

Auditor General's 2018 Status Report on Outstanding Audit Recommendations for City Divisions in Corporate Services and Finance and Treasury Services

Date: February 6, 2019

To: Audit Committee

From: Auditor General

Wards: All

REASON FOR CONFIDENTIAL INFORMATION

The attachment to this report involves the security of property belonging to the City of Toronto.

This report is about labour relations or employee negotiations.

This report is about litigation or potential litigation that affects the City of Toronto.

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 results of the review are reported to City Council through the Audit Committee.

This report provides information regarding the implementation status of audit recommendations issued to City divisions in Corporate Services and Finance and Treasury Services. The report also provides information on 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 169 outstanding recommendations (including public and confidential recommendations) in audit reports for the following nine City divisions:

- Accounting Services
- Environment and Energy

- Facilities Management
- Financial Planning
- Information and Technology
- Pension, Payroll and Employee Benefits
- Purchasing and Materials Management
- Revenue Services
- 311 Toronto

As of December 31, 2016, there were 35 audit reports to divisions in Corporate Services and Finance and Treasury Services with 169 outstanding recommendations. Among the 169 recommendations, our review verified that 30 recommendations (18 per cent) have been fully implemented, 135 recommendations (80 per cent) have been partially implemented and four recommendations (2 per cent) are no longer applicable.

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

We express our appreciation for the co-operation and assistance we received from management and staff during this year's follow-up review process.

RECOMMENDATIONS

The Auditor General recommends that:

1. City Council receive this report for information.
2. City Council direct that the confidential information contained in Confidential Attachment 1 remain confidential in its entirety, as it involves the security of property belonging to the City of Toronto, it is about labour relations or employee negotiations, and it is about litigation or potential litigation that affects the City of Toronto.

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 Auditor General indicated that her Office will incorporate the requested savings information in her 2017 annual follow-up reports to the Audit Committee. The report is available at:

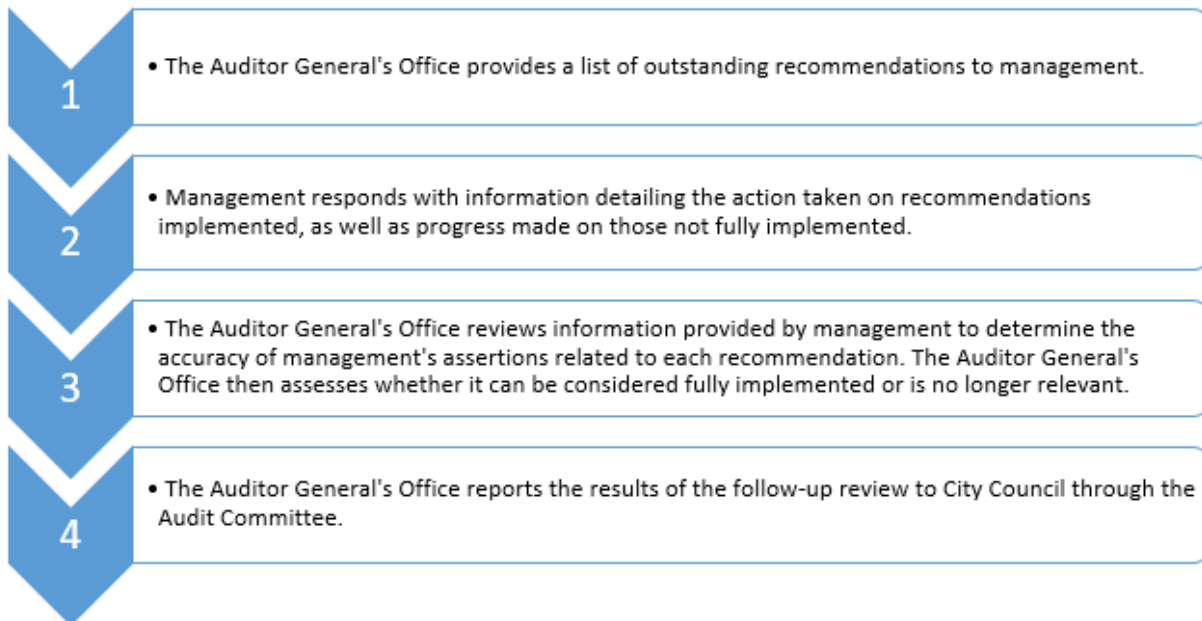
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.AU7.9>

ISSUE BACKGROUND

The follow-up of outstanding recommendations is required by Government Auditing Standards. The process is important as it ensures that management has taken appropriate action to implement the recommendations from previous audit reports. 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 commenced in 2017, we have completed a review of the implementation status of audit recommendations issued to City divisions in Corporate Services and Finance and Treasury Services.

Figure 1: The Key Steps in the Recommendation Follow-Up Process



Recommendation follow-up results for divisions in Community and Social Services (former Cluster A), and the City Manager's Office were reported to the February 2018 Audit Committee meeting. The report is available at:

<https://www.toronto.ca/legdocs/mmis/2018/au/bgrd/backgroundfile-111729.pdf>

Recommendation follow-up results for divisions in Infrastructure and Development (former Cluster B) and for City Agencies and Corporations were reported to the July 2018 Audit Committee meeting. The reports are available at:

<https://www.toronto.ca/legdocs/mmis/2018/au/bgrd/backgroundfile-117926.pdf>
<https://www.toronto.ca/legdocs/mmis/2018/au/bgrd/backgroundfile-117941.pdf>

Recommendation follow-up results for City divisions in Corporate Services and Finance and Treasury Services (former Cluster C and Chief Financial Officer), Auditor General Forensic Unit, and the consolidated year-end status report will be submitted to the February 2019 Audit Committee meeting.

This audit was conducted in accordance with generally accepted government auditing standards. The 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 the audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives.

COMMENTS

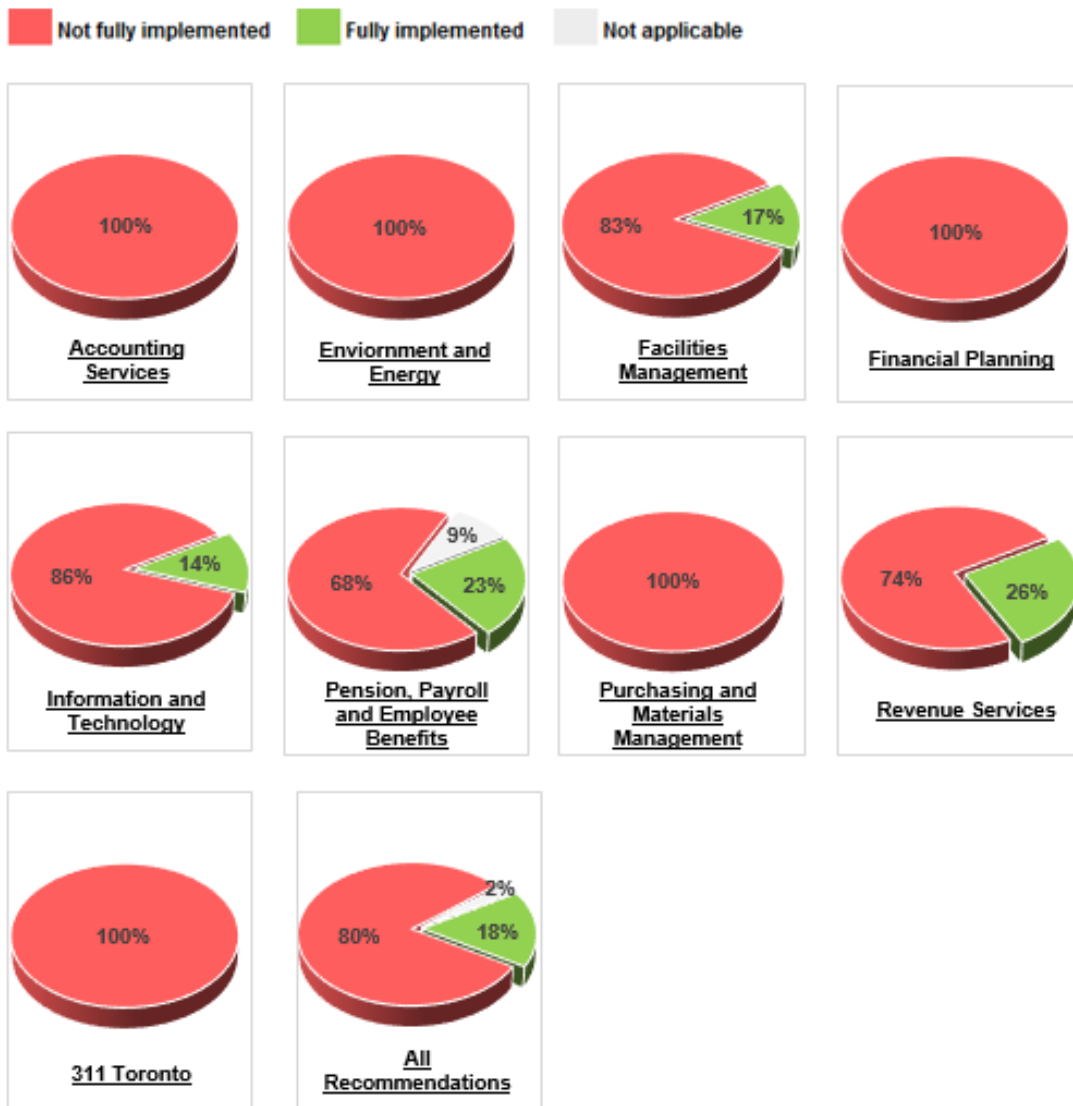
A total of 169 outstanding recommendations from the issued audit reports were included in the 2018 follow-up review. Management reported that 67 recommendations have been fully implemented. However, based on our review we determined that 37 of those recommendations have not been fully implemented because 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 take additional actions to fully implement these recommendations in the future.

Table 1 shows the implementation status of outstanding recommendations for City divisions in Corporate Services and Finance and Treasury Services. The percentage of implementation status by City division is illustrated in Figure 2.

Table 1: Status of Outstanding Recommendations Assessed During 2018 Review

Divisions in Corporate Services and Finance and Treasury Services	Outstanding Recommendations	Results of 2018 Follow-up Review		
		Fully Implemented	Not Fully Implemented	No Longer Applicable
Accounting Services	4	0	4	0
Environment and Energy	3	0	3	0
Facilities Management	46	8	38	0
Financial Planning	1	0	1	0
Information and Technology	36	5	31	0
Pension, Payroll and Employee Benefits	44	10	30	4
Purchasing and Materials Management	6	0	6	0
Revenue Services	27	7	20	0
311 Toronto	2	0	2	0
Total	169	30 (18%)	135 (80%)	4 (2%)

Figure 2: Progress of Recommendation Implementation by Division, 2018 Follow-up Results



Noteworthy 2018 Follow-up Review Results

Audit of Water Billing and Collection – Phase I: Overdue Water Account Collections Require Strengthening, February 2016

The 2016 audit report contains 19 recommendations to improve the collection of outstanding water bills, operational efficiencies and customer account management. The report is available at:

<https://www.toronto.ca/legdocs/mmis/2016/au/bgrd/backgroundfile-90687.pdf>

This is our first follow-up review of the recommendations in this audit report. Revenue Services has implemented 5 out of the 19 recommendations.

At the time of the audit, as of December 31, 2015, approximately \$4.9 million in accounts receivable were past due for water services provided to certain condominiums.

Recommendation number nine required City staff to follow-up on past due accounts and implement Council directive to transfer the outstanding water arrears owed by condominium corporations to the tax accounts of individual unit owners. The implementation of this recommendation allowed management to collect \$4.4 million in outstanding water arrears from January 2016 to July 2018.

Using the improved collection rates, we also estimate recurring savings of \$1.5 million annually from improved collections of long-outstanding water bills that might have otherwise been written off. Management acknowledged the improved collections in the Office of the Controller's 2019 Budget notes.

The implementation of the remaining recommendations will likely result in additional cost savings and improved management controls.

Management of the City's Employee Extended Health and Dental Benefits

Phase One: The City Needs to Ensure Adequate Detection and Review of Potentially Excessive and Unusual Drug Claims, October 2016

Phase Two: Ineffective Controls and Plan Design Leaving the City Vulnerable to Potential Benefit Abuse, March 2017

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", June 2017

The audit of health benefits was conducted in two phases. Phase one focused on drug benefits, and identified a series of unusual claims and dispensing patterns for controlled substances. Phase two focused on extended health care benefits such as professional services and medical equipment. The reports are available at:

<https://www.toronto.ca/legdocs/mmis/2016/au/bgrd/backgroundfile-97612.pdf>
<https://www.toronto.ca/legdocs/mmis/2017/au/bgrd/backgroundfile-102168.pdf>
<https://www.toronto.ca/legdocs/mmis/2017/au/bgrd/backgroundfile-105243.pdf>

The 2016 report contains 18 recommendations to help improve the City's oversight of claims administration services, prevent and detect potential misuse of the benefits, strengthen payment verification, and identify opportunities for cost savings and overpayment recovery. As the phase two report and the supplementary to phase one report were released in 2017, they were not included in our 2018 follow-up review.

In 2017, the City transitioned the administration of its health benefits program to a new administrator. Findings from the audits contributed to more rigorous control requirements expected from the new administrator, and more robust oversight by staff in the City's Pension, Payroll & Employee Benefits Division. These factors

collaboratively contributed to a significant reduction in health benefits costs subsequent to the audit.

As a result of strengthened monitoring and controls, we noted an average annual reduction of \$5.45 million in health benefits costs when comparing the costs of drug and health claims adjudicated under the old and new benefits administrator. This figure compares average claims costs including administrative fees paid in 2015 and 2016 (under the old administrator) to that paid in 2017 and 2018 (under the new administrator).

In 2018, we verified that five recommendations have been fully implemented, and four recommendations are no longer applicable. The implementation of the remaining recommendations may result in additional cost savings and improved management controls.

Outstanding Recommendations with Potential Cost Savings

Audit of City Cleaning Services - Part 1: Opportunities to Control Costs, Improve Productivity and Enhance Quality of Cleaning Services and Part 2: Maximizing Value from Cleaning Contracts, June, 2016

In 2016, the Auditor General completed a review of City cleaning services and issued two audit reports. The reports contain 30 recommendations to improve the procurement, management and administration of cleaning services. The audits also identified opportunities to achieve efficiencies by standardizing cleaning services across City facilities. The reports are available at:

<https://www.toronto.ca/legdocs/mmis/2016/au/bgrd/backgroundfile-94477.pdf>
<https://www.toronto.ca/legdocs/mmis/2016/au/bgrd/backgroundfile-94618.pdf>

This is our first follow-up review of the recommendations made in this audit. Facilities Management has implemented 4 out of the 30 recommendations. The Division has undergone organizational changes and management efforts are currently underway to implement the outstanding recommendations.

Staff indicated that the Division has begun to implement some of the recommendations within one of its custodial contracts, and will be working towards implementing these changes across its entire contracted portfolio over the next one to two years. Management's action plan and expected implementation time are included in Attachment 2.

To date management achieved \$2.4 million in cleaning cost reductions as the result of addressing some of the audit recommendations. The savings were reflected in the division's 2017 and 2018 budgets.

The implementation of the remaining recommendations may result in additional cost savings and improved management controls.

Revenue Services - Improving Controls Over Property Tax Assessments and Payment in Lieu of Taxes (PILTs), October, 2015

The 2015 audit report contains 15 recommendations to improve management of property tax assessment review, appeal and billing processes. The review also highlighted the need for better coordination between the City and the Municipal Property Assessment Corporation (MPAC). The report is available at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2015.AU4.3>

During the current follow-up review, Revenue Services has implemented 13 out of the 15 recommendations.

Recommendation number nine implemented in 2018, relates to the City's review of tax exempt properties to determine the appropriate tax status of such properties. The Division reviewed the exempt properties and identified the ones that require further investigation and re-assessment by MPAC. However, we cannot assess the additional annual tax revenue increase resulting from this recommendation because City staff indicated that the exempt properties are still under review by MPAC.

Recommendation number eight implemented in 2017, relates to City's review of similar non-residential properties to ensure timely and fair property assessments. Management indicated that as a result of their review a number of assessment appeals were initiated. The resolution of the appeals is determined by the Assessment Review Board. During the current follow-up review, staff advised that settlements have not been reached yet on any of the appeals submitted by the City. Consequently, the financial benefits expected from the resolution of the appeals cannot be assessed at this time.

The City may realize additional property tax revenue in relation to the above two audit recommendations.

Long-Term Outstanding Recommendations

Disaster Recovery Planning for City Computer Facilities, March 2008

The 2008 audit report contains seven recommendations to improve the City's approach to disaster recovery planning for City computer facilities, to minimize the negative effects of extended computer service interruptions, and to maintain critical public services in the event of a disaster. The report is available at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2008.AU7.3>

During the 2017 follow-up review, management advised that four of the seven recommendations continue to be outstanding. Staff indicated that they have made

significant progress in implementing the outstanding recommendations, and all recommendations will be addressed in Q4 2017 and late 2018.

During the current follow-up review, management advised that two of the four outstanding recommendations have been implemented. However, based on our review we determined that these recommendations were not fully implemented. Management agreed with our assessment and will undertake additional actions to fully implement the four outstanding recommendations by 2019.

The City's information technology disaster recovery plan has been in progress for a number of years and its completion is important for continued City operations in case of a disaster. We encourage management to implement these recommendations as early as possible to better prepare the City for any unforeseen disaster event.

Maintenance and Administrative Controls Review – Facilities and Real Estate, September 2005

The 2005 audit report contains 32 recommendations to improve controls, efficiencies and cost savings relating to building and maintenance operations. The report is available at:

<https://www.toronto.ca/legdocs/2005/agendas/council/cc051205/au4rpt/cl001.pdf>

During the 2018 follow-up review, management advised that five recommendations still remain not fully implemented. Among these five outstanding recommendations, management has not fully implemented the audit recommendations to:

- complete an implementation plan for facilities maintenance standards
- develop City-wide funding priorities for the state of good repair backlog
- ensure timely completion of the approved capital projects
- ensure a database of the physical condition of City-owned buildings is developed and forms the basis for a long-term capital plan
- establish and maintain a plan for each City building
- ensure all necessary building information is incorporated into the SAP modules

Full implementation of these recommendations require a city-wide strategy, approach and oversight. Management efforts are underway to implement the audit recommendations. Management's action plan and expected implementation time are included in Attachment 2.

CONCLUSION

The 2018 follow-up review included 169 outstanding recommendations from the 35 audit reports. We verified that 30 recommendations have been fully implemented, 135 remain not implemented or partially implemented and four recommendations are no longer applicable.

Management continues to make progress in implementing audit recommendations. The outstanding recommendations will be included in the next year's follow-up review.

CONTACT

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SIGNATURE

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Auditor General

ATTACHMENTS

Confidential Attachment 1: Auditor General's 2018 Status Report on Outstanding Audit Recommendations - City Divisions in Corporate Services and Finance and Treasury (includes Confidential Audit Recommendations - Fully Implemented and Not Fully Implemented)

Attachment 1: City Divisions in Corporate Services and Finance and Treasury Services – Public Recommendations – Fully Implemented

Attachment 2: City Divisions in Corporate Services and Finance and Treasury Services – Public Recommendations – Not Fully Implemented

Attachment 3: City Divisions in Corporate Services and Finance and Treasury Services – Public Recommendations – No Longer Applicable