

Auditor General's 2017 Status Report on Outstanding Audit Recommendations for City Agencies and Corporations

Date: June 12, 2017
To: Audit Committee
From: Auditor General
Wards: All

SUMMARY

On an annual basis, the Auditor General reviews the implementation status of outstanding audit recommendations and reports the review results to the City Council through the Audit Committee.

From January 1, 2011 to December 31, 2015, the Auditor General issued 17 reports to City agencies and corporations containing a total of 204 recommendations. Seven of these recommendations are no longer applicable due to either re-organizations or changes to business practices. Of the remaining 197 recommendations, City agencies and corporations have implemented, as of April 2017, 76 per cent or 149 of the applicable recommendations.

This report provides information regarding the implementation status of audit recommendations issued to City agencies and corporations. This report also provides information on the potential cost savings from outstanding audit recommendations in response to a motion adopted by the Audit Committee at its July 4, 2016 meeting.

A total of 68 outstanding recommendations from the following six City agencies and corporations were included in the 2017 follow-up review:

- Toronto Police Service
- Toronto Transit Commission
- Sony Centre for the Performing Arts
- Build Toronto
- Invest Toronto
- Toronto Parking Authority

Among the 68 recommendations, our review verified that 19 recommendations (28 per cent) have been fully implemented and one recommendation is no longer applicable. There are 48 recommendation (71 per cent) that remain not fully implemented.

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

The results of this review indicate management continues to make progress in implementing outstanding audit recommendations. A number of fully implemented and partially implemented audit recommendations have resulted in significant cost savings for the agencies and corporations. The outstanding recommendations will be included in the next year's follow-up review.

We express our appreciation for the co-operation and assistance we received from the management and staff of City agencies and corporations.

RECOMMENDATIONS

The Auditor General recommends that:

1. City Council receive this report for information.

FINANCIAL IMPACT

There is no financial impact resulting from the adoption of the recommendation in this report.

DECISION HISTORY

At the July 4, 2016 Audit Committee meeting, a motion was adopted requesting the Auditor General to report to the October 28, 2016 Audit Committee meeting on the estimated savings associated with outstanding audit recommendations and the effect these savings would have on the City's Annual Financial Statements.

In response to the motion, the Auditor General presented a report entitled "*Auditor General's New Recommendation Follow-up Process and Response to Report Estimated Cost Savings Associated with Outstanding Recommendations*" to the Audit Committee at its October 28, 2016 meeting. The report is available at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.AU7.9>

In the aforementioned report, the Auditor General indicated that her Office will incorporate the requested savings information in her 2017 annual follow-up reports to the Audit Committee. The Auditor General also informed the Audit Committee of a new follow-up reporting process being piloted in 2017 and 2018.

ISSUE BACKGROUND

The follow-up of outstanding recommendations is required by Government Auditing Standards. Following up on outstanding recommendations from previous audit reports is important as it ensures that management has taken appropriate action to implement the recommendations. The Auditor General reports to the Audit Committee each year on the implementation status of outstanding recommendations.

In accordance with the Auditor General's 2017 Work Plan, and the new follow-up reporting process commenced in 2017, we have completed a review of the implementation status of audit recommendations issued to City agencies and corporations.

The key steps in our recommendation follow-up process are:

1. We provide a listing of outstanding audit recommendations to the management.
2. Management respond with information detailing the action taken on recommendations implemented as well as progress made on those not fully implemented.
3. The Auditor General's Office (AGO) reviews information provided by management to determine the accuracy of management assertions related to each recommendation considered as fully implemented or no longer relevant.
4. The Auditor General reports the results of the follow-up review to the City Council through the Audit Committee.

This report relates only to City agencies and corporations and does not include recommendations relating to City divisions.

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

Table 1 below shows the implementation status of recommendations issued by the Auditor General's Office to City agencies and corporations during the five-year period from January 1, 2011 to December 31, 2015.

Table 1: Status of Recommendations Issued from January 1, 2011 to December 31, 2015

Entity	Total Recommendations	Implemented	Not Fully Implemented	No Longer Applicable
Toronto Police Service	25	22	1	2
Toronto Community Housing Corporation	75	72	-	3
Toronto Transit Commission	65	38	26	1
Sony Centre for the Performing Arts	12	6	6	-
Build Toronto	25	10	15	-
Invest Toronto	2	1	-	1
Total	204	149	48	7

A total of 68 outstanding recommendations from City agencies and corporations were included in the 2017 follow-up review. Among these 68 recommendations, 34 were reported by management as not fully implemented, 33 were reported by management as fully implemented and one as no longer relevant.

We assessed the 33 recommendations reported by management as fully implemented and determined that in 14 recommendations the steps undertaken or the extent of the improvement did not fully address the issues or intent of the audit recommendations. We discussed our assessment for these 14 recommendations 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. We also assessed the one recommendation reported as no longer relevant and verified that it is no longer applicable. Table 2 outlines the 2017 follow-up review results by the entity.

Table 2: Results of the 2017 Follow-up Review of Outstanding Recommendations

Entity, Report Title and Date	Total Issued	Outstanding From Previous Follow-up Cycle	Results of 2017 Review		
			Fully Implemented	Not Fully Implemented	No Longer Applicable
Toronto Police Service					
Review of Integrated Records and Information System (August 26, 2011)	7	2	2	-	-
Police Paid Duty – Balancing Cost Effectiveness and Public Safety (December 1, 2010)	10	1	-	1	-
Toronto Transit Commission					
Review of Bus Maintenance and Shops Department, Phase Two: Non-Revenue Fleet and Equipment Management and Maintenance (February 2015)	21	12	1	11	-
Review of Toronto Transit Commission Non-Revenue Vehicle Fuel Card Controls Need Immediate Improvement (February 2015)	4	3	3	-	-
Review of Bus Maintenance and Shops Department, Phase One: Bus Maintenance and Warranty Administration (January 2014)	18	13	4	9	-
Review of Wheel-Trans Services – Sustaining Level and Quality of Service Requires Changes to the Program (December 2012)	22	11	5	6	-
Sony Centre for the Performing Arts					
Review of the Redevelopment of the Sony Centre for the Performing Arts (April 2014)	12	7	1	6	-

Entity, Report Title and Date	Total Issued	Outstanding From	Results of 2017 Review		
Build Toronto					
Operational Review of Build Toronto Inc. (November 2014)	25	16	1	15	-
Invest Toronto					
Operational Review of Invest Toronto Inc. (December 2014)	2	2	1	-	1
Toronto Parking Authority**					
Toronto Parking Authority Pay and Display Parking Operations - Review of Revenue, Expenditure and Procurement Practices (May 2009)	16	1	1	-	-
Total	137	68	19	48*	1

*Consists of 34 recommendations originally reported by management as not fully implemented and 14 recommendations assessed by audit as not fully implemented.

** Follow-up of the recommendations included in the 2015 report entitled "Toronto Parking Authority – Phase 1: Audit of Real Estate Activities" will be conducted together with the follow-up review of the 2016 report entitled "Toronto Parking Authority – Phase 2: Audit of the Revenue Operations of Off-Street Controlled Facilities". The two reports include a total of 25 audit recommendations.

Detailed results of our individual follow-up reviews of City agencies and corporations are enclosed as Attachments 1 through 6. These reports provide further details regarding their respective recommendations and current implementation status.

Recommendations determined as fully implemented or no longer relevant will not be included in the next year's follow-up review. All recommendations reported as not fully implemented will be included in subsequent follow-up reviews until fully implemented.

Many of these agencies and corporations have undertaken a significant amount of work to implement the audit recommendations. While a number of the audit recommendations have not been fully implemented as of May 2017, we recognize that some of our recommended changes require significant system or process changes hence necessitating a longer time frame for full implementation.

Noteworthy Recommendations Implemented

Review of Toronto Transit Commission Non-Revenue Vehicle Fuel Card Controls Need Immediate Improvement, February 2015

Our 2015 audit report provided a total of four recommendations of which one recommendation had been assessed as fully implemented in the previous follow-up review. Of the remaining three recommendations assessed this year, all of them were determined as fully implemented.

Recommendation 4 in the audit report requests TTC staff to work with the City of Toronto Fleet Services Division to determine the feasibility and merits of utilizing the City's fuel supply system, including the City operated fuel stations.

In April 2016 the TTC began using City fuelling sites which resulted in one-time savings of \$55,000 by avoiding the purchase of a database licence, server hardware, and other implementation costs. The TTC will also avoid annual recurring maintenance costs of \$133,000. In total, the TTC will save approximately \$720,000 over five years.

Operational Review of Invest Toronto Inc., December 2014

The Auditor General's 2014 report highlighted that once the City clarified its long-term strategy for investment promotion and attraction activities, efforts could be made to optimize the levels of City funding either for Invest Toronto or towards Toronto's participation in a regional agency.

The key recommendation of the 2014 audit report was for the City Manager to recommend an approach for the City's efforts to promote Toronto as an investment destination that considered:

- the advantages and disadvantages of a regional economic development agency
- the recommended levels of City funding for foreign direct investment promotion and attraction activities

At the time, Invest Toronto's annual operating costs were about \$2.6 million of which the City-owned Corporation, Toronto Port Lands Company (TPLC), provided almost all the funding through a grant. This funding arrangement was established when Invest Toronto was formed in 2009. With the completion of the transition to Toronto Global, these grant amounts will not be needed.

On July 12, 2016, City Council approved the City of Toronto's participation in a new regional Foreign Direct Investment attraction agency named "Toronto Global". City Council directed that the business and affairs of Invest Toronto be wound up after an orderly transition to Toronto Global.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.EX16.15>

Under the new municipal funding agreement with Toronto Global, the City of Toronto will contribute approximately \$0.9 million annually. Therefore, it is expected that the City will benefit from annual cost savings of approximately \$1.7 million by transitioning investment promotion and attraction activities from Invest Toronto to Toronto Global.

Recommendations Not Fully Implemented with Potential Cost Savings

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

Among the six partially implemented recommendations from our 2012 audit report, Recommendation 2 requests the TTC to develop and implement a comprehensive plan for integrating Wheel-Trans customers into the accessible conventional transit system.

Following the 2012 audit report, and in response to the new legislative requirements and growing service demand, TTC staff have undertaken significant work to develop a 10 Year Strategy to transform the delivery of Wheel-Trans services. Staff provided the Board with two reports in 2016 outlining the 10 Year Strategy and projected financial impact, and a progress update.

According to the September 2016 staff report, the implementation of the Wheel-Trans 10 Year Strategy will potentially result in approximately \$310.8 million cost avoidance (net of total \$47.6 million additional operating and capital costs) over 10 years.

Review of Bus Maintenance and Shops Department, Phase One: Bus Maintenance and Warranty Administration, January 2014

In our 2014 audit, we provided five recommendations to improve warranty administration. In response to our recommendations, multiple TTC departmental staff have worked together to develop and implement a new warranty process and controls to ensure defective parts eligible for warranty are identified and returned to the warranty administration group for claims submission. To date the new process has been rolled out to all bus garages.

While significant improvement was noted in the warranty claim process as a result of a concerted effort by TTC staff, the new process has just been implemented and it will take some time for staff to familiarize with it and to maximize the warranty claims.

During our current follow-up review, we noted that the parts return rate was 75 per cent in 2016 while the internal target is 90 per cent. The warranty claims rate for the first four months of 2017 was 20 per cent with a backlog of claims to be processed.

As a result, three of the five audit recommendations relating to warranty administration remain not fully implemented.

While there is still potential to improve the parts return and warranty claim process, to date the new process has already resulted in significant savings for the TTC. To assess the amount of savings from the new process, audit staff manually analysed a large volume of warranty related data, and contacted third parties to obtain their warranty costs. Based on the analysis, additional revenue in 2016 as a result of the new bus warranty claim process was assessed to be approximately \$5.8 million.

In addition, as a result of the new process and the diligence of the Bus Warranty Administration staff in pursuing new bus warranty claims, manufacturers provided proactive repairs for many TTC buses in 2016. The value of this work was approximately \$8 million in 2016.

In total, TTC achieved \$13.8 million additional warranty savings in 2016.

Table 3 outlines the potential cost savings from the above two recommendations.

Table 3: Outstanding Recommendations with Potential Cost Savings

No.	Recommendation	Potential Cost Savings
Toronto Transit Commission - Review of Wheel-Trans Services - Sustaining Level and Quality of Service Requires Changes to the Program, December 12, 2012		
02	<p>The Commission request the Chief Executive Officer, in consultation with the Advisory Committee on Accessible Transit, to develop and implement a comprehensive plan for integrating Wheel-Trans customers into the accessible conventional transit system. Such an action plan should include but not be limited to:</p> <ul style="list-style-type: none"> a. Identifying and addressing potential safety and service issues that can present barriers to Wheel-Trans customers in using the accessible conventional system; b. Education, communication and training programs for Wheel-Trans customers and transit passengers; and c. Customer service training to TTC staff with particular emphasis on assisting people with mobility difficulties. 	<p>TTC staff have undertaken significant work to develop a 10 Year Strategy to transform the delivery of Wheel-Trans services. Staff provided the Board with two reports in 2016 outlining the 10 Year Strategy and projected financial impact, and a progress update.</p> <p>According to the September 2016 staff report, the implementation of the Wheel-Trans 10 Year Strategy will potentially result in approximately \$310.8 million cost avoidance (net of total \$47.6 million additional operating and capital costs) over 10 years.</p>
Review of Toronto Transit Commission Bus Maintenance and Shops Department, Phase One: Bus Maintenance and Warranty Administration, January 28, 2014		
13	<p>The Board request the Chief Executive Officer to take immediate steps to maximize the use of bus warranty provisions and increase warranty recovery revenue. Such steps should include but not be limited to:</p> <ul style="list-style-type: none"> a. Identifying and addressing reasons prohibiting successful filing of warranty claims; b. Increasing warranty claim submission rate for bus defective parts and labour hours; and c. Systematically tracking and monitoring claim submission rate and warranty cost 	<p>In response to our recommendation, TTC staff has recently implemented a new process to monitor parts return and warranty claims. To date the new process has already resulted in significant savings for the TTC. Based on our analysis, additional revenue in 2016 as a result of the new bus warranty claim process was assessed to be approximately \$5.8 million.</p> <p>In addition, as a result of the new process and the diligence of the Bus Warranty Administration staff in pursuing new bus warranty claims, manufacturers provided proactive repairs for</p>

No.	Recommendation	Potential Cost Savings
	recovery for the entire bus fleet.	<p>many TTC buses in 2016. The value of this work was approximately \$8 million in 2016.</p> <p>In total, TTC achieved \$13.8 million additional warranty savings in 2016.</p> <p>While significant improvement was noted in the warranty claim process as a result of a concerted effort by TTC staff, the new process has just been implemented and it will take some time for staff to familiarize with it and to maximize the warranty claims.</p>

CONCLUSION

The results of this review indicate management continues to make progress in implementing outstanding audit recommendations. A number of fully implemented and partially implemented audit recommendations have resulted in significant cost savings for the agencies and corporations. The outstanding recommendations will be included in the next year's follow-up review.

We express our appreciation for the co-operation and assistance we received from the management and staff of City agencies and corporations.

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SIGNATURE

Beverly Romeo-Beehler
 Auditor General

ATTACHMENTS

Attachment 1: Build Toronto Inc. - Results of Follow-up of Previous Audit Recommendations

Attachment 2: Invest Toronto Inc. - Results of Follow-up of Previous Audit Recommendations

Attachment 3: Sony Centre for the Performing Arts - 2017 Results of Follow-up of Previous Audit Recommendations

Attachment 4: Toronto Parking Authority - Results of Follow-up of Previous Audit Recommendations

Attachment 5: Toronto Police Service - Results of 2017 Follow-up of Previous Audit Recommendations

Attachment 6: Toronto Transit Commission - Results of 2017 Follow-up of Previous Audit Recommendations