

Auditor General's 2018 Status Report on Outstanding Audit Recommendations for City Agencies and Corporations

Date: June 28, 2018
To: Audit Committee
From: Auditor General
Wards: All

SUMMARY

The Auditor General's Office conducts an annual follow-up review to determine the implementation status of recommendations in previously issued audit reports. The review results are reported to the respective Board of City agencies and corporations and then to City Council through the Audit Committee.

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

Our 2018 follow-up review included 71 outstanding recommendations from the following five City agencies and corporations:

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

As of December 31, 2016, there were 10 audit reports to agencies and corporations with 71 outstanding recommendations. Among the 71 recommendations, our review verified that 12 recommendations (17 per cent) have been fully implemented, 44 (62 per cent) recommendations have been partially implemented, and 15 (21 per cent) recommendations were no longer applicable.

Fourteen of the 15 no longer applicable recommendations are from the 2014 audit of Build Toronto Inc. These recommendations are no longer applicable because the operations of Build Toronto have been consolidated into a new realty agency.

Follow-up of recommendations in the 2015 Audit report entitled "Toronto Parking Authority – Phase 1: Audit of Real Estate Activities" has been deferred until next year due to substantial changes to the Board governance structure and operations.

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 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>

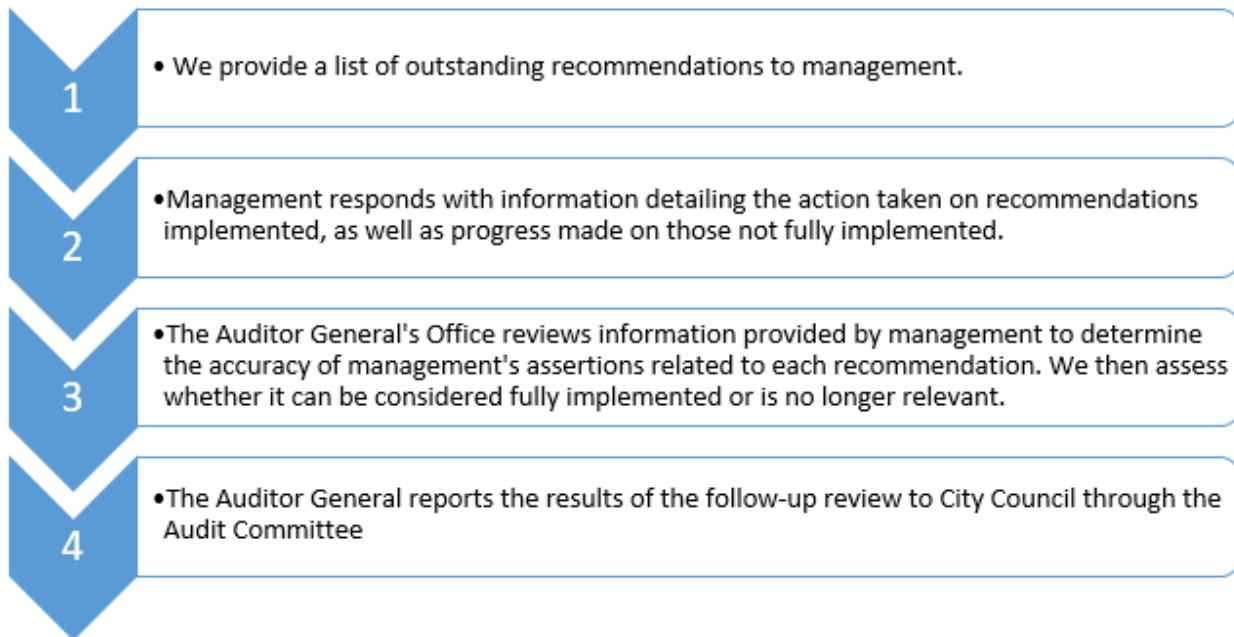
In the aforementioned report, the Auditor General indicated that her Office will incorporate the requested savings information in her 2017 annual follow-up reports to the Audit Committee. The Auditor General also informed the Audit Committee of a new follow-up reporting process piloted in 2017 and 2018.

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 2018 Work Plan, and the new follow-up reporting process which 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 the recommendation follow-up process are:



This report relates to City agencies and corporations and does not include the results for 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

A total of 71 outstanding recommendations were included in the 2018 follow-up review. Management reported that 27 have been fully implemented. However, based on our review we determined that 15 of those recommendations have not been fully implemented because the steps undertaken or the extent of the improvement did not fully address the issue or the intent of the recommendation. Management agreed with our assessments and will undertake additional actions to fully implement these recommendations in the future.

Table 1 details the implementation status of outstanding recommendations by City agencies and corporations based on the 2018 follow-up review results. The percentages of implementation status by City agencies and corporations are illustrated in Figure 1.

Table 1: Status of Outstanding Recommendations Assessed During 2018 Review

Agencies and Corporations	Outstanding Recommendations From 2017	Results of 2018 Follow-up Review		
		Fully Implemented	Not Fully Implemented	No Longer Applicable
Build Toronto	15	1	0	14
Sony Centre for the Performing Arts	6	0	6	0
Toronto Parking Authority	12	2	9	1
Toronto Police Service	1	1	0	0
Toronto Transit Commission	37	8	29	0
Total	71	12	44	15

Figure 1: Progress of Implementation of Agencies and Corporations Recommendations Outstanding in 2017



Agencies and corporations have undertaken a considerable amount of work to implement audit recommendations. We recognize that some of our recommended changes may require significant system or process changes hence necessitating a longer period for full implementation. Of the 44 not fully implemented recommendations, 27 are from audit reports issued in 2015 and 2016.

Detailed results of our individual follow-up reviews of City agencies and corporations are enclosed as Attachments 1 through 5. These reports provide further details regarding their respective recommendations and current implementation status.

Noteworthy 2018 Follow-up Review Results

Recommendations Implemented:

Operational Review of Build Toronto Inc., November 17, 2014

The 2014 audit report contains 25 recommendations. The audit recommended management of Build Toronto, Invest Toronto, and Toronto Port Lands Company (TPLC) to review areas where opportunities exist to consolidate or coordinate operations and report to City Council on the results of the consultations. The report is available at:

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

At its meeting on May 24, 2017, City Council approved a new real estate service delivery model that centralizes all real estate activities City-wide. At the same time, City Council approved the establishment of a new City agency ("Toronto Realty Agency") to manage the City's real estate portfolio, develop City buildings and lands for municipal purposes, and deliver client-focused real estate solutions to City Divisions, Agencies and Corporations. The operations of Build Toronto and TPLC were to be removed from those corporations and consolidated into the new agency.

Management estimates that the consolidation of Build Toronto and TPLC into the new Agency will result in \$3.038 million from efficiency gains. These savings are used to offset one-time setup costs and new resources required by the new agency CreateTO.

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 6, 2012

The 2012 audit report contains 22 recommendations to improve overall effectiveness and efficiency of Wheel-Trans operations and services. The audit recommended that Toronto Transit Commission (TTC) develop and implement a comprehensive plan for integrating Wheel-Trans customers into the accessible conventional transit system. The report is available at:

<https://www.toronto.ca/legdocs/mmis/2013/au/bgrd/backgroundfile-59981.pdf>

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 its projected financial impact, and a progress update. In April 2018, TTC staff provided a report to the TTC Board outlining further updates to the Wheel-Trans 10 Year Strategy.

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. As of April 2018, the program estimate is being refined to take into consideration updated resource plans and quotes, and estimates provided by vendors and third-party providers. However, an updated cost avoidance estimate was not available in the April 2018 staff report to the TTC Board.

Review of Toronto Transit Commission Bus Maintenance and Shops Department, Phase One: Bus Maintenance and Warranty Administration, January 28, 2014

The 2014 audit report contains 18 recommendations to improve the effectiveness, efficiency and the economy of bus maintenance operations. The report is available at:

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

Four audit recommendations relate to system upgrades to support a more efficient bus maintenance, repair and internal bus rebuild process. TTC management is working on the implementation of Computer Aided Dispatch and Automatic Vehicle Location (CAD/AVL) system, and updated software rollout of the Industrial and Financial System Vehicle Work Order (IFS/VWO).

Three audit recommendations relating to warranty administration remain partially implemented. TTC staff should prioritize addressing these outstanding audit recommendations because maximizing the use of bus warranty provisions will further increase warranty recovery revenue.

Audit of Materials and Procurement Department, Phase One: Improving Controls to Safeguard Inventory, May 12, 2016

The 2016 audit report contains 10 recommendations to improve controls over inventory transactions, safeguarding of inventory, and the accuracy and reliability of inventory records. The report is available at:

<https://www.toronto.ca/legdocs/mmis/2016/au/bgrd/backgroundfile-94504.pdf>

This is our first follow-up review of this audit report. The majority of outstanding recommendations relate to improving the core parts retrieval process at TTC garages, enhancing access controls and security at TTC stores and improving physical count practices at warehouses and stores. The implementation of these recommendations will likely result in cost savings and improved management controls.

The extent of any potential cost savings from implementing the recommendations were not yet quantifiable during the 2018 follow-up process.

Deferred Follow-up Review:

Toronto Parking Authority - Phase 1: Audit of Real Estate Activities, October 15, 2015

The recommendations in this report were not included in the 2018 follow-up review due to significant changes to the governance structure and operations of the Toronto Parking Authority (TPA) Board.

The 2015 audit report contains 13 recommendations. The objective of the audit was to assess the control framework governing the real estate activities of the Toronto Parking Authority. The report is available at:

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

Under the current interim TPA Board governance structure and operations, TPA real estate activity has been substantially curtailed. All transactions in-process and going forward are expected to be conducted pursuant to the new City-wide real estate model and amended authorities adopted by City Council. Specifically, TPA transactions are expected to follow the City's real estate processes and should be carried out with and approved by City Real Estate Services Division and/or CreateTO. As this process continues to be in transition, we have deferred our follow-up review until next year.

CONCLUSION

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.

CONTACT

Jane Ying, Assistant Auditor General, Auditor General's Office
Tel: (416) 392-8480, Fax: 416-392-3754, E-Mail: Jane.Ying@toronto.ca

Ina Chan, Assistant Auditor General, Auditor General's Office
Tel: 416-392-8472, Fax: 416-392-3754, E-mail: Ina.Chan@toronto.ca

Angela Rafalovich, Audit Manager, Auditor General's Office
Tel: 416-397-4622, Fax: 416-392-3754, E-Mail: Angela.Rafalovich@toronto.ca

SIGNATURE

Beverly Romeo-Beehler
Auditor General

ATTACHMENTS

Attachment 1: Build Toronto Inc. - 2018 Results of Follow-up of Previous Audit Recommendations

Attachment 2: Sony Centre for the Performing Arts - 2018 Results of Follow-up of Previous Audit Recommendations

Attachment 3: Toronto Parking Authority - 2018 Results of Follow-up of Previous Audit Recommendations

Attachment 4: Toronto Police Service - Results of 2018 Follow-up of Previous Audit Recommendations

Attachment 5: Toronto Transit Commission - 2018 Results of Follow-up of Previous Audit Recommendations