencies of implementing many of our audit recommendations.

Since 2011, as a result of the implementation of audit recommendations, the 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 \$11.20. The Auditor General reports annually to Council on the activities of the Office and savings achieved. The 2015 Annual Report demonstrating the Value of the Auditor General's Office is available at:

<http://www.toronto.ca/legdocs/mmis/2016/au/bgrd/backgroundfile-90685.pdf>

The identification of cost savings and additional revenue is only one component of the role of the Auditor General. Equally important is the ongoing evaluation of internal controls, risk management and governance processes in order to ensure City resources are adequately protected.

ISSUE BACKGROUND

In accordance with the Auditor General's 2016 Work Plan, we have completed a review of the implementation status of audit recommendations issued by the Auditor General's Office. On an annual basis, the Auditor General provides a listing of outstanding audit recommendations to management. Management responds with information detailing the action taken on recommendations implemented as well as progress made on those not fully implemented.

The Auditor General reviews information provided by management to determine the accuracy of management assertions related to each recommendation considered as fully implemented or no longer relevant. The results of this review are communicated to Council through the Audit Committee.

This report relates only to City divisions and does not include reports and recommendations relating to City Agencies and Corporations. The status of recommendations related to City Agencies and Corporations is provided in a separate consolidated report to the Audit Committee.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

COMMENTS

Results of the Auditor General's Review

Table 1 contains cumulative results for all recommendations contained in reports issued by the Auditor General's Office during the five-year period from July 1, 2010 to June 30, 2015.

Table 1: Status of Outstanding Recommendations for Public and In-camera Reports Issued from July 1, 2010 to June 30, 2015

Status of Recommendations	As of June 30, 2015
Number of Reports Issued	67
Fully Implemented	434
Not Fully Implemented*	159
No Longer Relevant	12
Total Recommendations	605
Fully Implemented as a percentage of total recommendations excluding those no longer relevant	73%

**Does not include 16 Not Fully Implemented Recommendations for reports issued prior to July 1, 2010.*

The results of our review indicate that management has fully implemented 434 or 73 per cent of the applicable recommendations made by the Auditor General since July 1, 2010.

Attachment 1 contains 98 public recommendations that have been fully implemented as determined by the 2016 follow-up process.

Recommendations determined as fully implemented or no longer relevant will not be included in the next year follow-up process.

Auditor General's Verification of Implementation Status

For the 2016 follow-up process, management reported that 115 recommendations had been fully implemented. After undertaking audit procedures and reviews to verify the implementation status, we determined that the steps undertaken or the extent of the improvement in 20 recommendations did not fully address the issues or intent of the audit recommendations. For each of these recommendations, we discussed our assessment with management staff before finalizing our decisions. Management staff agreed with our assessments and have indicated the additional steps they would be undertaking to fully implement these recommendations in future.

Full Listing of Outstanding Recommendations

Attachment 2 contains a Table outlining the outstanding recommendations for five years or longer. This is followed by an alphabetical listing by division detailing the 172 public recommendations that have not been fully implemented.

Confidential Attachment 3 lists the status of the 8 confidential recommendations not fully implemented.

All recommendations reported as not fully implemented will be included in subsequent follow-up reviews until they have been implemented.

Examples of noteworthy recommendations implemented and not fully implemented are provided below.

Noteworthy Recommendations Implemented

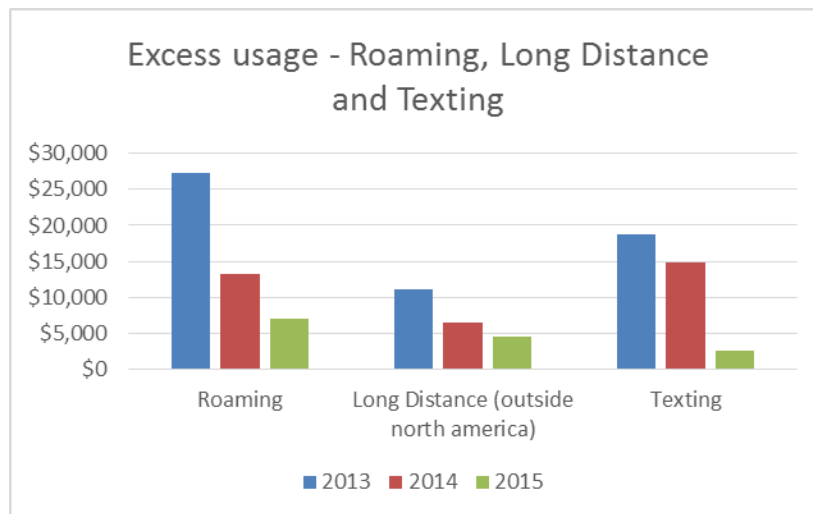
1. Information & Technology Division - Controls Over Telecommunication Expenses Need Improvement, 2014

The Auditor General completed a review on controls over Telecommunication Expenses in 2014. The report included 18 public and two confidential recommendations relating to the improvement of controls over project management, telecommunication resource usage, wireless plans, inventory of devices as well as the invoicing and reporting of these expenses. The report is available at:

<http://www.toronto.ca/legdocs/mmis/2014/au/bgrd/backgroundfile-70658.pdf>

Management has implemented 10 recommendations and work is underway on the remaining 10 recommendations.

The implementation of four recommendations relating to the monitoring of telecommunication usage have resulted in improved monitoring and a reduction of usage incurred outside of the monthly plans. Although the number of wireless devices has increased from 15,300 in 2013 to 17,500 (includes pagers and data modems) in 2015, excess usage charges for data roaming, long distance (outside North America) and texting have reduced from \$57,000 in 2013 to \$14,000 in 2015, a reduction of \$43,000 when compared with 2013.



After the completion of the Telecommunications Audit in 2014, the Auditor General identified the need for ongoing monitoring of telecommunication expenses to improve oversight of the City's telecommunication usage.

Since 2014, the Auditor General has included telecommunication expenses in her continuous monitoring program. The result of our continuous monitoring of telecommunication expenses is provided in a separate report to the July 4, 2016 Audit Committee. We have reported a combined savings of over \$500,000 resulting from cancellation, suspension and re-assignment of inactive phones, changing of wireless plans and other management actions.

2. Transportation Services – Inventory Controls Over traffic Control Devices Need to be Improved, 2012

In 2012, the Auditor General completed a review to assess if the Traffic Plant Installation and Maintenance unit in the Transportation Services Division maintained effective controls to safeguard the inventory of traffic control devices. The audit report included 9 recommendations to achieve effective inventory control, cost savings and to ensure the safekeeping of the City's \$6.7 million worth of parts required to maintain and install electrical traffic signal devices.

Subsequent to the 2012 audit, Transportation Services awarded a new contract for traffic control devices which requires the vendor to provide all materials and installation services specific to the traffic control devices. As a result, Transportation Services no longer maintains any inventory of traffic control devices. At the time of our follow-up, after transition of all Transportation inventories to Purchasing Materials and Management Division (PMMD), the remaining current value of traffic management inventory maintained by PMMD for Transportation Services was approximately \$650,000.

Moreover, in response to our recommendation follow-up enquiries, PMMD staff will be processing approximately \$1 million worth of obsolete inventory parts on behalf of Transportation Services through PMMD's surplus materials and equipment disposal process. Transportation Services no longer has any inventory holdings.

Noteworthy Recommendations Not Fully Implemented

Recommendations to some divisions date back to reports issued in 2005, 2008, 2009 and 2010. These recommendations deal with such issues as facilities management, disaster recovery and capital planning. Our review found that these recommendations are still relevant today and should be implemented as soon as possible.

1. Maintenance and Administrative Controls Review – Facilities and Real Estate (2005)

In 2005, the Auditor General's Office completed an audit to assess whether maintenance and cleaning costs for City owned buildings were being managed economically, efficiently and in compliance with corporate policies and legislative requirements.

Six of the 31 recommendations contained in the 2005 report have remained outstanding for over 10 years. The majority of these recommendations relate to the key issue raised in the 2005 report related to a lack of central control and accountability for maintaining City buildings. These recommendations remain relevant and important today.

The Facilities Management Division has advised that a new cross-Divisional team Facility Management Service Standards Committee (FMSSC) was formed in late 2013 to develop facilities maintenance standards for application across all City Divisions.

This notwithstanding, it is still necessary to implement an overall governance role to ensure that City divisions comply with legislative standards and follow consistent policies, procedures and standards for building maintenance and cleaning operations.

CONCLUSION

The results of this review indicate management continues to make progress in implementing outstanding audit recommendations. While we have identified a number of recommendations that have been outstanding for over three years and in certain cases over five years, management has indicated steps being taken and time frames for their implementation.

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SIGNATURE

Beverly Romeo-Beehler, Auditor General

ATTACHMENTS

Attachment 1: City Divisions, Public Recommendations – Fully Implemented

Attachment 2: City Divisions, Public Recommendations – Not Fully Implemented

Attachment 3: Confidential Information: City Divisions – Confidential
Recommendations - Not Fully Implemented