

## **Auditor General's Office 2019 Work Plan**

**Date:** February 6, 2019  
**To:** Audit Committee  
**From:** Auditor General  
**Wards:** All

### **SUMMARY**

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The Auditor General's audits and investigations provide independent information for City Council to hold City administrators accountable for providing stewardship over public funds. The Auditor General's work helps to identify and mitigate risks the City faces, improve accountability, strengthen management controls, and enhance the efficiency and effectiveness of City operations.

The purpose of this report is to provide City Council with an overview of the work the Auditor General plans to conduct in 2019.

Audit projects included in the annual Work Plan are identified through a risk assessment process conducted periodically by the Office, a review of emerging issues and an analysis of trends in allegations made to the Fraud and Waste Hotline. The Auditor General also considers the views and experience of City Councillors and City management.

The Auditor General anticipates that the need for highly complex and in-depth forensic investigations will continue. This will require a significant commitment of resources, given the increasing complexity of complaints received by the Fraud and Waste Hotline.

The Auditor General may amend the annual Work Plan if new priorities arise. In accordance with Chapter 3 of the Toronto Municipal Code, City Council may add to the annual audit plan by a two-thirds vote of all Council members.

### **RECOMMENDATIONS**

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The Auditor General recommends that:

1. City Council receive the Auditor General's 2019 Work Plan

## FINANCIAL IMPACT

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The recommendation in this report has no financial impact beyond the amount provided in the Auditor General's 2019 budget.

## DECISION HISTORY

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Under the *City of Toronto Act, 2006*, the role of City Council is to:

- represent the public and to consider the well-being and interests of the City;
- develop and **evaluate the policies and programs** of the City;
- determine which services the City provides;
- **ensure** that administrative policies, practices and procedures **are in place to implement the decisions** of council;
- **ensure the accountability and transparency of the operations** of the City, including the activities of the senior management of the City;
- **maintain the financial integrity** of the City; and
- carry out the duties of council under this or any other Act.

The Auditor General's mandate is also outlined in the *City of Toronto Act, 2006*.

Under Section 178(1), the Auditor General is *“responsible for assisting city council in holding itself and its administrators accountable for the quality of stewardship over public funds and for the achievement of value for money in city operations.”*

Chapter 3 of the Toronto Municipal Code requires that:

*"A. The Auditor General shall submit an annual audit plan to Council.*

*B. No deletions or amendments to the annual audit plan shall be made except by the Auditor General.*

*C. Despite Subsection B, Council may add to the annual audit plan by a two-thirds vote of all Council members".*

## COMMENTS

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### Risk-Based Approach to Audit Selection

The Auditor General undertakes a risk-based approach to audit selection. To identify audit priorities, every five years the Auditor General performs an extensive risk assessment of the operations of the City and its major agencies and corporations under her mandate.

In 2019, the Auditor General's Office will begin a new risk assessment process. A significant amount of audit resources will be dedicated for completing this task. The results of this assessment will be considered when setting the audit priorities for the next five years.

### **Assessing Risks at Boards that are Outside of the Auditor General's Jurisdiction**

At its June 10, 2015 meeting, City Council formally requested, those agencies and corporations that are outside of the Auditor General's jurisdiction, to allow the Auditor General to undertake any audits the Auditor General deems necessary. City Council also requested that the City of Toronto Act to be amended to extend the Auditor General's jurisdiction to include the Toronto Police Services Board, the Toronto Public Library Board and the Board of Health. This change was not included as part of the revisions to the Act. Therefore, the Auditor General still does not have the authority to conduct a risk assessment or audit these Boards without an invitation.

To date, only the Toronto Public Library Board has requested the Auditor General to complete a risk assessment. The Auditor General will include the Library when the Office begins its risk assessment of City divisions, agencies, and corporations in 2019. This will allow her to identify and prioritize potential future audits for the Toronto Public Library Board to consider.

The Toronto Police Services Board has not invited the Auditor General to complete a risk assessment. The benefit of performing such an assessment of the Toronto Police Service is that the Auditor General will be able to bring forward potential future "value-for-money" audit projects for the Board to consider.

- The Toronto Police Services Board has requested two audits in recent years: (1) Level 3 and Level 4 Searches of Persons; and (2) Regulated Interactions (commonly known as "carding" or "street checks"). In light of the significant reviews by other independent parties, the Auditor General will not proceed with these audits.
- Over the past seven years, the Auditor General has not conducted any other audits of the Toronto Police Service. The last audit reports issued to the Toronto Police Services Board were "Parking Enforcement Review", "Police Paid Duty - Balancing Cost Effectiveness and Public Safety" and "Review of Integrated Records and Information System", all completed in 2011.

The Board of Health has not invited the Auditor General to complete a risk assessment. The only work performed by the Auditor General for the Board of Health was a review of the City's pandemic planning and preparedness in 2007 and reviews of dental and food safety programs conducted between 2000 and 2002.

## Audit Work Plan

In 2017 and 2018, City Council provided temporary increases to the Auditor General's budget to boost her capacity to undertake audits and investigations. This allowed the Office to take on more projects, speed up our work, and expand the scope of certain other audits and investigations. The Auditor General has been able to complete a number of high-priority projects to address risks and identify efficiencies and savings in a timely basis. Attachment 1 to this report includes a list of audit and investigation reports issued from 2016 to 2018.

The current work plan is intended to be flexible, allowing the Auditor General to respond to emerging issues, including the need to assign resources to investigations, when needed. The in-progress and upcoming projects in 2019 are summarized in Table 1. New audits will be initiated based on a balancing of audit priorities and audit resources. The audit horizon for 2019-2020 is described in Table 2. Attachment 2 to this report provides an overview of audits that were included in the 2018 work plan that have now been deferred to a future year or removed from the work plan.

A number of audits included in the 2019-2020 work plan are broad scope operational reviews. These operational reviews are divided into multiple phases or projects because of the nature and complexity of the operations or subject matter. The scope of each audit phase may evolve after detailed planning for the project has started.

**Table 1: Ongoing and Upcoming Projects in 2019**

No.	Project	Description	Project Status
<b>City Divisions</b>			
<i>Shelter, Support and Housing Administration</i>			
1.	Administration of the centralized social housing wait list	The operational review of the Shelter, Support and Housing Administration Division is divided into multiple phases.  The first phase of the review focuses on the administration of the centralized social housing wait list. This audit will assess the effectiveness, efficiency, and economy of how the City administers household applications received by the City for Rent-Geared-to-Income (RGI) assistance.	Ongoing
2.	Emergency shelter operations	The second phase will focus on emergency shelter operations.	To be commenced in Q4

No.	Project	Description	Project Status
<i>Parks, Forestry and Recreation</i>			
3.	Urban Forestry (Phase 2) - Tree planting and maintenance	The Auditor General has initiated a series of audits of the Parks, Forestry and Recreation Division. The current review will assess whether Urban Forestry has adequate systems and procedures in place to effectively and efficiently plant and maintain the trees in the City's urban forest.	Ongoing
<i>Engineering and Construction Services</i>			
4.	Construction Contracts (Phase 2) - Contract management processes	This multi-phased audit of capital construction contract management by the Engineering and Construction Services Division is ongoing. The current phase of the audit will assess the effectiveness, efficiency and economy of processes and controls to manage construction and consulting contracts.	Ongoing
<i>Fleet Services</i>			
5.	Maintenance including contract management (Phase 1)	The City's Fleet Services Division provides full lifecycle management and maintenance for vehicles and equipment. Due to the breadth and complexity of the Fleet Services Division's operations, the operational review will be conducted in phases.  The current phase focuses on assessing the Division's processes and controls over vehicles and equipment maintenance, including management of its parts and services contracts. Future phases of the operational review will focus on asset management.	Ongoing
6.	Asset management (Phase 2)		To be commenced in Q3

No.	Project	Description	Project Status
<i>Accounting Services</i>			
7.	Interface/direct billing vendors for City of Toronto	For efficiency, the City pays certain vendors through an automatic interface billing process. This audit will assess the adequacy of controls over the billing and payment process, including a review of divisional processes for a selected number of vendors with annual payments exceeding \$500,000.	Ongoing
<i>Information Technology</i>			
8.	Information technology shared services	This audit will evaluate opportunities for technology integration. The scope may include evaluation of shared services for common IT services amongst City divisions, agencies and corporations. Specific areas to be reviewed will be determined during preliminary planning for the audit.	To be commenced in Q4
<b>Agencies and Corporations</b>			
<i>Toronto Transit Commission (TTC)</i>			
9.	TTC Revenue Operations (Phase 1) - Fare inspection and fare evasion	<p>An audit of TTC Revenue Operations is currently underway. This audit is divided into multiple phases.</p> <p>The current phase assesses the effectiveness and efficiency of TTC's controls intended to minimize revenue loss from fare evasion risks, including its fare inspection system.</p>	Near completion
10.	TTC Revenue Operations (Future Phase(s)) - Revenue controls	Additional future phases may examine TTC's management of its contract with Metrolinx, and other revenue controls including completeness of PRESTO revenue data received and provision for PRESTO fare card equipment.	To be commenced in Q2

No.	Project	Description	Project Status
<i>Toronto Community Housing Corporation (TCHC)</i>			
11.	Redevelopment and revitalization of TCHC Communities	This audit is in the reporting stage. The audit assesses how: - TCHC revitalization projects leverages land value through development partnerships; - TCHC/City oversees redevelopment projects; and - TCHC's revitalization program contributes to city-building priorities.	Near completion
<i>Other Agencies and Corporations</i>			
12.	Treasury, investment and cash management by City agencies and corporations / City-wide	This audit will review treasury, cash and investment management practices at selected Agencies and Corporations. The primary focus of this audit is on City agencies and corporations. However, as part of our review, we will obtain an understanding of processes City-wide to identify where there may be opportunities to increase consistency of practices between the City and its agencies and corporations. The audit may also cover City reserves and reserve funds.	Ongoing

**Table 2: Project Horizon for 2019-2020** *(These are additional projects that will be initiated in 2019 or 2020, contingent upon availability of audit resources)*

No.	Project	Description
<b>City Divisions</b>		
1.	Transportation Services - Winter Maintenance	This audit will focus on the award and management of major winter maintenance contracts, including a review of contract compliance and contractor performance.
2.	Parks, Forestry and Recreation - Parks Branch	This is an operational review of the delivery of parks-related services. The audit may include a review of the management of the construction and maintenance programs for City parks.

No.	Project	Description
3.	City Planning	<p>This is an operational review of the City Planning Division. The audit will focus on economy and efficiency of City Planning operations including processing of development applications.</p> <p>The scope and timing of this operational audit will depend on the end-to-end review of the development review process currently being led by the City's Transformation Office.</p>
4.	Affordable Housing	<p>This is an operational review of the Affordable Housing Office. The audit will assess the City's systems and processes to oversee and co-ordinate the delivery of affordable housing programs and services including the construction of affordable housing and administration of ongoing housing subsidy/supplement programs. The audit will also include an evaluation of the City's performance and outcomes in delivering its strategy for affordable housing.</p>
5.	Pension, Payroll and Employee Benefits - Illness or Injury Plan (IIP), Sick Pay Plan (SPP) and Sick Occurrences	<p>This audit will assess compliance with the City's Illness or Injury Plan (IIP) and Sick Pay Plan (SPP). The audit will include a review of the City's new e-time system.</p>
6.	Revenue Services - Administrative Penalty System	<p>This audit will review the City's new Administrative Penalty System, which is the City's process to address disputed parking by-law violations. The new process has been in place since August 2017.</p>
7.	City Revenue Streams	<p>The Auditor General plans to continue her series of audits on City revenue streams. The new revenue stream audits may include a review of collection processes for new taxes, as well as Council's requested review of permit application fees for construction hoarding signs.</p>



No.	Project	Description
8.	Shelter, Support and Housing Administration	<p>This is a continuation of the operational review of the Shelter, Support and Housing Administration Division. Potential areas to be covered in future phases of the review may include:</p> <ul style="list-style-type: none"> <li>• State of good repair and other capital projects to acquire, maintain, or construct shelters</li> <li>• Administration of various programs that provide households with financial assistance for rent (including ongoing eligibility assessments)</li> <li>• Oversight of operating agreements with social housing providers.</li> </ul>
<b>Agencies and Corporations</b>		
9.	Toronto Community Housing Corporation (TCHC) - Contract Management	This audit will focus on TCHC's contract management processes and controls including overall contract oversight, monitoring of contractor performance, change order management and payment verification processes.
10.	Toronto Community Housing Corporation (TCHC) - Property Management	The audit will assess TCHC's contract management processes and controls for overseeing contracted property managers' service delivery and performance.
11.	Toronto Transit Commission (TTC) - Bus Transportation Department	The audit will assess the effectiveness and efficiency of TTC bus operations and services to identify service improvement and cost savings opportunities.
<b>Other significant areas of work</b>		
12.	Data analytics	The Office is currently analyzing employee health and dental claims data. Other projects will proceed based on availability of resources (see below).
13.	Investigations related to allegations of fraud or other wrongdoing	Major investigations conducted by the Forensic Unit as needed (see below).

## Data Analytics

Data analytics is a key component of the Auditor General's performance audits. From time to time, the Auditor General has used specialized software to perform continuous controls monitoring (CCM) on selected expenses at the City. For example, the Auditor General is currently conducting analysis of employee health and dental claims data to

identify areas for improved management controls and monitoring of employee benefit costs.

The Auditor General is also exploring how to adopt artificial intelligence (AI) powered analytics into her performance audits and continuous controls monitoring program and may conduct an AI pilot in future years.

### **Investigative Work related to Allegations of Fraud or Other Wrongdoing**

Over the past two years, the Auditor General's Office has conducted six major investigations that resulted in public reports. Conducting these complex investigations required a significant amount of resources. On average, each in-depth investigation took over nine months to complete.

Investigations are led by the Forensic Unit but, may leverage audit staff and, in some cases, outside forensic experts may be used. The Auditor General currently has several such investigations underway that are expected to be completed during 2019. The Annual Work Plan must leave capacity to deal with unexpected investigation requests.

In addition to the full-scale investigations, the Auditor General's Office also operates the Fraud and Waste Hotline Program. In 2018, the Hotline Program received over 640 complaints representing approximately 1,000 allegations. Forensic Unit staff review all complaints that are received and conduct preliminary inquiries on the majority of allegations. Certain of these complaints also require additional investigative procedures.

The Auditor General's Office is also responsible for conducting investigations into allegations of reprisals against employees under the Disclosure of Wrongdoing and Reprisal Protection rules in the Toronto Public Service By-law.

It is not possible to predict the number and complexity of fraud allegations and reprisal complaints that must be investigated each year. Therefore, it is a challenge to determine the extent of resources that will be needed to conduct these investigations in a timely manner.

### **Other Responsibilities of the Auditor General**

In addition to the projects summarized in this Work Plan, the Auditor General's Office has a number of other activities underway. These activities include:

- Following up on outstanding audit and Forensic Unit recommendations
- Implementing a new fraud and waste complaint management system to replace the outdated, decommissioned database
- Implementing a new audit management system to automate audit working papers and risk management processes
- Coordinating external audits of the financial statements of the City and its agencies and corporations.

## **CONTACT**

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## **SIGNATURE**

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Beverly Romeo-Beehler  
Auditor General

## **ATTACHMENTS**

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Attachment 1 – Reports Issued from 2016 to 2018

Attachment 2 – Deferred and Cancelled Audit Projects