

AUDITOR GENERAL'S REPORT

2017 Annual Report

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

January 24, 2018

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



AUDITOR GENERAL'S MESSAGE



Our Office is proud of the work we do to ensure Torontonians' tax dollars are well spent, and that City programs are effectively run. This Annual Report summarizes the savings and other benefits achieved by my Office, and provides an update on what we'll be working on in 2018.

2017 was a busy year for our Office. We issued 13 performance audit reports, and five investigative reports. Our reports addressed complex issues such as management of the City's employee benefits program, ensuring City revenues are appropriately billed, and the Toronto Transit Commission's procurement practices.

We also improved our Fraud and Waste Hotline with the addition of a 24/7 independent, live, and confidential call-answer service. In 2017, staff processed 680 complaints with 1,060 allegations of fraud, waste or wrongdoing.

Since 2013, management's implementation of our recommendations resulted in one-time and projected five-year savings of \$203.1 million. Over the same period, our operating costs were approximately \$23.9 million. For every dollar invested in our Office, a return of \$8.5 was generated.

Equally important are the non-financial benefits which arise from our audits and investigations. These include better internal controls, improved policies and procedures, and more efficient use of City resources.

These savings and benefits would not have been achieved without the dedication, cooperation and hard work from my staff and City staff. Together, we are taking concrete steps to improve life for Torontonians.

Sincerely,

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

BY THE NUMBERS



\$8.5 RETURN ON INVESTMENT



\$203 MILLION SAVED SINCE 2013



13 AUDITS
5 INVESTIGATIONS



163 NEW AUDIT RECOMMENDATIONS



680 COMPLAINTS VIA FRAUD HOTLINE

Our Mandate

In 2002, City Council approved an independent Auditor General's Office for the City of Toronto. The Auditor General's primary role is to assist Council in holding itself and City administrators accountable for the quality of stewardship over public funds and for the achievement of value for money in City operations.

Our Mission

To be recognized as a leading audit organization, respected for excellence, innovation and integrity, in supporting the City of Toronto as a world class organization.

Who We Are

The City of Toronto's motto is "Diversity, Our Strength". The Auditor General's Office staff exemplifies this: we speak 15 different languages including Mandarin, Russian, Afrikaans, Urdu, Greek, Tamil and French. Many staff members were born abroad and now call Toronto home. And we're not just auditors – many are artists, musicians, writers, and athletes. Our diversity strengthens the Office and enriches the work we do. We are honoured to serve the City of Toronto.



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EXECUTIVE SUMMARY

2004 Audit Committee request to identify value added by the Auditor General's Office

The City of Toronto has had an independent Auditor General's Office since 2002. In 2004, the City's Audit Committee requested the Auditor General to report actual and potential dollar savings, at risk dollars, and the impact of non-financial benefits to the City of Toronto resulting from the Office's work.

Specific responsibilities of the Auditor General are set out in Chapters 3 and 192 of the Toronto Municipal Code. The Code requires the Auditor General to report annually to City Council on the activities of the Office and savings achieved.

This Annual Report provides information on the Auditor General Office's 2017 activities, including quantifiable financial and non-financial benefits.

Return on Investment for the Office

\$81.4 million total estimated savings realized in 2017

The total estimated one-time and five-year savings realized in 2017 was \$81.4 million. These savings were realized from management's implementation of recommendations from seven previously issued audit reports and investigations of fraud related matters. Refer to Section 1.4 in this Annual Report for more information on these savings estimates.

To calculate the return on investment for the Office, estimated cost savings and operating costs for the most recent five-year period are used.

\$8.5 in savings for every dollar invested in the Auditor General's Office

From 2013 to 2017, the one-time and projected five-year estimated cost reductions and revenue increases resulting from audit recommendations were approximately \$203.1 million. Additional costs incurred to implement recommendations were deducted from the estimated savings. The Auditor General's Office operating cost over this same five-year period was approximately \$23.9 million. This means that for every dollar invested in the Auditor General's Office, there was a return of \$8.5.

Non-quantifiable Benefits

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

A number of 2017 audit and investigative reports recommended improved internal controls and better use of City resources from more effective operations and improved policies and procedures. Although these benefits add significant value to City operations and services, the monetary value may not always be quantifiable.

Abstracts of the reports issued in 2017 are provided in Section 2 of this Annual Report.

Investigative Reports

Issued 5 investigative reports

The Auditor General's Forensic Unit focuses its investigative work on high-risk areas. During 2017, the Auditor General carried out five significant investigations into complex cases. Summaries of these reports are provided in Exhibit 2 of our 2017 Annual Report on the Fraud and Waste Hotline (being tabled for consideration at the Audit Committee meeting on February 7, 2018).

2017 Key Accomplishments

Issued 13 performance audit reports

- Completed and issued 13 performance audit reports which provided 126 public and confidential recommendations.
- Issued final report of the information security vulnerability assessment and security penetration testing on the City's network.
- Completed the follow-up of 152 outstanding recommendations and provided a total of six follow-up reports to the Audit Committee.

Forensic Unit accomplishments

- Issued five investigative reports which provided 37 public and confidential recommendations.
- Processed 680 complaints of fraud, waste or wrongdoing received through the Fraud and Waste Hotline.
- Implemented a 24/7 independent and confidential call-answer service, making it easier to report complaints to the Fraud and Waste Hotline.

2018 and Ahead

Looking forward

The Auditor General will continue to take a risk-based approach when selecting and conducting audits. The Office presented its 2018 Work Plan at the October 27, 2017 Audit Committee meeting. The 2018 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:

2018 initiatives

- Broaden Continuous Controls Monitoring to cover more operations and activities across the City
- Expand information technology audits
- Explore the emerging use of artificial intelligence in data analytics
- Enhance staff training and succession planning
- Undergo an external independent quality assurance review
- Continue knowledge sharing with other government audit offices.

Conclusion

The Auditor General's audits and reports contribute to the efficiency and effectiveness of City operations

The Auditor General and her staff are a key asset in providing oversight of tax dollars spent by the City of Toronto. This Annual Report shows that the cost savings from audits and investigations provide a return of \$8.5 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 audit reports have significant non-financial and long-term benefits to the City.

1. FINANCIAL BENEFITS

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*), 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 on 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."

Auditor General's responsibilities

The Auditor General is primarily responsible for the following:

- Financial (excluding attest), compliance and performance audits of divisions, and certain agencies and corporations
- Operating the Fraud and Waste Hotline
- Conducting investigations into fraud and other wrongdoing
- Overseeing the external financial attest audit contract
- Coordinating with the City's Internal Audit Division and other Accountability Officers

Refer to Exhibit 1 for a list of specific responsibilities of the Auditor General.

1.2 Return on Investment

72 audit and investigative reports and 3,137 complaints to the Hotline over the past 5 years

From January 2013 to December 2017, the Auditor General's Office completed 72 performance audits and investigative reports providing a total of 745 public and confidential recommendations. The Office also handled 3,137 individual complaints to the Fraud and Waste Hotline over this five-year period.

Five-year comparison of audit costs and realized savings

The Auditor General's Office calculates the return on every dollar invested in the Office by comparing the ratio of five-year audit costs to the cumulative estimated five-year realized savings. Figure 1 illustrates this comparison for 2013 to 2017.

\$203.1 million in cost savings and revenue increases over last five years

The cumulative audit expenditure was approximately \$23.9 million. The estimated one-time and projected five-year cost reductions and revenue increases were approximately \$203.1 million. Additional costs incurred to implement any recommendations were deducted from the estimated savings.

Benefits likely extend beyond 5-year horizon

Estimated savings and revenue increases are only projected for a five-year period, even though the cost savings in most instances will likely extend beyond five years.

Estimated \$8.5 return on investment for every \$1 invested in the Office

From 2013 to 2017, every \$1 invested in the Auditor General's Office provided a return on investment of approximately \$8.5.

Figure 1: Five-Year Audit Costs Compared to Estimated Realized Savings (\$000), 2013 to 2017, Auditor General's Office



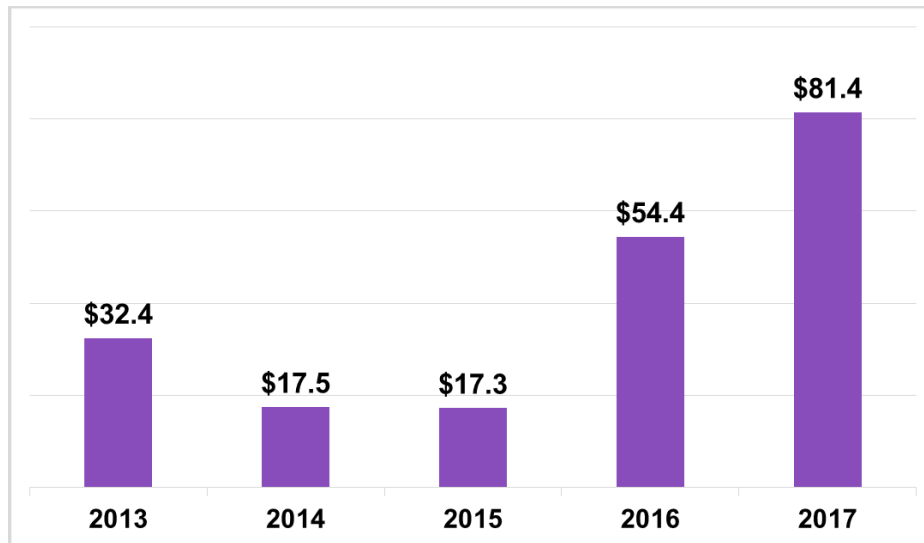
Cumulative savings from 2013 to 2017

Table 1 provides a summary of the one-time and five-year projected cumulative savings from 2013 to 2017. Figure 2 illustrates the cumulative estimated savings on a yearly basis.

Table 1: Summary - Cumulative One-Time and Projected Five-Year Estimated Savings, 2013 to 2017, Auditor General's Office

ESTIMATED SAVINGS \$000's						
Year of Savings	Year of Annual Report					Total
	2013 \$	2014 \$	2015 \$	2016 \$	2017 \$	
2013	453					453
2014	5,227	1,776				7,003
2015	6,370	3,173	4,044			13,587
2016	6,565	3,141	3,189	11,849		24,744
2017	6,788	3,141	3,032	8,385	11,479	32,825
2018	7,041	3,141	3,032	9,839	13,607	36,660
2019		3,095	3,032	9,872	14,237	30,236
2020			921	9,907	14,237	25,065
2021				4,595	14,237	18,832
2022					13,652	13,652
Total	\$32,444	\$17,467	\$17,250	\$54,447	\$81,449	\$203,057

Figure 2: One-Time and Projected Five-Year Estimated Savings (\$million) by Year, 2013 to 2017, Auditor General's Office

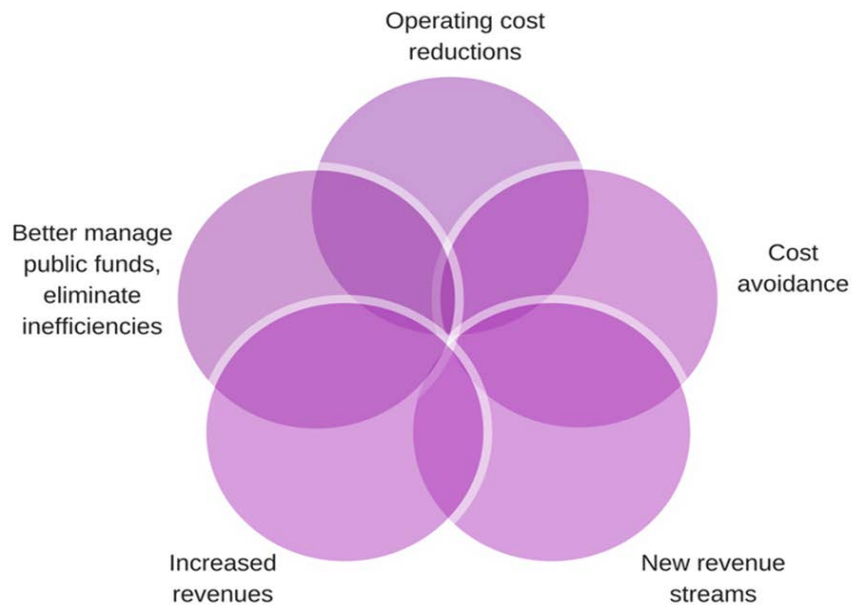


1.3 Financial Benefits Realized in 2017

Types of financial benefits

The implementation of Auditor General's recommendations can result in different types of financial benefits, or savings. Figure 3 shows the different types of financial benefits that can be quantified.

Figure 3: Types of Financial Benefits, Auditor General's Office



Refer to Exhibit 3 for examples of previous audits and how they have provided various types of financial benefits to the City.

\$81.4 million of savings realized in 2017

In 2017, seven previously issued audit reports were found to have identifiable savings. The combined one-time and five-year projected savings from these seven reports and fraud related matters total \$81.4 million.

Refer to Table 2 for the one-time, annual recurring, and five-year total estimated savings illustrated above. A brief explanation of each audit report and estimated savings are provided after Table 2.

Savings are conservative and verified by management

This Annual Report only includes savings from audit recommendations deemed implemented in 2017. This includes reports and investigations issued prior to 2017 for which audit recommendations were not implemented until 2017. The amounts listed in Table 2 were estimated conservatively and verified or discussed with management.

It is not always possible to quantify all cost savings when audit reports are issued. Among the 13 performance audit reports issued in 2017, a number of them identified opportunities for cost savings or increased revenues.

Potential savings are not included in the return on investment

To ensure the estimated savings reported in the Annual Report are conservative and achievable, we do not include potential savings in the Auditor General's return on investment calculation. The potential savings will only be included when management fully implements the audit recommendations.

Table 2: Estimated Savings (\$000's) Recognized in 2017, Auditor General's Office

Audit Reports Issued Prior to 2017									
		2017 One-time	2018 Recurring	2019 Recurring	2020 Recurring	2021 Recurring	2022 Recurring	Total	Pg #
1	Audit of City Cleaning Services, 2016: Part 1: Opportunities to Control Costs, Improve Productivity and Enhance Quality of Cleaning Services Part 2: Maximizing Value from Cleaning Contracts	-	\$740	\$740	\$740	\$740	\$265	\$3,225	10
2	Improving Controls Over Property Tax Assessments and Payment in Lieu of Taxes, 2015	\$2,426	\$5,806	\$5,806	\$5,806	\$5,806	\$5,806	\$31,456	11
3	Review of Toronto Transit Commission Non-Revenue Vehicle Fuel Card Controls Need Immediate Improvement, 2015	\$110	\$110	\$110	\$110	\$110	-	\$550	12
4	Review of Toronto Transit Commission Bus Maintenance and Shops Department, Phase One: Bus Maintenance and Warranty Administration, 2014	\$8,000	\$5,170	\$5,800	\$5,800	\$5,800	\$5,800	\$36,370	13
5	Invest Toronto - Operational Review of Invest Toronto Inc., 2014	-	\$1,700	\$1,700	\$1,700	\$1,700	\$1,700	\$8,500	14
6	Controls Over Telecommunication Expenses Need Improvement, 2014	\$936	-	-	-	-	-	\$936	16
7	Reliable Data is Needed for Effective Fleet Management, 2013	-	\$34	\$34	\$34	\$34	\$34	\$170	16
Investigations of Fraud Related Matters									
	2017 Cost Recovery and Loss Prevention	\$7	\$47	\$47	\$47	\$47	\$47	\$242	17
Total 2017 and 5-Year Savings		\$11,479	\$13,607	\$14,237	\$14,237	\$14,237	\$13,652	\$81,449	

1.4 Summary of Audit Reports with Savings Realized in 2017

The following section provides a brief overview of the audit reports that were a catalyst to savings realized in 2017.

1. Audit of City Cleaning Services, 2016:

Part 1: Opportunities to Control Costs, Improve Productivity and Enhance Quality of Cleaning Services

Part 2: Maximizing Value from Cleaning Contracts

Cleaning cost reductions of \$740,000 reflected in the Division's 2018 Operating Budget

The Auditor General's 2016 audit of City cleaning services made recommendations to strengthen the procurement, management, and administration of cleaning contracts. The audit also identified opportunities to achieve efficiencies by standardizing cleaning services across City facilities. Facilities Management Division's 2018 Operating Budget reflected \$740,000 in contracted and in-house cleaning cost reductions.

Management's efforts to implement audit recommendations resulted in savings

Management confirmed that these savings were the result of addressing the following areas highlighted in the Auditor General's 2016 audit reports:

- standardizing service levels across Facilities Management and Toronto Police locations
- consolidating custodial contracts into one contract
- operational and efficiency savings due to realignment of workload

Division also recorded \$850,000 in cost reductions in its 2017 Operating Budget

The Division's previous operating budget also reflected \$850,000 in annual cleaning cost reductions as a result of implementing the Auditor General's audit recommendations. These savings were included in the Auditor General's previous Annual Report. Management confirmed that the savings in their 2018 Operating Budget are new and in addition to the previously reported cost reductions.

\$3.2 million cleaning cost savings over five years

Management confirmed that the annual \$740,000 in contracted and in-house cleaning savings will likely recur over the remaining four years left in the respective contract. Management anticipates that cost reductions of \$265,000 related to in-house cleaning services will likely continue into the foreseeable future. Over five years, the City will save an estimated \$3.2 million in cleaning costs.

Combined five-year savings of \$7.5 million

Based on cleaning savings reported to date, the overall financial benefit from the Auditor General's audit of City cleaning services are approximately \$1.6 million annually and \$7.5 million over five years.

The audit reports are available at:

<http://www.toronto.ca/legdocs/mmis/2016/au/bgrd/backgroundfile-94477.pdf>

<http://www.toronto.ca/legdocs/mmis/2016/au/bgrd/backgroundfile-94618.pdf>

2. Improving Controls Over Property Tax Assessments and Payment in Lieu of Taxes (PILTs), 2015

Audit of efficiency and effectiveness of property tax billing and collection

In 2015, the Auditor General completed an audit of the efficiency and effectiveness of controls in billing and collection of property taxes. The audit identified opportunities to improve the management of property tax assessment review, appeal, and billing processes. The audit also highlighted the need for better coordination between the City and the Municipal Property Assessment Corporation.

Audit identified properties with omitted or under-assessed property taxes

In reviewing a sample of properties, the audit identified various anomalies leading to omission or incorrect assessment of property taxes. These anomalies included:

- properties that were incorrectly classified as tax-exempt and therefore not paying property tax
- properties with under-assessed values paying lower property taxes than required

Management retroactively collected \$2.4 million in prior years' property taxes

Management from the Revenue Services Division confirmed that the implementation of the Auditor General's recommendations will help to improve the identification of undervalued or incorrectly assessed properties. By addressing the audit recommendations, Revenue Services retroactively collected \$2.4 million in prior years' property tax and payment in lieu of tax (PILT) revenues. This represents a one-time revenue increase.

\$5.8 million in estimated additional annual property tax and PILT revenues

In addition, management confirmed that improvements to the process for initiating assessment appeals will likely increase the City's property tax and PILT revenue. Some of these increases will recur in future years. Based on Revenue Services' 2017 filed appeals and historical success rate, we conservatively estimate \$5.8 million in recurring annual property tax and PILT revenue.

\$31.5 million in retroactive and recurring property tax revenues over five years

Over five years, the financial benefits from this audit will result in approximately \$31.5 million in increased property tax and PILT revenues.

Potential for more revenues in future years

If the audit recommendations lead to more properties being identified and successfully appealed, management agrees that there is potential for even more PILT revenue to be realized in future years.

The audit report is available at:
<https://www.toronto.ca/legdocs/mmis/2015/au/bgrd/backgroundfile-84553.pdf>

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

Benefits of collaboration

The Auditor General's 2015 audit focused on TTC's non-revenue fleet fuel card management. The report highlighted the benefits of the Toronto Transit Commission (TTC) fueling their non-revenue vehicles at City fuel stations. More specifically, the audit recommended that the TTC *"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..."*

TTC is now taking advantage of City's wholesale fuel price

The first full year the TTC began fueling its non-revenue vehicles at City fuel sites was in 2017. TTC staff confirmed that their fuel costs declined because the City's fuel price was lower than TTC's contracted third party discounted pump price. Based on an analysis of the first ten months of fuel cost data in 2017, TTC saved \$92,000 by using City fuel sites.

\$550,000 in reduced fuel costs over 5 years

The annualized savings in 2017 was approximately \$110,000. Assuming future fuel consumption reflects 2017 levels, the TTC will achieve an estimated \$550,000 in reduced fuel costs over five years.

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_o1.pdf

4. Review of Toronto Transit Commission Bus Maintenance and Shops Department, Phase One: Bus Maintenance and Warranty Administration, 2014

Past practice did not fully take advantage of available warranties

The Auditor General's 2014 audit of the Toronto Transit Commission (TTC) bus maintenance program identified that the TTC was only claiming about 30 per cent of eligible parts under new bus warranty. We estimated that TTC could potentially save \$4 to \$5 million a year by improving its warranty claim process.

In response to recommendations in our 2014 audit, staff from multiple TTC departments worked together to develop and implement a new warranty parts retrieval and claim process.

Significant process improvements underway

During our 2017 audit recommendation follow-up process, we noted that the new process had been implemented to a large extent in all seven bus garages. The warranty claim rate increased from approximately 30 per cent in 2012 (baseline) to 80 per cent as of April 2017.

To quantify the realized savings from the improved process, audit staff manually analyzed a large volume of warranty-related invoices. Audit staff also contacted TTC's third party vendors to obtain the value of warranty work done in 2016.

\$5.8 million in recurring annual savings

Between 2011 and 2013, TTC received on average \$1.9 million per year from warranty claims relating to defective parts and labour hours. During our annual recommendation follow-up process, audit staff assessed 2016 warranty claim revenues at approximately \$7.7 million. This represents an additional \$5.8 million in annual warranty revenues by improving the new bus warranty process.

Potential for greater savings in the future

Further increases in warranty revenue is possible in future years as TTC's target for warranty claims is 90 per cent (currently 80 per cent).

Savings estimates are net of \$630,000 implementation cost

In quantifying the overall financial benefits associated with our audit, we deducted the \$630,000 in system development costs, and realized the annual savings for five years only, even though these savings will continue as long as TTC maintains the improved process.

\$8 million in one-time proactive repairs under warranty

In addition, as a result of staff diligently pursuing new bus warranty claims, manufacturers provided proactive repairs for many TTC buses in 2016. The value of this work was approximately \$8 million. This initiative will avoid future repair costs and improve bus reliability.

\$36.4 million in warranty savings over five years

In total, the combined one-time and five-year cost savings from additional warranty revenue and cost avoidance from implementing the audit recommendations are estimated at approximately \$36.4 million. This amount is net of implementation costs.

The audit report is available at:

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

5. Operational Review of Invest Toronto Inc., 2014

In 2012, City Council requested the Auditor General to conduct a value for money audit of Invest Toronto Inc. The Auditor General completed this review in 2014.

2014 audit report highlighted the need to clarify City's long-term strategy for investment promotion

The review recommended the City develop a long-term strategic approach for promoting Toronto as an investment destination by assessing:

- the advantages and disadvantages of a regional economic development agency including any impacts on the operations of Invest Toronto and other entities
- the recommended levels of City funding for foreign direct investment promotion and attraction activities
- the opportunity for cost savings and operational efficiencies through integration of Invest Toronto's activities into a regional investment promotion agency and/or the Economic Development and Culture Division

City Council approved wind up of Invest Toronto in July 2016

Shortly after the release of our 2014 report to the City Manager and Management of Invest Toronto, City Council adopted the recommendations by the Economic Development and Culture Division requesting:

"...the City Manager to report...on the options for the City of Toronto with regard to its participation in a large foreign direct investment (FDI) agency for the Greater Toronto Area, including impacts on Invest Toronto and the City's Economic Development and Culture Division."

City Council, in July 2016, 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. The recommendations from the Auditor General's 2014 report, as adopted by City Council, are reflected in the Decision History of the corresponding staff report.

The City Council decision is available at:

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

Invest Toronto's annual operating costs were \$2.6 million

At the time of our 2014 review, Invest Toronto's annual operating costs were about \$2.6 million (funded through a City grant). The transition from Invest Toronto to Toronto Global reduces the City's annual funding commitment by approximately \$1.7 million.

The audit report is available at:
<https://www.toronto.ca/legdocs/mmis/2015/au/bgrd/backgroundfile-79638.pdf>

6. Controls Over Telecommunication Expenses Need Improvement, 2014

Audit of telecommunication expenses

In 2014, the Auditor General issued a report on controls over telecommunication expenses. The report included recommendations to improve controls over project management, telecommunication expenses, inventory of devices, and payment to vendors.

Audit identified overpayments and duplicate payments

The audit identified instances of overpayments and duplicate payments to service providers due to delays in updating the system information, insufficient billing details obtained by staff, and human errors.

Staff identified \$936,000 in past billing errors

In response to the audit recommendation to conduct a detailed review of prior period invoices, staff identified \$936,000 in billing errors. This amount was adjusted against current payments due to the vendor. Management has now implemented exception reporting to identify and address billing errors on a timely basis.

The 2014 audit also resulted in over \$2.5 million in savings from phone cancellations and plan changes. This amount was recognized in the Auditor General's previous Annual Reports.

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

7. Reliable Data is Needed for Effective Fleet Management, 2013

Recommendations to improve oversight over City's fleet and fuel use

The Auditor General's 2013 audit of the City's fuel use made recommendations to improve monitoring and oversight of the City's fleet and fuel use. During the audit, staff advised that a formal evaluation of the performance of green fleet vehicles had not been done since 2009.

Importance of cost benefit analysis of environmentally-friendly alternatives

The audit highlighted the importance of a cost benefit analysis to review the economics of environmentally-friendly alternatives (i.e. purchasing biodiesel, natural gas and hybrid electric vehicles). The audit recommended that staff conduct a review of the City's Green Fleet vehicles and report to City Council on the progress of the City's Green Fleet Plan.

Division performed a quantitative lifecycle analysis

In response to the audit recommendation, the Fleet Services Division performed a quantitative lifecycle analysis of the City's green vehicles and reported the results to the City's Government Management Committee in August 2016. This was part of the first progress report on the Consolidated Green Fleet Plan 2014-2018.

The staff report is available at:
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.GM14.12>

Average annual net savings of \$34,000

According to the staff report, the implementation of the Consolidated Green Fleet Plan will result in net savings of approximately \$508,800 from reduced capital costs and fuel usage. These savings will span over the expected asset lifecycle of the green vehicles (4.5 to 15 years). For the purpose of recognizing these savings, a conservative annual savings of \$34,000 was calculated based on an asset lifecycle of 15 years.

The audit report is available at:
<https://www.toronto.ca/legdocs/mmis/2013/au/bgrd/backgroundfile-58414.pdf>

1.5 Financial Impact of the Fraud and Waste Hotline Program

2017 quantifiable financial benefits included one-time cost recovery and prevention of future losses

The City of Toronto's Fraud & Waste Hotline Program is operated by the Forensic Unit of the Auditor General's Office. Without the Hotline Program, certain losses from incidents of fraud and waste might not have been identified or recovered.

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.

Five-year savings of \$242,000 from Fraud and Waste Hotline investigations

The one-time cost recovery and annual savings as a result of complaints reported to the Hotline Program from sources other than referrals from divisional management is approximately \$7,000 and \$47,000 respectively. Over five years, the City will save approximately \$242,000.

An increasing number of complaints are referred by divisional management to the Hotline Program. To be conservative, any associated savings and losses from complaints identified by divisional management and then referred to the Hotline Program are tracked separately and are not included in the Auditor General’s 2017 savings calculations.

2. NON-QUANTIFIABLE BENEFITS

Audit reports result in financial and non-financial benefits

The purpose of any audit process is not specifically to identify cost reductions or revenue increases, although some of the Auditor General's audits have resulted in financial benefits.

Assessing value of improved internal controls and enhanced operational efficiencies is not always possible

Many of the Auditor General’s reports make recommendations to improve the following:

- internal controls
- information security
- policies and procedures
- use of City resources
- operational efficiencies
- financial reporting processes
- quality of customer service

The benefits that arise from these improvements cannot always be quantified.

Some financial benefits can only be determined in the future

Certain audit reports contain recommendations that will potentially lead to financial savings in the future; however, the extent of the savings can only be determined after management implements the recommendations. The following are examples of 2017 audit reports where the benefits are either non-financial in nature, or the financial benefits could not be determined at the time the report was issued.

Municipal Licensing and Standards Division: Three-Part Audit Report on Business Licensing and Enforcement

**Audit assessed
efficiency and
effectiveness of
licensing and
enforcement**

The Municipal Licensing and Standards Division (MLS) is responsible for regulating a myriad of businesses operating within its jurisdiction. The objective of our 2017 audit was to assess the effectiveness and efficiency of business licensing and bylaw enforcement operations.

**Need for specific and
enforceable bylaws was
the theme among all
three reports**

Our audit results were split into three reports. The overarching theme in all three reports was the need for clear, specific and enforceable bylaws. The following is a brief description of each report.

MLS Audit Part One: Licence Issuance, Inspection and Complaint Investigation Functions

The audit identified a number of issues including:

**Audit identified issues
related to licensing,
proactive inspections,
and complaint
management**

- Some businesses were operating without a licence, even though some had prior MLS enforcement activities.
- 30 per cent of eating establishments (restaurants, cafes), food retail stores, and Personal Services Settings (e.g. hair and nail salons) were not inspected by MLS over three years or more.
- MLS By-law officers decide when and how often they should inspect businesses. Some eating establishments had more than 10 inspections in a year, but others within the same district had no inspection at all in the same year.
- MLS had specific complaint response performance standards, but staff were not required to enter key dates into the MLS system, making it difficult to assess whether these timelines were met.
- Complaint investigation times vary. Some officers issued far more tickets and summons than others.

Seven recommendations to address key licensing functions

We provided seven recommendations pertaining to key licensing functions such as:

- licence issuance
- inspections of licensed businesses
- complaint investigations
- licence fees

Implementation of the recommendations will help the Division to more effectively and efficiently manage business licences and ensure compliance with bylaw requirements.

The audit report is available at:
<http://www.toronto.ca/legdocs/mmis/2017/au/bgrd/backgroundfile-108170.pdf>

MLS Audit Part Two: Licensed Holistic Centres

Audit found 107 licensed holistic centres offering unauthorized services

The second part of the MLS audit focused on licensed holistic centres. As of December 2016, there were 410 licensed holistic centres in the City. We identified 107 that had the appearance of offering unauthorized services. Aside from potentially being a violation of the City's licensing and zoning bylaws, these holistic centres could potentially pose an array of health, safety and community issues, including the risk of human trafficking, which has been pointed out before in City staff reports.

Our audit also identified problems with many City-approved Professional Holistic Associations (PHAs), which are meant to govern holistic centres and practitioners.

Recommendations to review existing legal framework and regulatory requirements

The Auditor General made two recommendations to help the Division address these issues, including working with the City Solicitor to undertake a comprehensive review of the existing legal framework and regulatory requirements surrounding holistic centres and PHAs.

The audit report is available at:
<http://www.toronto.ca/legdocs/mmis/2017/au/bgrd/backgroundfile-108173.pdf>

MLS Audit Part Three: Eating Establishments and Nightclubs

Audit identified eating establishments potentially operating as unlicensed nightclubs

The third and final part of the Auditor General's report focused on licensed eating establishments and nightclubs. The audit identified a number of eating establishments potentially operating as unlicensed nightclubs. There are many more restrictions placed on nightclubs than there are on eating establishments. Nightclubs are also subject to specific zoning bylaws.

Division previously issued tickets and summons to certain establishments

The audit identified 15 eating establishments that could potentially be operating as unlicensed nightclubs. Most of these establishments had been investigated and MLS staff had issued tickets and summons against some. However, as of August 2017, these establishments continued to operate as licensed eating establishments.

The audit also identified problems in the licence application process.

Unlicensed nightclubs can pose health and safety risks

Unlicensed nightclubs are not only potentially non-compliant with City bylaws, but they could pose health and safety risks, and often lead to more noise complaints. The Auditor General provided four recommendations to help the City to better address this problem.

The audit report is available here:

<http://www.toronto.ca/legdocs/mmis/2017/au/bgrd/backgroundfile-108176.pdf>

Review of Toronto Transit Commission Procurement Policies and Practices: Improving Materials Management and Purchasing Policies Can Potentially Result in Significant Savings

TTC procures over \$300 million annually in goods and services

The Auditor General's Office performed an in-depth review of the Toronto Transit Commission's (TTC) Materials and Procurement Department in 2017. The Department procures over \$300 million in goods and services every year for the TTC's day-to-day operations.

Audit Objective

The objective of the audit was to assess whether TTC's procurement policies, procedures and practices were fair, transparent, and cost effective.

Procurement practices need improvement

The audit identified the following areas requiring improvement:

- Out of service vehicles due to chronic parts shortages
- Non-competitive and inefficient procurements
- Warranties not claimed for after-market parts
- Retrieval and tracking of "cores" require improvement
- Higher prices paid for proprietary products that could have been substituted with comparable alternate products
- The use of blanket contracts should be expanded to take advantage of volume discounts

Significant savings can be achieved when recommendations are implemented

The implementation of the audit recommendations will improve the management of inventory, the efficiency of purchasing activities, and controls for non-competitive purchases. The audit estimated potential annual savings in the range of \$8 to \$16.5 million. Potential savings are not included in this Annual Report.

TTC's 2018 Budget already reflects over \$2 million in service efficiencies

TTC staff have only recently begun to implement the audit recommendations, but they have already earmarked \$2.19 million in cost reductions in the TTC's 2018 Operating Budget (pg. 21 of TTC budget presentation).

The TTC's 2018 Operating and Capital Budget presentation is available at:

<https://www.toronto.ca/legdocs/mmis/2017/bu/bgrd/backgroundfile-109933.pdf>

Realized savings will be verified and recognized in future Annual Reports

The Auditor General's Office will verify the savings in 2019 as part of its annual follow-up process. The follow-up results will be reported to the Audit Committee. Realized savings will be included in future Annual Reports when the related audit recommendations are implemented.

The audit report is available at:

<https://www.toronto.ca/legdocs/mmis/2017/au/bgrd/backgroundfile-105264.pdf>

Real Estate Services Division – Restore Focus on Union Station Leasing

Audit of leasing at Union Station

The Real Estate Services Division oversees leasing at Union Station. The Station generated approximately \$59.4 million in leasing revenue over the last five years. The operating costs over this same period were \$62.4 million. The Station's occupants include retail, office, and transit operators. The main Union Station occupants during the period covered by the audit were Metrolinx and VIA Rail.

City is contractually required to collect leasing revenue and recover operating costs

As the primary owner and landlord of Union Station, the City incurs operating expenses for security, utilities, building maintenance and repairs, cleaning services, and waste removal. The City is contractually required to annually calculate and notify each occupant of their proportionate share of operating costs.

Annual lease administration functions not performed for many years

The objective of this audit was to ensure Union Station leasing revenues and operating costs were settled between the City and each occupant, in accordance with each respective occupancy agreement. Although the City received installment payments, our audit noted that annual rents and operating cost recoveries had not been settled with certain Station occupants since 2013.

City may need to collect an estimated \$9.4 million in additional leasing revenue for prior periods

Our audit estimated \$9.4 million in outstanding leasing revenue. Our calculations included the period up to the end of 2016. The final calculations by management are still in process and have not been recorded or collected by the City. We also estimated that the delayed collection of these funds resulted in the City losing the opportunity to earn a return on capital of \$740,000. These amounts are not included in the Auditor General's 2017 return on investment calculation since they are still outstanding.

Opportunity to develop oversight measures to optimize the City's value from future commercial operations

The audit also provided recommendations to improve oversight of commercial operations at the Station by proactively and effectively monitoring commercial operations in order to minimize costs and maximize net operating income distributions to the City.

The audit report is available at:
<https://www.toronto.ca/legdocs/mmis/2017/au/bgrd/backgroundfile-105270.pdf>

Management of the City's Employee Extended Health and Dental Benefits
Phase Two: Ineffective Controls and Plan Design
Leaving the City Vulnerable to Potential Benefit Abuse

68 per cent increase in employee benefits from 2006 to 2015

In 2015 the City spent approximately \$229 million to provide employee benefits including health, dental, long-term disability and employee life insurance. Approximately \$56 million was related to extended health care benefits (excluding drug benefits). These extended health care benefits include orthotics, orthopedic shoes, medical braces, and compression stockings.

This audit focused on extended health care benefits

The Phase Two audit focused on extended health care benefits and provided 16 recommendations. Manulife was the City's benefits administrator for the claims within our audit scope. Our key audit findings include:

Audit identified issues related to provider fraud detection, overpayments, and unusual claims activity

- The plan administrator had limited system capacity to detect provider fraud. Manulife did not systematically track any provider information for the City's claims during the entire contractual period from 2012 to 2016.
- The City might have been exposed to significant risk of reimbursing inappropriate or fraudulent benefit claims, potentially costing millions over ten years from 2006 to 2016 because key administrator controls were either not fully applied or insufficient in processing the City's claims.
- There were overpayments due to adjudication errors. Based on a review of a selected sample of claims, we confirmed \$74,700 in payments exceeding the plan limits or allowable maximum occurrences.
- The City's plan coverage design for certain health benefits created opportunities for potential overutilization of benefits. This included orthotics and orthopedic shoes coverage for dependents under 19, coverage for compression stockings, unlimited coverage for medical braces, and unlimited physiotherapy coverage for certain employee groups and family members.

Realized savings will be verified in the next follow-up cycle

We noted that claim reimbursement costs have decreased by approximately \$4.5 million when comparing the health claim reimbursement costs for the first six months in 2016 to that of 2017. Claims in 2017 were administered under the City's new administrator. As the City is transitioning to Green Shield as its new benefits administrator, these savings are **not** included in this Annual Report or calculation of savings.

The amount of cost savings in relation to our audit report and recommendations will be assessed in 2019 during the Auditor General's annual follow-up process.

The audit report is available at:
<https://www.toronto.ca/legdocs/mmis/2017/au/bgrd/backgroundfile-102168.pdf>

3. 2017 KEY ACCOMPLISHMENTS

3.1 Performance Audits, Investigations and Recommendations

Accelerated and expanded audits in 2017

In 2017, the Auditor General increased staffing of her Office as a result of City Council's temporary increase of \$1 million to her budget. This enabled the Office to initiate more projects during 2017, as well as accelerate and expand audits and investigations in process.

Figure 4: Recent Accomplishments



**13 performance audits
5 investigations**

In 2017, the Auditor General issued a total of 30 reports providing 163 public and confidential recommendations:

- 13 performance audit reports
- 5 investigative reports
- 6 recommendation follow-up reports
- 6 other reports

Exhibit 2 provides a list of the reports issued in 2017.

Recommendations take into account the cost of implementation

The Auditor General, in making audit recommendations, is cognizant of their implementation cost and benefit. Careful consideration is given to ensuring that recommendations are relevant, practical and cost-effective. Consequently, there are few instances where management disagrees with the recommendations.

How audit recommendations benefit the City

Recommendations resulting from reviews, investigations and audits conducted by the Auditor General's Office have benefitted 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, and
- eliminate inefficiencies in internal and administrative procedures, use of resources, allocation of personnel and purchasing procedures.

Audits also help management to:

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

Examples of how audits benefit the City are provided in Exhibit 3.

3.2 Operation of the Fraud and Waste Hotline

Fraud and Waste Hotline Program in existence since 2002	The Auditor General’s Office has been administering the Fraud and Waste Hotline Program since its inception in 2002. The Office's Forensic Unit is dedicated to managing the Hotline Program and is responsible for conducting investigations and providing oversight of management-led investigations.
Prevention and detection are key to managing risk of fraud and other wrongdoing	The Hotline Program helps to manage the business risk of fraud and other wrongdoing. Prevention and detection remain key components in managing this business risk, which may result in direct financial losses and indirect costs such as additional management resources to investigate and mitigate wrongdoing. The Hotline takes complaints through different channels. The majority of complaints are received by a secure online form or by calling the Hotline telephone number.
Implementation of 24/7 staffed hotline	In 2017, the Auditor General's Office implemented a staffed 24/7 independent and confidential call-answer service to support complainants. This service is similar to the process offered by other municipal audit offices.
680 complaints received in 2017	In 2017, the Hotline Program received 680 complaints, consisting of approximately 1,060 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 1.5, 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 *2016 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, and make action-oriented recommendations to management
- Use of complaint data trends to inform audit work plan. Examples include the Auditor General's recent audits of employee long-term disability benefits and other health benefits.

3.3 Investigative Reports

The Auditor General's Forensic Unit focuses its investigative work on high-risk areas. During 2017, the Auditor General carried out five significant investigations into complex cases with 37 recommendations for management action.

2017 Investigative Reports

The investigative reports issued in 2017 were:

- Auditor General's Observations of a Land Acquisition at Finch Avenue West and Arrow Road by the Toronto Parking Authority, Part 2 Report
- Toronto Building Division – Strengthening System Controls to Safeguard Cash Receipts
- Toronto Building Division – Conditional Permits
- Auditor General's Observations on the Quantity of Product Realized from the City's Single Stream Recyclable Material (Blue Bin) Program
- Review of Complaint Regarding the June 29, 2016 Toronto Transit Commission Briefing Note

Each of the investigations required significant staff resources to gather and verify all relevant facts, conduct interviews of third parties and staff involved, and prepare an accurate, concise, and easy to understand report. We also used external specialists in three investigations to leverage knowledge and expertise, and add independence.

Summaries of the five investigative reports are provided in Exhibit 2 of our 2017 Annual Report on the Fraud and Waste Hotline (being tabled for consideration at the Audit Committee meeting on February 7, 2018).

3.4 Information Technology Audits

Cyber security remains a major risk

As data breaches continue to occur across the globe, security of the City's information technology systems is critical. Recognizing the potential impact of cyber security risks, the Auditor General's IT Audits & Strategy Unit designed and carried out two audits between 2016 and 2017.

IT audits to address potential threats and risks

The audits focused on the following potential threats and risk areas:

- Assessing whether information technology systems and procedures are appropriately implemented to ensure the security and confidentiality of the City's information
- Assessing whether City systems are available to serve stakeholders in the event of a cyber attack
- Assessing the value-added and benefits of technology investments

Audit findings were presented as confidential reports

The findings from our audits involved the security of property belonging to the City or one of its Agencies or Corporations. On this basis, the reports were presented to the City's Audit Committee as confidential reports.

Two new IT audits initiated in 2017

The IT Audits & Strategy Unit commenced planning for two new audits in 2017. The results of these audits will be reported to Audit Committee in 2018 and 2019.

3.5 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.

Annual audit recommendation follow-up

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’s Office conducts a follow-up of outstanding audit recommendations on an annual basis and this process is included in the Auditor General’s annual work plan.

Results of recommendation follow-up are reported to Audit Committee

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

New follow-up process piloted in 2017

Beginning in 2017, the Office piloted a new process that dedicated a small number of staff to perform follow-up of outstanding recommendations throughout the year. The new follow-up reporting process is designed to enhance our work efficiency by allowing audit staff to continue focusing on audit work throughout the year.

Consolidated follow-up report adopted by Audit Committee in October 2017

During 2017, follow-up results for each City Cluster, agencies and corporations and recommendations made through the operation of the Fraud and Waste Hotline Program were separately reported to the Audit Committee. A consolidated follow-up report was also submitted to the October 2017 Audit Committee.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.AU10.14>

Refer to Exhibit 4 for the implementation status of audit recommendations assessed by the 2017 audit recommendation follow-up process.

4. 2018 AND AHEAD

2018 Audit Work Plan In developing her Audit Work Plan, the Auditor General uses a risk-based audit approach. The purpose of the Audit Work Plan is to provide an overview of how resources allocated to the Auditor General's Office are used during the year.

The Office presented its 2018 Audit Work Plan at the October 27, 2017, Audit Committee meeting. City Council adopted the Auditor General's 2018 Audit Work Plan on December 5, 6, and 7, 2017.

<https://www.toronto.ca/legdocs/mmis/2017/au/bgrd/backgroundfile-107812.pdf>

Examples of planned audit projects

Planned 2018 projects include audits in the following areas:

- Shelter, support and housing services
- Vendor direct billing and payments
- Parks, Forestry & Recreation Division – Parks Branch
- Toronto Transit Commission - Revenue Operations
- Toronto Transit Commission - Information technology audit project(s)
- Toronto Community Housing Corporation
- Toronto Police Service - Regulated Interactions

Projects pending City Council approval of planned funding

Planned 2018 projects in the following areas are contingent on City Council's approval of planned funding increase to the Auditor General's Operating Budget:

- Human Resources Division
- Administration of the centralized social housing waitlist
- City Planning Division
- Investment policy compliance by City agencies and corporations
- Fleet Services Division
- Toronto Transit Commission – Procurement and management of capital projects
- Toronto Hydro

2018 activities will further enhance the quality of our work

In addition to conducting performance audits and operating the Fraud and Waste Hotline, the Office will continue to enhance the quality of its work through the following activities:

- Expand the use of data analytics
- Broaden Continuous Controls Monitoring to cover more operations and activities of City divisions, agencies and corporations
- Explore the emerging use of artificial intelligence in data analytics
- Enhance staff training and succession planning
- Undergo external independent quality assurance review
- Continue knowledge sharing with other government audit offices

5. PROFESSIONAL STANDARDS & GOVERNANCE

5.1 Professional Standards

An audit is an independent, objective process to improve governance and controls

An audit process is an independent, objective activity designed to provide assurance, 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 ensure that our work is performed in a manner that ensures:

- independence
- objectivity
- professional proficiency

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 website:

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

5.2 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 an external quality assurance review is to attain independent assurance that an audit organization's internal quality control system is operating effectively.

Auditor General's Office received the highest rating of compliance available

The Auditor General's Office underwent its fourth quality assurance review in 2015. The Office received the highest level of compliance available in the external quality assurance review program.

The results of the 2015 External Quality Assurance Review are available at:

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

The next review will be performed in 2018.

5.3 Annual Compliance Audit

Annual audit completed by independent audit firm

The Auditor General's Office is also 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, 2016 was presented to the Audit Committee at its meeting on June 27, 2017.

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 the independent external auditor is available at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.AU9.16>

6. CONCLUSION

The Auditor General's Office issued 13 performance audit reports and five investigative reports in 2017. We also completed our annual follow-up of the status of recommendations, and operated the Fraud and Waste Hotline.

\$8.5 is saved for every dollar invested in the Office

The estimated cumulative savings for the five years commencing January 1, 2013, are approximately \$203.1 million. The total audit cost for the same period is approximately \$23.9 million. In simple terms, for every \$1 invested in the Auditor General's Office the return on this investment was approximately \$8.5.

Audits and investigations result in tangible cost savings, and other significant important benefits including the avoidance of future costs, a more efficient and effective City, and the protection of City assets. Based on the financial and non-financial benefits identified in this Annual Report, there is a significant return on the investment from the Auditor General's Office.

Management's commitment to addressing recommendations achieves savings

Whether it is financial or non-financial benefits identified by our audits and investigations, these benefits would not be possible without management's commitment to implementing our recommendations. We want to acknowledge and thank management's efforts in implementing the recommended changes. We strive to improve the value of our work through continuous partnerships with City staff in all aspects of our work.

EXHIBIT 1: Mandated Responsibilities of the Auditor General

Auditor General responsibilities under the City of Toronto Act

The *City of Toronto Act, 2006* (the *Act*), formalized the establishment of the Auditor General. Under 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. The Auditor General conducts value for money audits and forensic examinations to fulfill this mandate.

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

Annual reporting requirement

- Reporting annually to City 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 2015 adoption of the Toronto Public Service By-law

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

In addition, the Auditor General's responsibilities in relation to her role in the investigation of complaints and alleged wrongdoing are also set out in 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.

EXHIBIT 2: Reports Issued in 2017

2017 Audit and Investigative Reports:

- A Review of Municipal Licensing and Standards Division's Management of Business Licences - Part One: Licence Issuance, Inspection and Complaint Investigation Functions
- A Review of Municipal Licensing and Standards Division's Management of Business Licences - Part Two: Licensed Holistic Centres
- A Review of Municipal Licensing and Standards Division's Management of Business Licences - Part Three: Eating Establishments and Nightclubs
- Auditor General's Observations on the Quantity of Product Realized from the City's Single Stream Recyclable Material (Blue Bin) Program
- Improving the Effectiveness of the Basement Flooding Protection Subsidy Program
- Toronto Building Division: Conditional Permits
- Obtaining the Best Value Through the Use of Vendor Rosters
- Review of Toronto Transit Commission Accounts Payable Functions: Improving Invoice Verification and Vendor Account Management
- Review of Complaint Regarding the June 29, 2016, Toronto Transit Commission Briefing Note
- Auditor General's Observations of a Land Acquisition at Finch Avenue West and Arrow Road by the Toronto Parking Authority - Part 2
- Real Estate Services Division – Restore Focus on Union Station Leasing
- Supplementary Report to the Auditor General's Phase One Report: The City Needs to Ensure Adequate Detection and Review of Potentially Excessive and Unusual Drug Claims
- Review of Toronto Transit Commission – Procurement Policies and Practices: Improving Materials Management and Purchasing Policies Can Potentially Result in Significant Savings
- Management of the City's Employee Extended Health and Dental Benefits, Phase Two: Ineffective Controls and Plan Design Leaving the City Vulnerable to Potential Benefit Abuse

- Detection of Warning Signs for Potential Bid Rigging Should be Strengthened
- Toronto Building Division – Strengthening System Controls to Safeguard Cash Receipts
- Information Technology Vulnerability Assessment and Penetration Testing – Wrap-up of Phase I and Phase II
- Audit of Water Billing and Collections – Phase II: Water Billing and Water Meter Management Controls Require Improvement

2017 Annual Reports:

- Revised 2017 Audit Work Plan
- 2016 Annual Report on the Fraud and Waste Hotline
- 2016 Annual Report - Demonstrating the Value of the Auditor General's Office
- Audit Work Plan - 2017 Update and 2018 New Audits
- 2018 Audit Work Plan
- Auditor General's Office - 2018 Operating Budget

2017 Recommendation Follow-up Reports

- Auditor General's Status Report on Outstanding Audit Recommendations for Cluster A and the City Manager's Office
- Auditor General's 2017 Status Report on Outstanding Audit Recommendations for City Agencies and Corporations
- Auditor General's 2017 Status Report on Outstanding Audit Recommendations - City Divisions in Cluster B
- Auditor General's 2017 Status Report on Outstanding Audit Recommendations - City Divisions in Cluster C
- Auditor General's 2017 Consolidated Status Report on Follow-up of Outstanding Audit Recommendations
- Auditor General's Office - Forensic Unit Status Report on Outstanding Recommendations

EXHIBIT 3: Examples of How Audit Recommendations Benefit the City

The following table presents examples of how implemented audit recommendations benefit the City.

Table 3: Examples of How Implemented Audit Recommendations Benefit the City

Increase City revenues, develop new revenue streams, and reduce operating costs		
Increase City revenues	2016 Phase Two Audit of the City's Long-Term Disability Benefits	The City recovered approximately \$240,000 in overpaid HST charges due to duplicated charges embedded in invoices and in monthly statements.
	2015 Audit of Property Tax Assessments and Payment in Lieu of Taxes	Within a selected sample of properties, the audit identified potentially undervalued or incorrectly assessed properties. Resolving these issues resulted in a retroactive \$2.4 million collection of property tax and payment in lieu of tax (PILT) revenue from previous years. Improved processes to initiating assessment appeals will increase property tax and PILT revenue by an estimated \$5.8 million annually.
	2015 Phase One Audit of the City's Long-Term Disability Benefits	The City and its agencies and corporations recovered approximately \$1.8 million due to the service provider's billing errors dating back to 2003.
Develop new revenue streams	2011 Audit of Police Parking Enforcement Review	\$3 million annually in new revenue to the City by enabling Parking Enforcement Officers to enforce license renewal legislation. Revenue from expired licence plates previously resided with the Province.
	2011 Audit of Energy Efficiency Office	The audit highlighted the need for increased diligence regarding claiming carbon credits. Carbon credits are the dollar value associated with reductions in greenhouse gas emissions. Staff estimated that the sale of up to 50,000 tonnes of carbon credits could generate \$250,000 to \$500,000 revenues per year.
	2007 Review of ECS - Management of Construction Contracts - Leaside Bridge Structure	In 2015, management implemented a new administration fee of 18.3 per cent of construction costs on third party projects. This resulted in annualized revenues of \$1.148 million.

Reduce operating costs	2016 Phase Two Audit of the City's Long-Term Disability Benefits	Changes to long-term disability benefits resulted in \$1.9 million in annual savings beginning in 2017.
	2016 Audit of City Cleaning Services	Changes to the procurement and administration of cleaning contracts achieved annual savings of \$850,000 realized beginning in 2017 and additional \$740,000 annually beginning in 2018.
	2015 Phase Two Audit of TTC Bus Maintenance and Shops Department	Better management of the TTC's long-term rental vehicles has reduced the number of rental vehicles, which resulted in ongoing annual savings of \$500,000 in 2016 and beyond.
	2014 Phase One Audit of TTC Bus Maintenance and Shops Department	Significant improvements to the bus warranty claim process resulted in one-time warranty savings of \$8 million and an estimated annual recurring savings of \$5.8 million.

Better manage or utilize City resources, including management of public funds, personnel, property and equipment		
Better manage public funds	2016 Phase One Audit of TTC Inventory Controls	The audit prompted a review of inventory that had been received but not recorded in the inventory system. This review resulted in \$324,000 worth of inventory that was input in the system and could be made available for operational use.
	2016 & 2015 CCM of City Telecom Expenses (2014)	Continuous Control Monitoring (CCM) of telecommunication expenses resulted in additional annual savings of \$348,000 through the cancellation of inactive devices, adjustments to monthly phone plans and recoveries from staff for personal use of telecommunications devices.
	2014 Telecom Expenses Audit	Analysis of telecom expenses resulted in cancellation, suspension and re-assignment of City phones with no activity, multiple phones issued to the same users, and reduced excessive data/roaming/texting and other charges. To date, implemented audit recommendations have resulted in one-time and five-year savings of approximately \$3.5 million.
Better manage City equipment	2014 Phase One Review of TTC Bus Maintenance and Shops Department: Bus Maintenance and Warranty Administration	Management evaluated the merits of the current bus preventive maintenance inspection (PMI) interval in preventing mechanical failures. TTC staff piloted a revised interval to ensure the change in the PMI interval would not adversely affect vehicle safety and reliability. The higher inspection interval decreased the number of inspections required. This resulted in annual recurring savings of \$120,000.
	2012 Audit of Inventory Controls Over Traffic Control Devices	Consolidated the storage of emergency supplies which were previously stored in rented facilities. By storing them in City warehouses, the \$48,000 annual rental cost was eliminated.
	2012 Audit of TCHC Fleet Management	The transfer of management and ownership of TCHC fleet to the City resulted in annual savings of \$520,000. TCHC also reduced its fleet by 30 vehicles which resulted in \$380,000 annual savings in operating and capital expenses.

Eliminate inefficiencies		
Eliminating inefficiencies in use of staff resources	2015 CCM - TTC, 12-Month Review of Employee Absenteeism (2014)	<p>The CCM report provided an impetus for the 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. By moving the after business hour Wheel-Trans trips to contracted taxi services, TTC realized an annual savings of approximately \$800,000 from reducing the overtime otherwise required by TTC Wheel-Trans bus operators.</p> <p>This new process likely contributed to half of the net savings from improved overtime monitoring (annualized estimate of \$400,000).</p>
	2011 Police Paid Duty Audit	Seventeen uniformed police officers were redeployed from paid duty administrative work (distributing paid duties) to policing duties, an equivalent of \$1.7 million per year in cost avoidance.
	2010 Insurance and Risk Management Review	Achieved annual savings of \$745,000 by creating more internal solicitor positions to reduce fees paid to outsource insurance claims related work to external law firms.
Eliminate inefficiencies in purchasing	2010 Audit of TCHC Procurement Policies	TCHC reviewed opportunities to cooperate purchasing arrangements with the City. Staff estimated annual savings between \$5 million and \$7 million by obtaining goods through City stores.

EXHIBIT 4: 2017 Follow-up Results on Outstanding Audit Recommendations

Table 4 summarizes the implementation status of all applicable recommendations issued by the Auditor General's Office from inception (January 1999) to December 31, 2015.

Recommendations issued by the Auditor General's Forensic Unit are also included in the respective City division's follow-up results.

Table 4: 2017 Follow-Up Review Results - Status of all Recommendations for Reports Issued from Inception to December 31, 2015

	Fully Implemented	Not Fully Implemented	Total
Cluster A	236 (92%)	21 (8%)	257 (100%)
Cluster B	423 (95%)	21 (5%)	444 (100%)
Cluster C	697 (91%)	71 (9%)	768 (100%)
City Manager's Office	212 (89%)	27 (11%)	239 (100%)
Agencies and Corporations	554 (90%)	61 (10%)	615 (100%)
Total Recommendations	2,122 (91%)	201 (9%)	2,323 (100%)

The Auditor General's 2017 Consolidated Status Report on Follow-up of Outstanding Audit Recommendations is available at:

<https://www.toronto.ca/legdocs/mmis/2017/au/bgrd/backgroundfile-107921.pdf>