



2018 Annual Report

**Demonstrating the Value of the Auditor General's Office
February 6, 2019**

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Auditor General

**AUDITOR
GENERAL**

TORONTO



Auditor General's Message



Our Office had another busy and exciting year in 2018.

In 2018, we issued 12 performance audit reports and a major investigation affecting many walks of life. This resulted in 185 recommendations that will strengthen controls, make the City more efficient, reduce waste, and achieve better value for money. Be it protecting and enhancing the City's green spaces, improving collection of Provincial Offence fines, or managing construction projects to maintain our infrastructure, we are committed to assisting City Council and the dedicated public service members achieve their goals of providing the best possible service to our world-class City.

Our Office also operates the City's Fraud and Waste Hotline, which is an important way for staff and members of the public to report suspected wrongdoing without fear of reprisal. This past year, we processed 643 complaints consisting of approximately 1,000 allegations. A Hotline tip led us to investigate contracted life safety inspections in City buildings. This extensive investigation exposed years of claims and invoices for work that was never completed. This potentially could have had serious consequences if it hadn't been appropriately addressed.

Since 2014, by implementing our audit recommendations, the City has achieved significant savings. Based on conservative estimates, these savings, either one-time or annual recurring, will total approximately \$303.7 million over the next five years. This translates to a return of \$11.7 for every dollar invested in our Office. I would like to thank management and staff from the various City divisions, agencies and corporations we've worked with. Their continued effort to implement our recommendations helps the City realize these savings.

We are required by law to have our files peer reviewed to verify they meet government audit standards. This year, our audit files and methodology were reviewed by an international external peer review team from the Association of Local Government Auditors. Our Office received the highest possible rating.

I would also like to congratulate Transportation Services for winning the Innovative Management Practices award from the Ontario Good Roads Association. We are delighted that the Division incorporated our key recommendations into their standard management practices.

We help ensure the City continues to make good, responsible use of Torontonians' tax dollars, and that the City continues to provide the public with the best service possible.

This year marks the half-way point of my tenure as Auditor General. Looking back, I'm proud of the value my team has delivered, and the leadership shown by the Toronto Public Service in implementing recommendations. Our work is not finished. We look forward to identifying more efficiencies and savings in support of City Council and on behalf of Torontonians.

Sincerely,

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

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Our Mission, Mandate, and Team

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.

Mandate

Under Section 178 of the *City of Toronto Act, 2006*, 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's Office is independent of management and has the authority to conduct financial, operational, compliance, information systems, forensic and other special reviews of City divisions, and certain City agencies and corporations. Exhibit 1 contains more details about our background, responsibilities and authorities under the *City of Toronto Act, 2006*.

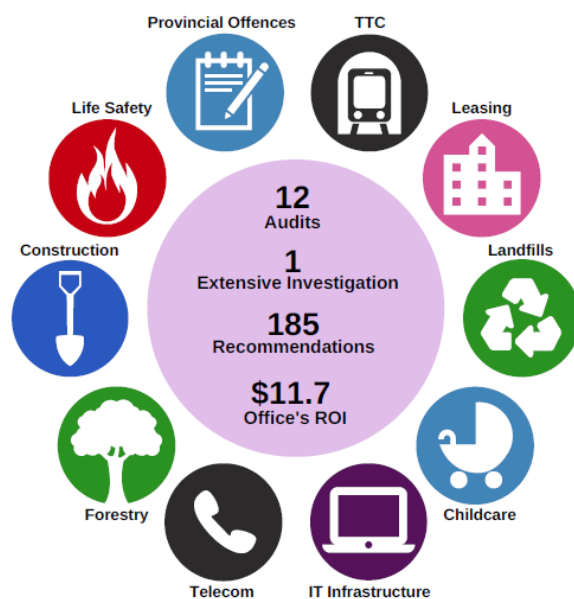
Meet our Team

The City of Toronto's motto is "Diversity, Our Strength". The Auditor General's Office staff exemplifies this: we speak more than 10 different languages including Mandarin, Russian, Afrikaans, Urdu, Tamil and French. Many staff members were born abroad and now call Toronto home. And we're not just auditors – many are interested in art, music, and sports. Our diversity strengthens the Office and enriches the work we do. We are honoured to serve the City of Toronto.



2018 Highlights

2018 was a busy year for our Office. We completed 12 audits and one major investigation to help improve many different areas of the public service. Exhibit 2 provides a list of our 2018 reports.



At the direction of the City's Audit Committee, we demonstrate our value to the City by annually reporting the quantifiable financial and non-quantifiable benefits as a result of our audits. The total one-time and projected five-year savings realized in 2018 was \$133 million. Of the \$133 million, current year savings was \$35.8 million; the remaining \$97.2 million are recurring savings projected over the next four years.

For every dollar invested in our Office, there was a return of approximately \$11.7. This is discussed in more detail in the Financial Benefits section in this report.

In conducting our audits, we always try to quantify the potential financial benefits of implementing audit recommendations. These financial benefits, referred to as "savings", can include cost reductions, new or increased revenue streams, or future cost avoidance. Potential savings are however, not included in our return on investment calculation. The Office's return on investment is calculated based on savings that have been realized and can be reasonably quantified after staff have implemented the audit recommendations. Any known implementation costs are deducted from the savings, and they are estimated conservatively and verified or discussed with management.

A number of 2018 audit and investigative reports made recommendations where the monetary value may not always be quantifiable. For example, our reports make recommendations to improve the following: internal controls, information security, policies and procedures, use of City resources, operational efficiencies, etc.

Major Audit and Investigation Reports Released in 2018

13 performance audit and investigation reports

In 2018, our Office issued a total of 18 reports providing 185 public and confidential recommendations:

- 12 performance audit reports
- 1 extensive investigation report
- 3 recommendation follow-up reports
- 2 annual reports

Several reports released in 2018 have already resulted in cost savings and increased revenues

This section provides a look into some of the major reports issued in 2018. These reports contain recommendations that will benefit the City operationally and/or financially. Management's immediate actions from some of these audits have already resulted in cost savings and increased revenues to the City.

Raising the Alarm: Fraud Investigation of a Vendor Providing Life Safety Inspection Services to the City of Toronto



Life safety equipment is designed to save lives during a fire

Our Office conducted an extensive investigation into life safety inspection services by a vendor. This investigation began when we received an allegation that a vendor was overcharging and not performing inspections up to the Ontario Fire Code's standards. Life safety systems include smoke alarms, fire extinguishers, emergency lighting, sprinklers, smoke control equipment, and fire pumps – critical equipment designed to save lives during a fire.

Staff raised suspicions

The vendor had been providing services to the City for many years. Some City staff had their suspicions about questionable invoices, and even told their superiors. But when senior City staff did their own investigation, they concluded "there was no indication of any mishandling".

False identities, missing paper trails

Our extensive investigation uncovered false identities, multiple companies at multiple addresses connected to one person, incomplete and missing paper trails, and potentially significant safety risks to millions of Torontonians and visitors to these buildings.

City's critical infrastructure buildings were at risk

With support from experts at Toronto Fire Services, we identified a very high risk of fraud related to this vendor. More importantly, we determined that the City's important civic and critical infrastructure buildings were at risk because it was not possible to confirm whether their life safety systems had been properly inspected and were therefore functioning properly.

This one case highlighted systemic problems across the entire life safety inspection industry.

Report "sent shockwaves through the industry"

Toronto Fire Services Deputy Chief Jim Jessop said the report sent "shockwaves through the industry" and likely "saved lives".

The recommendations in the report stressed the need for staff to perform more due diligence on vendors, and for better documentation.

Taking steps to ensure public safety

Furthermore, what we found highlights that trust in the vendor must not override the need to perform this due diligence, nor the need to listen to the City's own staff. Staff should not be indifferent when serious concerns are raised, and must take steps to ensure public safety is protected when following-up on billing and contract performance.

Change is already happening

In addition to the companies in question being charged a total of 90 Ontario Fire Code violations, there have been several other significant changes since this report was published:

- Municipalities across the country are calling to find out how the work was done so that they can follow suit, and internal auditors across Ontario received training to ensure they can check their own organizations
- Fraud professionals are using it as an example in their training classes
- Legislative changes are being pursued to improve controls in the life safety inspection industry

Fire Code violation convictions

Since issuing this report, the vendor admitted to using pseudonyms and being the "directing mind" behind York Fire. The vendor and multiple associated companies, including York Fire, have been convicted of various Fire Code-related offences and, in total, fined upwards of \$77,000. The vendor was placed on probation for two years.

The press release is available at:

<https://www.toronto.ca/home/media-room/news-releases-media-advisories/?nrkey=04BE96D7F40FB2F28525839800510816>

The investigation report is available at:

<https://www.toronto.ca/legdocs/mmis/2018/au/bgrd/backgroundfile-118387.pdf>

Toronto Court Services: Collection of Provincial Offence Default Fines



Collection of fines ensures fair and effective administration of the justice system

Our Office completed an audit of the collection of Provincial Offences Act (POA) fines. These are issued for violations of the Highway Traffic Act, Compulsory Automobile Insurance Act, City bylaws and many more. Aside from the financial impact to the City, strong collection practices provide the public with greater assurance that laws are effective and fines are a meaningful deterrent. A fine is collected as part of the administration of justice process.

\$577 million in uncollected fines

As of June 30, 2017, provincial data indicated that there was \$577 million in long-outstanding fines¹. Seventy-four (74) per cent of these fines (\$427 million) have been outstanding for more than five years. The Court Services Division manages and collects POA fines (except for parking tickets, which are managed by the Revenue Services Division).

¹ The \$577 million in default is comprised of \$421 million owing to the City, \$63 million to be collected by the City on behalf of the Province, and \$93 million for collection agency costs added by Court Services in order to pay for potential collection agency commissions.

Our audit highlighted that various elements of Court Services' collections approach needs improvement. In Court Services' 2019 Budget Notes (p. 21), *"Court Services anticipates that the implementation of the Collection Plan and related procedures will result in an increase in revenue from the collection of defaulted POA fines."*

The collection of these fines impact City revenues.

Collection efforts need improvement

Our audit identified the following:

- A more robust strategy is needed for fines that are difficult to collect, such as high-balance accounts, businesses, and repeat offenders
- The services of contracted collection agencies must be maximized to improve collection efforts
- The City needs a more reliable information system to effectively support collection efforts
- The Division must adequately report collection outcomes to City Council

Available collection tools weren't used to their fullest practical extent

The audit highlighted that available collection tools weren't effectively used to their fullest practical extent. For example, driver's licence suspensions did not appear to be applied to all eligible fines.

Additional \$710,000 added to property tax roll due to audit

In addition, the City has the ability to add defaulted fines to the property tax roll of sole property owners. This has shown to be an effective tool, with a past collection rate of over 90 per cent. However, we found that not all eligible fines were being identified by Court Services. Based on potential property matches we identified during our audit, the City was able to confirm and add eligible defaulted fines totalling \$710,000 to debtors' property tax rolls. This collection tactic will improve the collection of fines that otherwise might have been written off.

Shared our audit methodology to assist management efforts to collect unpaid fines

We shared our data analysis methodology with management. This will assist them in identifying other fines that can be added to debtors' property tax rolls.

The audit report is available at:

<https://www.toronto.ca/legdocs/mmis/2018/au/bgrd/backgroundfile-114757.pdf>

Improved collections for default fines collected within the first year

For the percentage of default fine dollars collected within the first year, the Division's 2019 Budget Notes (p.3) states: *"With the improved collection strategies the collection rate for default fines for 2018 has increased to 37% within the first year."* This is a five per cent increase from 2017, based on actions taken in response to the Auditor General's recommendations as detailed on page 20 of the 2019 Budget Notes.

Court Services expects default collection rates will increase by 1% each year

On page 12 of the 2019 Budget Notes, staff further anticipate that *"default fine collection rates will...increase by 1% every year commencing in 2019 as Court Services with support from Legal Services implements its commitments contained in its Management response to the City's Auditor General's report..."*.

Our future annual reports will recognize any further successful collection efforts that come from effectively implementing our audit recommendations.

Court Services' 2019 Budget Notes are available at:
<https://www.toronto.ca/legdocs/mmis/2019/bu/bgrd/backgroundfile-123811.pdf>

Children's Services Division: Opportunities to Achieve Greater Value for Child Care from Public Funds



Childcare unaffordable for 75% of families in Toronto

Licensed child care services in Toronto are among the most expensive in the country. According to a 2016 study commissioned by the City's Children's Services Division, *"...licensed child care is considered either unaffordable or completely unaffordable for 75 per cent of families in Toronto"*. At the time of our review, there were approximately 5,000 children on the wait list with an immediate need for a subsidy, and another 4,800 with future subsidy needs.

The audit identified several ways the City can significantly improve how it administers child care services and offered some options to make child care more affordable for more families.

City could potentially save \$28 million annually

The City has been operating its 52 child care centres at an annual operating shortfall. The fees parents pay at the City-run child care centres are among the most expensive in the City. The audit highlighted that transferring these City operations to non-profit agencies could potentially save the City \$28 million per year. These savings could be re-directed to issuing approximately 2,200 more child care fee subsidies each year.

Children's Services has no access to one-third of the existing licensed spaces, partly due to its own policy

Children's Services Division's approved 2018 capital budget included \$49 million to build 21 new centres to add 1,110 child care spaces over 10 years. Our analysis found that the Division does not have access to nearly one-third of the existing licensed spaces (not counting most commercial spaces). Part of this is due to the Division's policy and practice. Also the Division does not have service agreements with 144 non-profit operators.

Increasing access to current supply of licensed child care spaces makes system more economical and affordable

Making better use of these existing licensed spaces might help increase the supply of licensed spaces, improve the economy of operations and result in a more affordable system for families. This may also reduce the need to build new centres.

Pay stubs should be used instead of NOAs to assess applicants' income

Provincial legislation requires that an applicant's eligibility for a child care fee subsidy be assessed based on their annual Notice of Assessment (NOA). Based on our sample review and research, pay stubs provide the most current income information. If these are used instead, the net financial impact could potentially result in millions saved every year. These savings could be reinvested in the sector to serve those waiting for a subsidy.

Realized savings will be included in future Annual Reports

This audit also highlighted the need to improve wait list information so that parents have the best information available when planning such an important element of their life. Any savings identified through our audit recommendation follow-up process will be verified and included in future Annual Reports.

The audit report is available at:
<https://www.toronto.ca/legdocs/mmis/2018/au/bgrd/backgroundfile-114760.pdf>

Review of Urban Forestry – Permit Issuance and Tree By-law Enforcement Require Significant Improvement



Audit of Urban Forestry's permit issuance and bylaw enforcement

The Urban Forestry branch within the Parks, Forestry and Recreation Division maintains the City's urban forest. Our audit focused on Urban Forestry's permit issuance and bylaw enforcement functions.

Urban Forestry does not have an adequate information system for permit administration

The audit found that the lack of an adequate information system to support Urban Forestry's permit functions and oversight made it difficult to prevent or detect unauthorized permits. There was no adequate quality assurance process in place to routinely review permit files.

Issues were found in permit payments, compliance with permit conditions, and approval for permit exceptions

We reviewed a sample of files and found that staff did not always correctly calculate or collect permit payments and deposits. There was also a lack of inspection or other efforts to ensure compliance with permit conditions, and a lack of controls over approving permit exceptions.

\$29.3 million in refundable deposits

As of February 2018, Urban Forestry had a balance of \$29.3 million in refundable deposits collected between 1994 and 2017, of which \$8.4 million represented deposits collected more than five years ago. At the time of our audit, the Division did not have a policy in place to address this large amount. Urban Forestry has recently started a process to review and address the old unclaimed deposits. The City could potentially transfer some of these unclaimed deposits to City revenues after due process has been undertaken by staff.

Law-abiding citizens pay more than someone penalized for breaking the law

We also noted that the current bylaw provisions do not encourage compliance with permit requirements intended to protect the City's trees. Under the current structure, a law-abiding citizen could end up paying significantly more than someone who attempts to skirt the laws, even when they are caught and charged the penalty by Urban Forestry staff.

Any related savings from this report will be assessed when management implements our recommendations.

The audit report is available at:

<https://www.toronto.ca/legdocs/mmis/2018/au/bgrd/backgroundfile-117956.pdf>

Enhance Focus on Lease Administration of City-owned Properties



City generates over \$50 million in annual leasing revenues

The City's Real Estate Services and Parks, Forestry and Recreation Divisions manage over 1,000 leases on City-owned properties. These leases generate over \$50 million annually in rents and recoverable operating cost revenues. Effective lease administration ensures the City meets program and strategic objectives, generates optimal rent revenues, and recovers operating costs from tenants.

Audit objective to ensure leasing revenues were maximized and operating costs were billed and collected

Our audit noted that staff did not always bill and collect rent and operating costs in accordance with lease agreements. In the sample of leases we reviewed, we identified at least \$4.5 million in rents and operating costs that had not been billed for prior periods. The audit also highlighted that, in some cases, the City lost out on an opportunity for increased rent revenues because agreements were not renewed at market rates in a timely manner. In Toronto where commercial rents have increased by between seven and 12 per cent over the last five years², this makes it important to update rent rates where allowed in lease agreements.

Addressing four expired leases will generate \$1.8 million in new rent revenue over 5 years

Management took prompt action to fix certain issues highlighted by the audit. Subsequent to the release of our audit in June 2018, management addressed four expired leases which will result in \$350,000 in net new annual recurring rent revenue. Over five years, this will generate \$1.8 million in increased rent revenue.

² Based on average lease rates for commercial/retail and office space as reported by Toronto Real Estate Board

Adjusting leases to reflect market rent rates will achieve \$520,000 over 5 years

Staff also retroactively collected market rents totalling approximately \$170,000 on certain lease agreements. These rent adjustments will also generate annual recurring revenues of \$70,000. These efforts will generate one-time and annual revenues of \$520,000 over five years.

Divisional budget reflects higher rent revenues

Management advised that Real Estate Services' 2019 Budget reflects these increased revenues. The Division's 2019 Budget Notes (p. 39) also speak to the initiatives management has taken in response to our audit recommendations.

Facilities, Real Estate, Environment & Energy, 2019 Budget Notes: <https://www.toronto.ca/legdocs/mmis/2019/bu/bgrd/backgroundfile-123820.pdf>

City will save \$372,000 in hydro costs over 5 years

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 tenant of their proportionate share of operating costs. Our audit identified certain tenants not billed for their share of utilities in accordance with their lease agreements. One commercial tenant had not paid for their hydro consumption since 2006. Management took immediate action to solve the issue and is working with the tenant to collect past due amounts. Going forward, the City will avoid an average annual cost of \$74,400. Over five years, we estimate the City will avoid hydro costs of approximately \$372,000.

One-time and annual financial impacts

The table below summarizes the one-time and annual recurring figures explained above and also reflected in Table 1 (p. 19):

	One-time 2018/2019 \$	2020 onwards \$
One-time market rent adjustment	170,000	-
Annual rent increase to reflect market rent	70,000	70,000
Annual rent increase from addressing expired leases	350,000	350,000
Annual hydro cost avoidance	74,400	74,400
Total	\$664,400	\$494,400

Over \$2.6 million in savings and increased revenues over 5 years

Over five years, this recently tabled audit has already resulted in over \$2.6 million in combined cost savings and increased revenues. Management is still working through the remaining operating cost settlements and agreements that require market rent adjustments. When they are collected, we will include these amounts in future Annual Reports.

The audit report is available at:
<https://www.toronto.ca/legdocs/mmis/2018/au/bgrd/backgroundfile-117931.pdf>

Solid Waste Management Services Division – Review of the Green Lane Landfill Operations – Management of Contracts Needs Improvement



The City purchased the Green Lane Landfill located in St. Thomas, Ontario, in 2007 in order to secure a site for the long-term disposal of solid, non-hazardous waste.

Contracted services are used extensively for landfilling operations and construction

The City contracted out landfilling, construction, haulage and engineering consulting services related to the handling of this waste material at Green Lane. The total value of these contracts is \$373 million over 10 years.

Green Lane is expected to be in operation until 2040.

The City could landfill more waste at no additional current cost by optimizing the tonnage of waste landfilled at Green Lane

The City pays tipping fees to the contracted Green Lane operator using a tiered pricing structure. The per-tonne price of waste decreases as the annual quantity increases.

The City's agreements with other third-party commercial landfill sites charge more per tonne.

The audit found that the City could take advantage of Green Lane's better pricing by increasing the volume of waste landfilled at Green Lane. For example, there would be no additional fee to ship an extra 110,000 tonnes per year above the annual guaranteed minimum tonnage of 400,000 tonnes.

Almost \$4.9 million in savings over 5 years by redirecting waste

By optimizing the amount of waste sent to Green Lane, Solid Waste Management Services determined it could save \$970,254 annually from 2019 onwards. This cost saving is also reflected in the Division's 2019 Budget Notes (p. 50). Over five years, this will result in approximately \$4.9 million in cost savings.

The Division's 2019 Budget Notes are available at:
<https://www.toronto.ca/legdocs/mmis/2019/bu/bgrd/backgroundfile-123937.pdf>

Contract design could be improved to allow payment structure that is fair yet more beneficial to the City

The audit also identified areas in the contracts where the requirements and fee calculations were not flexible enough to reflect changing conditions. For example, despite the changes in fuel prices, the City's waste haulage contract used a fixed discount price for the calculation of fuel surcharge costs. The City's waste profile is very different now from when the contracts were set, and market conditions and rates have also changed significantly. The contracts for Green Lane are long-term, so improving the design of future contracts could lead to savings. The exact amount depends on how well future contracts are structured.

The City has existing bulk fuel purchase agreements through the Fleet Services Division. Savings may be realized by expanding the agreement to City contractors with major fleet operations, including but not limited to waste haulage. Any savings related to the implementation of our audit recommendations will be verified and included in future Annual Reports.

The audit report is available at:
<https://www.toronto.ca/legdocs/mmis/2018/au/bgrd/backgroundfile-117867.pdf>

Toronto Transit Commission – Managing Telecommunication Contracts and Payments



Telecommunication payments have a high risk of overpayments

Telecommunication costs have a high risk of overpayments due to a large volume of transactions, frequent service changes and complex price plans. Effective management of service plans and telecommunication resources can often lead to lower costs.

Audit reviewed TTC's telecommunication contracts and payments

This audit of TTC telecom contracts and payments identified opportunities for savings in the following areas:

- There were a number of unused telecommunication services at TTC. Cancelling these unused services could save up to \$250,000 a year.
- The majority of TTC wireless phone services were purchased from a vendor that did not offer the best prices and value. Potential savings of \$218,000 were identified during the audit.
- Expediting the conversion from traditional phone lines to Voice Over IP (VOIP) lines could potentially provide annual savings of approximately \$600,000.
- Staff also did not always have complete knowledge of contracts, which resulted in charges that were difficult to verify, and credits that were not obtained.

Audit identified potential annual savings of \$1.5 million

In total, the audit identified potential annual savings of \$1.5 million and one-time recoveries of \$60,000.

TTC realized \$500,000 of savings in its 2019 Budget Notes

TTC management advised that they have begun implementing the audit recommendations and incorporated annual savings of \$500,000 into their 2019 Budget Notes (p. 31). These savings are from cancelling unused telecommunication services, and acquiring wireless services from vendors offering the most competitive price plans. Over five years, this translates to \$2.5 million in cost savings.

The TTC 2019 Budget Notes are available at:

<https://www.toronto.ca/legdocs/mmis/2019/bu/bgrd/backgroundfile-123846.pdf>

The audit report is available at:

<https://www.toronto.ca/legdocs/mmis/2018/au/bgrd/backgroundfile-117559.pdf>

Potential savings of \$1 million annually from similar findings in the City's wireless agreement

Recognizing that TTC's wireless service agreement was based on the City's agreement, we expanded our review to the City's wireless services agreement. We found issues similar to TTC where the majority of wireless phone services were acquired from a vendor that did not offer the best prices and value.

The audit identified potential savings of \$1 million annually if wireless phone services are acquired from a vendor offering better prices. These savings will be verified and included in future annual reports when the related recommendations are implemented.

This audit report is available at:

<https://www.toronto.ca/legdocs/mmis/2018/au/bgrd/backgroundfile-117983.pdf>

Information Technology Audits – IT Infrastructure and IT Asset Management Review, Phase 1 and Phase 2



IT audits to determine cost optimization and operational efficiency

In 2017, our Office initiated an audit of the City's IT infrastructure and asset management. The audit was conducted in two phases.

Phase 1 focused on the overall governance and management of IT infrastructure and IT assets.

The Phase 1 audit identified the need for:

Centralized, City-wide coordinated IT strategy promotes strategic alignment

- Establishing a centralized IT governance structure that extends to agencies and corporations
- Developing a City-wide coordinated plan for IT initiatives to promote strategic alignment and reduce decentralized IT services
- Creating an accurate IT assets inventory (hardware and software)

Phase 2 focused on a more detailed review of specific projects, systems and IT asset acquisitions.

Better management of IT assets is needed

The audit identified the following issues:

- The Information Technology Asset Management (ITAM) System was unreliable because it contained incomplete and inaccurate information
- Insufficient due diligence in acquiring IT assets and solutions; we found instances where hardware and software was purchased either in excess of needs, or was not used for its intended purpose
- Significant delays in IT project implementation
- Ineffective monitoring and management of software licence usage
- The Division had not explored or implemented any new, more cost-effective IT service delivery options

A strategic technology roadmap is needed

The two reports highlighted overarching issues that require the Information & Technology Division and the City to develop and implement a Strategic Technology Roadmap. The reports also highlighted the need for a culture shift to support the Chief Information Officer's role in leading the City's Information Technology Strategy.

The reports are available at:

<https://www.toronto.ca/legdocs/mmis/2018/au/bgrd/backgroundfile-112385.pdf>

<https://www.toronto.ca/legdocs/mmis/2018/au/bgrd/backgroundfile-118363.pdf>

Recommendations will reduce IT costs and improve operational efficiencies

On page 8 of the I&T 2019 Budget, IT staff already included \$2.135 million in *"Efficiency savings in rationalization and optimization of I&T assets and costs. This includes \$1.3M to be achieved through synergies and savings from consolidating city-wide information technologies..."*

These savings will be verified during our future follow-up process and included in next year's Annual Report.

Information & Technology's 2019 Budget Notes are available at:

<https://www.toronto.ca/legdocs/mmis/2019/bu/bgrd/backgroundfile-123822.pdf>

Financial Benefits

Background

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*, formalized the establishment of the Auditor General. Section 177 of the Act requires that "The City shall appoint an Auditor General". Refer to Exhibit 1 for a list of the Auditor General's specific responsibilities.

In 2004 Audit Committee requested report on savings

At its meeting on November 23, 2004, the Audit Committee:

"requested the Auditor General to provide the value added of his department by identifying:

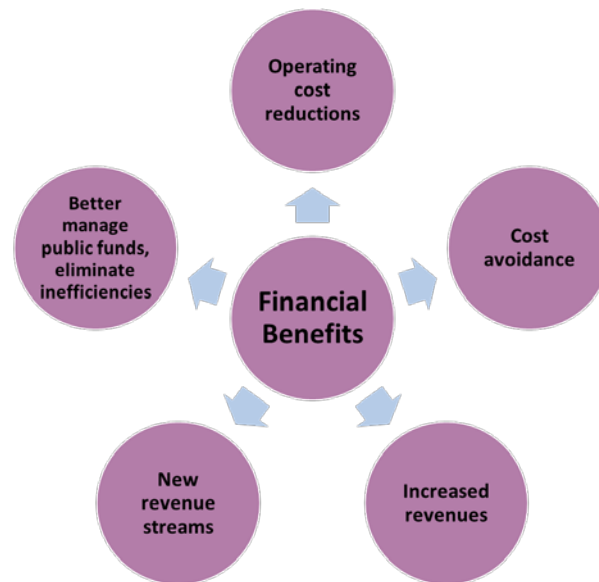
- a. actual dollar savings to the City of Toronto;*
- b. potential savings to the City of Toronto;*
- c. at risk dollars to the City of Toronto; and*
- d. for non-identifiable dollar activities, the impact of the audit review on those items."*

Types of financial benefits, or savings

The implementation of our recommendations can result in different types of financial benefits, or savings. Refer to Exhibit 3 for examples of previous audits and how they have provided various types of financial benefits to the City.

Savings can take several forms – Figure 1 illustrates the different types of quantifiable savings.

Figure 1: Types of Financial Benefits, Auditor General's Office



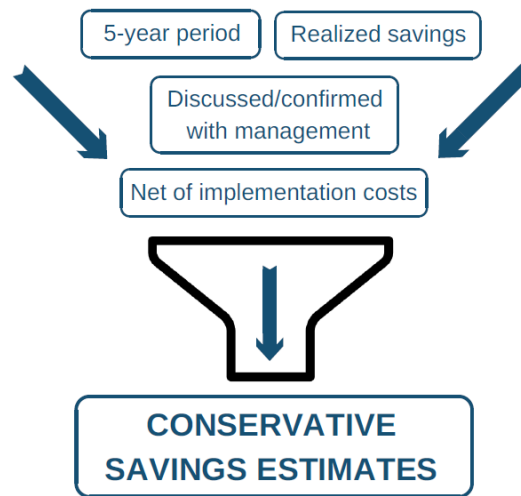
Our underlying principles in quantifying realized savings

Calculation Methodology

As illustrated in Figure 2 below, our savings estimates are calculated using the following principles:

- Only savings from implemented audit recommendations are included.
- Where savings are expected to recur annually, we only calculate five years of projected savings, even though these savings can potentially benefit the City indefinitely.
- We verify or discuss savings figures with management.
- Savings are net of implementation costs.
- Savings estimates are conservative.

Figure 2 Calculation Methodology for Five-Year Savings Estimates, Auditor General's Office:



Recommendations take into account the cost of implementation

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

Potential savings are not included in the return on investment

To ensure the estimated savings reported in our Annual Report are conservative and achievable, we do not include potential savings in our return on investment calculation. Savings are only included when management implements the related audit recommendations.

\$133 million in one-time and five-year projected savings

Realized Savings

Recommendations implemented in 2018 from four 2018 audit reports and 10 previously issued audit reports resulted in savings and revenue increases. The combined one-time and five-year projected savings from these reports and payment recoveries from fraud-related matters total \$133 million. The majority of the savings and revenue increases (approximately 89 per cent) came from reports issued between 2016 to 2018.

Table 1 provides an itemized list of these savings. A brief explanation of each audit report and estimated savings can be found on the page reference provided in Table 1.

Divisional budgets contain references to realized benefits from our audit recommendations

Table 1 also includes page references to the respective divisional budgets that speak to financial benefits from implementing our audit recommendations.

Table 1: One-time and Recurring Savings (in \$000's) Realized in 2018, Auditor General's Office

		One-time 2018/ 2019	2020	2021	2022	2023	Total	Annual Report Pg #	2019 Division Budget Pg #
Savings Realized from 2018 Audit Reports									
1	Toronto Court Services: Collection of Provincial Offence Default Fines – April 2018	\$710	-	-	-	-	\$710	5	3, 12, 20, 21
2	Toronto Transit Commission – Managing Telecommunication Contracts and Payments – May 2018	\$500	\$500	\$500	\$500	\$500	\$2,500	13	31
3	Enhance Focus on Lease Administration of City-owned Properties – June 2018	\$664	\$494	\$494	\$494	\$494	\$2,640	10	39
4	Review of the Green Lane Landfill Operations – Management of Contracts Needs Improvement– June 2018	\$970	\$970	\$970	\$970	\$970	\$4,850	12	50
Savings Realized from Prior Year Reports									
5	Review of TTC Accounts Payable Functions – September 2017	\$400	\$400	\$400	\$400	\$400	\$2,000	22	*2018 (p.21)
6	Real Estate Services Division – Restore Focus on Union Station Leasing – June 2017	\$6,697	\$1,005	\$1,005	\$1,005	\$1,005	\$10,717	22	40
7	Review of TTC Procurement Policies and Practices – May 2017	\$3,690	\$3,690	\$3,690	\$3,690	\$3,690	\$18,450	23	31 *2018 (p.21)
8	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								
9	Phase Two: Ineffective Controls and Plan Design Leaving the City Vulnerable to Potential Benefit Abuse – March 2017, (Confidential Attachment)	\$9,446	\$5,446	\$5,446	\$5,446	\$5,446	\$31,230	25	18
10	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								
11	Audit of Water Billing and Collection – Phase II: Part 2 – Management of Water Supply Contract for the Region of York (Confidential Report) - October 2016	\$4,500	\$6,000	\$7,500	\$7,500	\$7,500	\$33,000	26	32, 36
12	Audit of Water Billing and Collection, Phase I – February 2016	\$4,956	\$1,566	\$1,566	\$1,566	\$1,566	\$11,220	27	1, 15
13	Operational Review of Build Toronto Inc. – November 2014	\$1,921	\$3,038	\$3,038	\$3,038	\$3,038	\$14,073	29	*2018 (p.3)
14	City Stores: Maximize Operating Capacity to Be More Efficient – August 2012	\$695	\$45	\$45	\$45	\$45	\$875	30	15 *2018 (p.21)
Investigations of Fraud Related Matters									
	2018 Cost Recovery and Loss Prevention	\$635	\$35	\$35	\$35	\$35	\$775	31	N/A
Total One-time and Recurring Savings		\$35,784	\$23,189	\$24,689	\$24,689	\$24,689	\$133,040		

*References to efficiencies made in 2018 divisional budgets.

Our return on investment is calculated based on the most recent five years of savings estimates. Figure 3 shows the estimated savings by year (2014 to 2018). Details of the one-time and projected five-year estimated savings identified in each year are outlined in Table 2.

Figure 3 : One-Time and Projected Five-Year Estimated Savings (\$000's) by Year, 2014 to 2018, Auditor General's Office

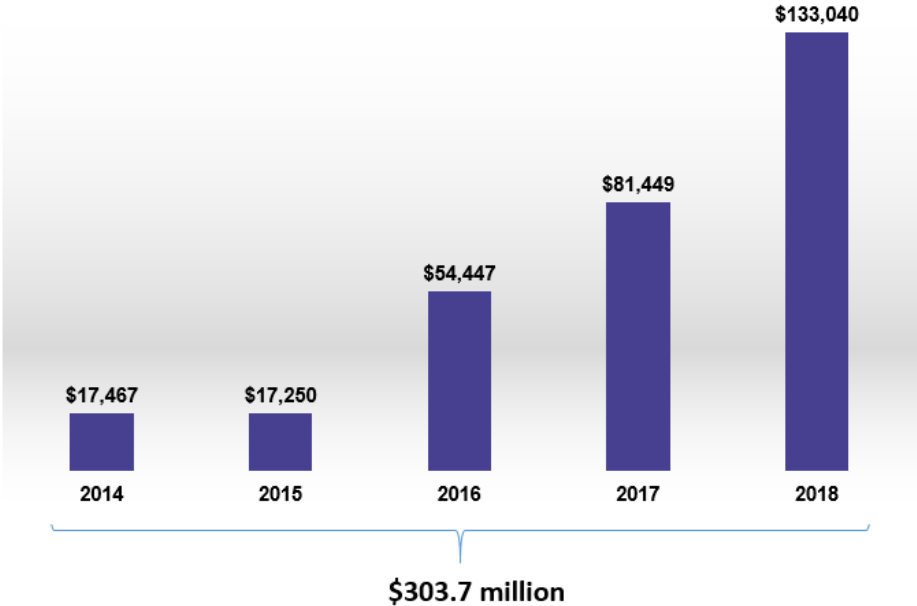


Table 2: Summary - Cumulative One-Time and Projected Five-Year Estimated Savings, 2014 to 2018, Auditor General's Office

ESTIMATED SAVINGS \$000's						
Year of Savings	Year of Annual Report					Total
	2014	2015	2016	2017	2018	
	\$	\$	\$	\$	\$	\$
2014	1,776					1,776
2015	3,173	4,044				7,217
2016	3,141	3,189	11,849			18,179
2017	3,141	3,032	8,385	11,479		26,037
2018	3,141	3,032	9,839	13,607	14,095	43,714
2019	3,095	3,032	9,872	14,237	21,689	51,925
2020		921	9,907	14,237	23,189	48,254
2021			4,595	14,237	24,689	43,521
2022				13,652	24,689	38,341
2023					24,689	24,689
Total	\$17,467	\$17,250	\$54,447	\$81,449	\$133,040	\$303,653

Return on Investment

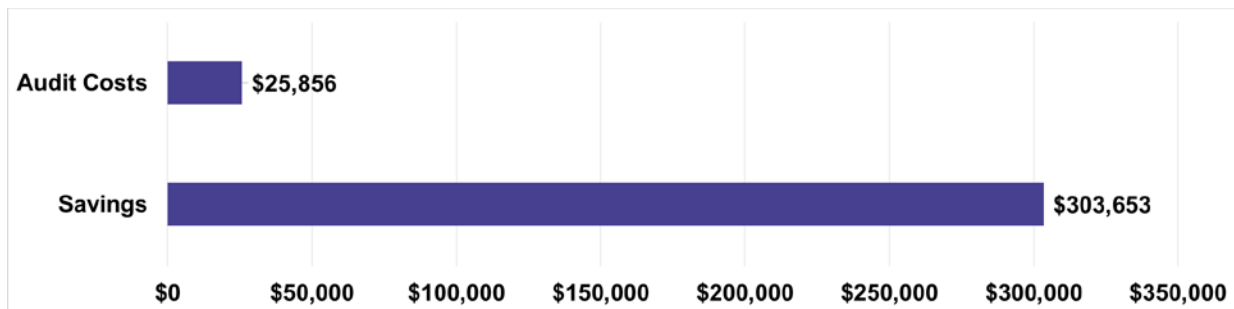
Five-year comparison of audit costs and realized savings

We calculate the return on every dollar invested in our Office by comparing the ratio of five-year audit costs to the cumulative estimated five-year realized savings. Figure 4 illustrates this comparison for 2014 to 2018.

\$303.7 million in cost savings and revenue increases over last five years

Our cumulative Office expenditures were \$25.9 million for the years 2014 to 2018. As illustrated in Table 2, the estimated one-time and projected five-year savings (cost reductions and revenue increases) over the same period were approximately \$303.7 million.

Figure 4: Five-Year Audit Costs Compared to Estimated Realized Savings (\$000's), 2014 to 2018, Auditor General's Office



\$11.7 return on investment for every \$1 invested in our Office

From 2014 to 2018, every \$1 invested in our Office provided a return on investment of approximately \$11.7.

Our Office is required to report on savings and other benefits associated with our audits and investigations. Management has been helpful in providing the information we need to estimate these figures.

A consistent process to report financial benefits stemming from Auditor General's reports in divisional budgets

As illustrated in Table 1, and throughout this Annual Report, management has already specified in their divisional budgets where implementation of audit recommendations have resulted in savings, efficiencies or new revenues. However, there is a need to formalize this process so that the savings and other benefits stemming from the Auditor General's reports are clearly noted in divisional budgets. This will help the Auditor General comply with the reporting requirements set by the Audit Committee and more importantly, provide the Audit Committee and City Council with accurate and complete information.

Prior Reports with Savings Realized in 2018

Due to the nature of audit projects, many of our recommendations can result in savings being realized in years subsequent to the report release date. The timing depends on factors such as scope and complexity of the recommendations, speed of implementation, and in some cases, time elapsed for effects to become observable. This section provides a brief overview of audit reports released in 2017 and earlier which resulted in financial benefits (savings, revenue increases, and cost avoidance) realized in 2018.

Review of Toronto Transit Commission Accounts Payable Functions: Improving Invoice Verification and Vendor Account Management, September 2017

TTC procures \$1.2 billion in goods and services each year The Toronto Transit Commission (TTC) procures approximately \$1.2 billion worth of goods and services each year for day-to-day operations.

Audit objective was to assess TTC's payment controls The objective of this audit was to assess TTC's payment controls. The audit identified that the TTC could reduce its day-to-day purchase costs by ensuring an adequate, thorough review and verification of invoice charges. In response to our audit, TTC management have been making efforts to address early payment discounts, verify invoice accuracy, and identify and prevent duplicate payments.

Management included \$400,000 as part of efficiency savings in 2018 TTC budget report By implementing our audit recommendations, management advised that they had already saved \$400,000 in 2018. This was reflected as an efficiency saving in the TTC's 2018 budget report, but due to report timing, did not make it into our 2017 Annual Report. Over five years, this translates to \$2 million in savings related to efficiencies in accounts payable processes. Any additional savings from fully implementing our audit recommendations will be recognized in future Annual Reports.

The TTC's 2018 Operating and Capital Budget presentation (p. 21) is available at:

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

The audit report is available at:

<https://www.toronto.ca/legdocs/mmis/2017/au/bgrd/backgroundfile-108077.pdf>

Real Estate Services Division – Restore Focus on Union Station Leasing, June 2017

Audit of Union Station leases to ensure all leasing revenue was settled with occupants Leasing revenue generally includes the collection of rent and the recovery of operating costs by a landlord. The 2017 audit identified unbilled and uncollected leasing revenue owed to the City.

City is contractually required to calculate, bill, 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.

Audit identified City was not fully recovering Station operating expenses

Between 2012 and 2016, the City received installment payments from tenants that covered a portion of the Station's operating costs. However Real Estate Services staff had not settled the full amount of actual recoverable costs with Station occupants for more than four years. The audit report contained recommendations to finalize, record, and collect outstanding operating expenses owed to the City.

City received \$5.7 million in one-time payments to settle past due operating costs

The audit highlighted that at least four years had elapsed since the City's last settlement with anchor occupants at Union Station. Our audit motivated City staff to promptly finalize and communicate the amount owing to the City. To date, City staff have collected \$5.7 million in payments (excluding HST). Our Office will verify the completeness and accuracy of the final settlements during our next audit recommendation follow-up process.

Payments to cover Station operating costs will increase \$1 million annually

Subsequent to the audit, City staff notified tenants of the increase in required monthly instalment payments. As a result, the City corrected the recording of revenues and receivables in the City's financial information system. This resulted in an annual net cash flow impact of \$1 million. This inflow can help fund in-year Station operating costs.

The Division's 2019 Budget Notes (p. 40) also reflect the actions management took in response to our audit recommendations to recover Station operating costs. Over five years, the combined increase in one-time and annual recurring collections total approximately \$10.7 million.

Facilities, Real Estate, Environment & Energy, 2019 Budget Notes: <https://www.toronto.ca/legdocs/mmis/2019/bu/bgrd/backgroundfile-123820.pdf>

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

Review of Toronto Transit Commission Procurement Policies and Practices: Improving Materials Management and Purchasing Policies Can Potentially Result in Significant Savings, May 2017

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

The Toronto Transit Commission's (TTC) Materials and Procurement Department procures over \$300 million in goods and services every year for TTC's day-to-day operations.

Audit Objective	The objective of the 2017 audit was to assess whether TTC's procurement policies, procedures and practices were fair, transparent, and cost-effective.
Procurement practices need improvement	<p>The audit identified a number of areas requiring improvement:</p> <ul style="list-style-type: none"> • Vehicles out of service due to chronic parts shortages • Non-competitive and inefficient procurements • Warranties not claimed for after-market parts • Improving retrieval and tracking of cores³ • Paying higher prices for proprietary products that could have been substituted with comparable alternate products • Expanding the use of blanket contracts to take advantage of volume discounts.
External consultant's savings estimate aligned with audit estimates	The audit estimated potential annual savings in the range of \$8 to \$16.5 million. In response to the Audit Committee recommendation, TTC retained an external consulting firm (Ernst & Young) to review its existing policies and procedures to benchmark transit industry best practices. E&Y's results aligned with our audit recommendations and reported similar savings estimates in the near-future (three to five years).
2018 and 2019 TTC budgets already reflect efficiencies	TTC reflected \$2.19 million in annual cost reductions in its 2018 Operating Budget (p. 21 of TTC budget presentation). These reductions relate to the increased use of blanket orders, better management of cores, and efficiencies in the aftermarket warranty program. TTC further reported an additional \$1.5 million in savings related to these efficiencies in their 2019 Budget Notes (p. 31).
Almost \$18.5 million in savings over five years	<p>On a recurring basis, TTC will achieve \$3.69 million in annual cost savings, and savings of about \$18.45 million over five years. These savings are included for the first time in our Annual Report. Continued implementation of the audit recommendations may result in further savings in future years.</p> <p>The TTC's 2018 Operating and Capital Budget presentation is available at: https://www.toronto.ca/legdocs/mmis/2017/bu/bgrd/backgroundfile-109933.pdf</p> <p>The TTC 2019 Budget Notes are available at: https://www.toronto.ca/legdocs/mmis/2019/bu/bgrd/backgroundfile-123846.pdf</p> <p>The audit report is available at: https://www.toronto.ca/legdocs/mmis/2017/au/bgrd/backgroundfile-105264.pdf</p>

³ Certain types of vehicle parts can be recycled or re-manufactured. These are referred to as cores.
<https://www.napaonline.com/en/what-is-a-core>

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 (Confidential Attachment)**
- **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**

City spent \$229 million to provide employee health benefits in 2015

In 2015, the City spent approximately \$229 million to provide employee benefits including health, dental, group life insurance and Long-Term Disability (LTD) benefits coverage. Given the significant expenses involved, our Office conducted a series of reviews on various aspects of employee benefits.

3 audit reports identified unusual and potentially excessive claims and dispensing patterns

We issued three audit reports on the City's employee extended health benefits in 2016 and 2017. The first and supplementary reports focused on drug benefits. These reports identified a series of unusual claims and dispensing patterns for controlled substances, and cases of potentially excessive claims for erectile dysfunction drugs.

The audit and supplementary 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-105243.pdf>

Key administrator controls were not fully applied or insufficient

The Phase Two report focused on extended health care benefits such as professional services and medical equipment. The audit found unusual claim patterns and other potential indicators of benefits waste or abuse, particularly with regards to paramedical (e.g., physiotherapist, massage therapist, chiropractor) and medical equipment claims (e.g., orthotics, orthopedic shoes, compression stockings, medical braces). The audit also found that key administrator controls were not fully applied or were insufficient, and there was limited system capacity to detect provider fraud.

The audit report is available at:

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

Audit findings have a deterrent effect

The public communication of our audit findings had a deterrent effect on employees' health benefits claim behavior. In 2017, the City transitioned the administration of its health benefits program to a new administrator with tighter adjudication controls. Findings from the audits contributed to more rigorous control requirements expected from the new administrator, and more robust oversight by the staff in the City's Pension, Payroll & Employee Benefits Division (PPEB). These factors collaboratively contributed to a significant reduction in health benefit costs subsequent to the audit. The Office of the Controller's 2019 Budget Notes (p. 18) also mention this improvement.

The Office of the Controller's 2019 Budget Notes are available at: <https://www.toronto.ca/legdocs/mmis/2019/bu/bgrd/backgroundfile-123825.pdf>

\$5.4 million decrease in average annual claims costs under the new benefits administrator

We noted an average annual reduction of \$5.45 million⁴ 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 those paid in 2017 and 2018 (under the new administrator).

Better oversight and controls to manage claims should continue by staff going forward

Going forward, we appreciate that external factors out of PPEB's control could vary yearly claims reimbursement costs (i.e. aging population and unpredictable claim costs). However, the benefits that come from improved oversight by staff and more robust administrator controls should continue on into the future.

Audit of Water Billing and Collection – Phase II: Part 2 – Management of Water Supply Contract for the Region of York, October 13, 2016

Review of water supply contract with Region of York

The City of Toronto has been supplying water to the Region of York (York) since before amalgamation. In 2016, we conducted a review of the City's 20-year water supply contract with York (expiring in 2025). Our audit reviewed the process of determining the billing rate for the supply of water to York. Our findings and recommendations were issued in a confidential attachment to the report.

The public report is available at: <https://www.toronto.ca/legdocs/mmis/2016/au/bgrd/backgroundfile-97423.pdf>

⁴ The changes in dental claims are not included in this comparison, as our audit did not look at dental benefits. In addition, our savings estimate does not include the reduced benefit cost as a result of the OHIP drug coverage change for child drug claims to age 24 (commencing January 1, 2018).

Audit identified changing economic and environmental factors that would impact the water pricing model

Our audit identified that since the contract was executed (in 2005), several economic and environmental factors that impact the water pricing model have changed. These include the continued aging of water infrastructure and changes in consumer water consumption behavior.

City renegotiated a new water supply contract

During our 2018 recommendation follow-up, we verified full implementation of all five audit recommendations. In January 2019, the City successfully re-negotiated a new water supply contract with York.

\$33 million in increased revenues over 5 years

The Council of The Regional Municipality of York adopted its staff report on January 31, 2019. Based on information contained in the York Region staff report, over five years, the City will generate an additional \$33 million in new revenues.

The Regional Municipality of York staff report is available at: <https://yorkpublishing.escribemeetings.com/filestream.ashx?DocumentId=1616>

Increased revenues will be reflected in Toronto Water's future budget submissions

Due to the pending contract negotiations during budget submission deadlines, Toronto Water's 2019 Budget Notes did not include the full extent of the amounts related to this contract. The Budget Notes did however make reference to the contract negotiation and estimated increase in revenue in accordance with our audit recommendations (p. 32 and p. 36).

Toronto Water's 2019 Budget Notes are available at: <https://www.toronto.ca/legdocs/mmis/2019/bu/bgrd/backgroundfile-123935.pdf>

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

Improvement needed in collection efforts of delinquent water accounts

The focus of this audit was to determine whether all properties had water meters and if customers were being billed appropriately. The audit identified a number of water accounts for which little to no payment was received. In addition, several water accounts had overdue balances accumulate over a long period of time. The audit noted that recovery efforts, including proactive review, follow-up, and reporting of delinquent accounts were inadequate.

Audit facilitated immediate implementation of Council directive

One of the audit recommendations required the follow-up of past-due accounts and the implementation of a 2012 City Council directive for transferring outstanding condominium water bills to the tax accounts of individual unit owners.

\$3.4 million one-time recovery from high risk delinquent condominium accounts

At the time of our audit, as of December 31, 2015, approximately \$4.9 million in accounts receivable were past due for water service provided to certain condominiums. Due to actions taken by Revenue Services staff to implement the audit recommendation, management advised that they successfully collected \$3.4 million. This is in addition to the \$1 million collected in 2016 (already included in our 2016 Annual Report).

Condo account collections have increased

Due to an overall improvement in collection efforts and particular focus on these high-risk condominium accounts, we noted year-over-year improvement in collection rates of current billings for these properties.

Improved collections of \$1.5 million annually

Implementing our audit recommendations has resulted in a change in customer payment behavior. Using the improved collection rates, we conservatively estimate \$1.54 million each year from improved collections of outstanding water bills that might otherwise have become long overdue and potentially written off. Management acknowledged the improved collections in the Office of the Controller's 2019 Budget Notes (p. 1).

The Office of the Controller's 2019 Budget Notes are available at: <https://www.toronto.ca/legdocs/mmis/2019/bu/bgrd/backgroundfile-123825.pdf>

New user fee to be added

There will also be a \$25,000 annual increase in user fee revenue. This fee will be added to overdue accounts when unpaid water bill balances are transferred to property tax accounts. Management advised that this fee is reflected in the Office of the Controller's 2019 Budget Notes (p. 15). The annual recurring impact from improved collections and the new user fee is \$1.56 million.

\$11.2 million over five years from improved collections and new user fees

Over five years, the quantifiable benefits from implementing our audit recommendations will result in over \$11.2 million⁵ in combined one-time and annual recurring benefits.

The audit report is available at: <http://www.toronto.ca/legdocs/mmis/2016/au/bgrd/backgroundfile-90687.pdf>

⁵ Sum of one-time and 2018/2019 annual is \$4.956 million (\$3.4million + \$1.54million + \$0.025 million)

Operational Review of Build Toronto Inc., November 2014

In 2012, City Council requested the Auditor General conduct a value for money audit of Build Toronto. Our Office completed this audit in 2014⁶. The results of the audit were considered by Build Toronto's Financial, Audit and Risk Management Committee in November 2014 and its Board in January 2015.

Our Office has repeatedly reported on the benefits of better coordination between the City, its agencies and corporations

To achieve cost savings and operational efficiencies, the 2014 Build Toronto audit recommended sharing administrative functions with other City agencies, including Toronto Port Lands Company (TPLC). Prior to this, a 2011 Auditor General's report⁷ also highlighted the opportunity for significant cost savings from closer co-operation and coordination of real estate management between the City, its agencies and its corporations. KPMG LLP's 2013 Shared Services Efficiency Study⁸ further reiterated our Office's recommendations for a shared service approach.

In May 2015, City Council adopted recommendations to establish an expert advisory panel to review opportunities to coordinate and/or consolidate real estate operations conducted by City agencies, corporations and divisions. This review was to evaluate recommendations made by KPMG LLP and the Auditor General.

Almost \$14.1 million over five years in efficiency savings from consolidating Build Toronto and TPLC

As part of this initiative, Build Toronto and TPLC consolidated their operations into a new agency ("CreateTO"). Management estimated that the consolidation will result in \$3.038 million in annual realized savings, less one-time setup costs of \$1.117 million. These efficiency savings were highlighted in CreateTO's 2018 Operating Budget Notes (p. 3). Over five years, implementation of this audit recommendation will generate almost \$14.1 million in efficiency savings.

The 2018 Operating Budget Notes are available at:
<https://www.toronto.ca/wp-content/uploads/2017/12/8b5a-TRA-2018-Op-Budget-Notes-V2.pdf>

The audit report is available at:
<https://www.toronto.ca/legdocs/mmis/2015/au/bgrd/backgroundfile-76203.pdf>

⁶ <https://www.toronto.ca/legdocs/mmis/2015/au/bgrd/backgroundfile-76203.pdf>

⁷ <https://www.toronto.ca/legdocs/mmis/2011/au/bgrd/backgroundfile-42381.pdf>

⁸ <https://www.toronto.ca/legdocs/mmis/2013/ex/bgrd/backgroundfile-58362.pdf>

City Stores: Maximize Operating Capacity to Be More Efficient, 2012

PMMD manages City stores

In 2012, our Office issued an audit report on the acquisition, storage and distribution of corporate materials. These sites or facilities are known as City Stores. The Materials Management Stores and Distribution Unit in the Purchasing & Materials Management Division (PMMD) manages this function for the City.

\$650,000 inventory cost reduction achieved in 2018 from stores consolidation

In order to achieve corporate efficiencies, the audit recommended management examine opportunities to review and consider consolidating operations in both City and divisional stores. As reflected in the Office of the Controller's 2019 Budget Notes (p. 15), the consolidation of the Ellesmere store in 2018 *"resulted in an inventory cost reduction of approx. \$650,000 and helped improve the turnover rate of the City's inventory"*. Management also included annual savings of \$45,000 in operational efficiencies in their 2018 Operating Budget Notes (p. 21).

The Office of the Controller's 2019 Budget Notes are available at: <https://www.toronto.ca/legdocs/mmis/2019/bu/bgrd/backgroundfile-123825.pdf>

The Office of the Treasurer's 2018 Budget Notes are available at: <https://www.toronto.ca/wp-content/uploads/2018/06/8e99-Treasurer-2018-Op-Public-Book.pdf>

Five-year savings of \$875,000

Over five years, the City will achieve \$875,000 in one-time and annual recurring savings from this one City store consolidation. We are aware that the City is continuing to work on consolidating store operations and will likely achieve more efficiencies in the future. We will review and include in future Annual Reports any additional savings that come from further consolidation.

The audit report is available at: <http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2012.AU9.10>

Other Activities in 2018

Impact of the Fraud and Waste Hotline Program

Forensic Unit conducts and provides oversight over investigations The City of Toronto’s Fraud and Waste Hotline Program is operated by our Office’s Forensic Unit. The Forensic Unit conducts investigations and provides oversight of management-led investigations. Without the Hotline Program, certain losses from incidents of fraud and waste might not have been identified or recovered.

643 complaints containing approximately 1,000 allegations Prevention and detection remain key components in managing business risk, which may result in direct financial losses and indirect costs such as additional management resources to investigate and mitigate wrongdoing. In 2018, the Hotline Program received 643 complaints, consisting of approximately 1,000 allegations.

2018 quantifiable financial benefits included one-time cost recovery and prevention of future losses For complaints that are identified by divisional management and referred to the Hotline Program, their associated savings and cost recovery are not included in our 2018 savings calculations. This is in keeping with our conservative approach in reporting savings in this report.

Five-year savings of \$775,000 from Fraud and Waste Hotline complaints 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 \$600,000 and \$35,000 respectively. Over five years, the City will save approximately \$775,000. The 2018 Annual Report on the Fraud and Waste Hotline will be tabled for consideration at the February 22, 2019 Audit Committee meeting.

Follow-up on Implementation of Audit Recommendations

Annual audit recommendation follow-up City Council is responsible for ensuring that agreed-upon recommended changes and improvements from our audits and investigations are implemented. The Auditor General assists Council in exercising this responsibility through an annual recommendation follow-up process.

This process is included in the Auditor General’s annual Work Plan.

Results of recommendation follow-up are reported to Audit Committee Each year, our Office forwards a list of outstanding audit recommendations to the relevant management of City divisions, agencies and corporations. Management responds with information detailing actions taken and recommendations implemented. Our Office verifies information provided by management and reports these follow-up results to Audit Committee.

Exhibit 4 outlines the implementation status of audit recommendations that our Office verified during the 2018 follow-up process.

2018 consolidated results

The consolidated results of our 2018 follow-up process will be tabled at the February 22, 2019 Audit Committee.

Oversee City Financial Statement Audit

Oversee external financial statement (attest) audit

In accordance with the audit framework policy approved by City Council in 2002, our Office also oversees the work and the contract of the external auditors performing annual financial statement audits of the City and its local boards.

The consolidated reports were presented to the Audit Committee at its meeting on July 13, 2018.

<http://app.toronto.ca/tmmis/viewPublishedReport.do?function=getDecisionDocumentReport&meetingId=13710>

Our Profession, Our Community

Professional Standards

Audits in accordance with Generally Accepted Government Auditing Standards

We conduct our work in accordance with Generally Accepted Government Auditing Standards (the standards). This ensures that our work is independent and objective, and that our conclusions are supported by sufficient, appropriate evidence.

Our staff come from a wide variety of professional backgrounds and experience. Additionally, we provide continuous training opportunities for staff to develop new skills and stay on top of evolving trends. This helps ensure that the Office possesses the collective competence required to perform its duties, as required by the standards.

Details of staff qualifications are available on our website:

<https://www.toronto.ca/city-government/accountability-operations-customer-service/accountability-officers/auditor-general/about-the-auditor-general/how-is-the-auditor-generals-office-staffed/>

Audit staff are also bound by the standards and ethics of their respective professional organizations, which include the Chartered Professional Accountants of Canada (CPA), the Information Systems Audit and Control Association, the Association of Certified Fraud Examiners, and the Institute of Internal Auditors.

City of Toronto's Auditor General's Office is CPA Approved

We are CPA Pre-approved!

In 2018, our Office established a CPA pre-approved training program for students to complete their CPA certification program's practical experience requirement. The program will aid us in attracting and developing talent.

Audit Quality

Our Office undergoes an external quality assurance review every 3 years

Audit organizations that perform audits in accordance with the standards are required to undergo an external quality assurance review every three years. The review provides independent assurance that the Office's internal quality control system is operating effectively.

A successful external peer review of our audit files



Following its review by the international peer review team, our Office received the highest possible rating on its external quality assurance review – the fifth time the Office has received this rating. The results of the 2018 External Quality Assurance Review will be presented at the February 22, 2019 Audit Committee meeting.

Annual independent external audit of our Office

The City Manager's Office also engages an independent external auditor to audit our Office annually. The purpose of the audit is to ensure that our expenditures are in compliance with City policies.

The compliance report for the year ended December 31, 2017 found no exceptions and was presented to the Audit Committee on July 23, 2018.

The report issued by the independent external auditor is available at: <https://www.toronto.ca/legdocs/mmis/2018/au/bgrd/backgroundfile-116386.pdf>

Sharing Our Knowledge

Share our expertise and learn from mutual experiences

We pride ourselves on being at the forefront of our profession. We regularly engage with our counterparts from other jurisdictions in Canada and around the world in order to share our expertise and learn from mutual experiences.

Presentations to other municipal audit offices on the results of our fire investigation

At the Municipal Internal Auditors Association Fall Conference, the Auditor General co-presented with the City's Deputy Fire Chief Jim Jessop on the investigation process for a recent case involving potentially fraudulent vendor practices. This brought awareness to other government audit offices of our findings and investigation approach.

Examples of 2018 presentations and consultations

During 2018, we also:

- Presented the common themes our Office uses to identify and quantify savings in our performance audits at the Association of Local Government Auditors Annual Conference.
- Presented at the Five Eyes defence agencies' *Fraud and Anti-Corruption Network (FACNET)* Forum.
- Presented to a delegation from the Office of Audit and Control, Gang-Won Province, Republic of Korea on our Office's audit and investigation approach.
- Provided consultations to various North American municipal audit offices in planning their information technology audits, data analytics and continuous controls monitoring projects.
- Led an independent peer review of the City Auditor's Office, City of Berkeley, California.
- Contributed to the Canadian Audit & Accountability Foundation's discussion paper on our Office's approach to measuring and reporting the impact of performance audits.

Sharing knowledge to remain on top of evolving trends in the audit profession

In sharing our knowledge and experience with our peers, we also benefit from their respective expertise; this allows us to grow our mutual knowledge base, advance the profession, and remain on top of evolving trends, technology, and regulations.

Our recommendations were incorporated into Transportation Services' standard practices

Worthwhile mentioning is the Transportation Services Division's win of the Innovative Management Practices award from the Ontario Good Roads Association. We are delighted that Transportation Services has incorporated our key recommendations on historical trend analysis, unbalanced and reverse bid analysis, and engineering estimates into their standard contract management practices.

Giving Back to our Community

Our Office continues to support the City of Toronto's United Way campaign. In September we participated in the Civic Run and fire truck pull, raising money for this worthy cause.



In August, a fire in the St. James Town area caused hundreds of children to be displaced from their homes. Joining local community groups, our Office assembled and donated 10 backpacks full of snacks and school supplies to help alleviate some of the stress as children began their school year.



Staff got into the holiday spirit by supporting the City's Holiday Toy & Food Drive, donating to support those in need.



2019 and Beyond

2019 Audit Work Plan

The purpose of any audit process is not specifically to identify cost reductions or revenue increases, although some of our audits have resulted in financial benefits. In developing her Audit Work Plan, the Auditor General uses a risk-based audit approach. The Audit Work Plan provides an overview of how resources allocated to our Office are used during the year.

Example of planned audit projects

Our Office will present the 2019 Audit Work Plan at the first Audit Committee meeting in 2019 (February 22, 2019). Planned projects in 2019 include:

- Winter maintenance contracts
- Affordable housing
- Administrative penalty system
- Parks, Forestry & Recreation
- TTC Revenue Operations – Phase 2
- Information technology audit

2019 activities

Our Office will continue to enhance the quality of our work through the following activities:

- Implement a new audit electronic working paper system
- Begin the next City-wide risk assessment
- Mentor staff working towards their CPA designations
- Continue knowledge sharing with other government audit offices.

Conclusion

2018 at a glance

Our Office issued 13 performance audit and investigation reports in 2018. We also completed our annual follow-up of the status of recommendations, and operated the Fraud and Waste Hotline.

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.

\$11.7 saved for every dollar invested in the Office

The estimated cumulative savings for the five years commencing January 1, 2014, are approximately \$303.7 million. The total audit cost for the same period is approximately \$25.9 million. This means that for every \$1 invested in our Office, the return on this investment was approximately \$11.7.

Audits and investigations result in significant financial and non-quantifiable benefits

As illustrated throughout this Annual Report, audits and investigations result in significant financial benefits and non-quantifiable benefits. These include the avoidance of future costs, a more efficient and effective City, and the protection of City assets.

Management's commitment to addressing recommendations achieves savings

We would like to express our gratitude to City staff and management for their cooperation and valuable input during our respective engagements, and their willingness to consider and adapt to the changes brought forth by our recommendations. We look forward to continuously working together with all management and staff in 2019 and beyond.

EXHIBIT 1: Mandated Responsibilities of the Auditor General

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:

- Reporting to City Council on annual Office activities, including savings achieved
- Conducting audit projects identified by the Auditor General, or approved by a two-thirds majority resolution of City Council
- 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.

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:

- Operating the Fraud and Waste Hotline Program, including the referral of issues to divisional management.
- 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:

- Overseeing the work and the contract of the external auditors performing financial statement audits of the City and its local boards.
- Coordinating audit activities with the City'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.
- Coordinating activities with the City's three other Accountability Officers: the Ombudsman, the Lobbyist Registrar and the Integrity Commissioner.

EXHIBIT 2: Reports Issued in 2018

2018 Audit and Investigative Reports*:

- Raising the Alarm: Fraud Investigation of a Vendor Providing Life Safety Inspection Services to the City of Toronto
- Review of Urban Forestry – Permit Issuance and Tree By-law Enforcement Require Significant Improvement
- Enhance Focus on Lease Administration of City-owned Properties
- Review of the Green Lane Landfill Operations – Management of Contracts Needs Improvement
- Information Technology Infrastructure and Asset Management Review: Phase 2: Establishing Processes for Improved Due Diligence, Monitoring and Reporting for Effective IT Projects and Asset Management
- Improvement Needed in Managing the City’s Wireless Telecommunication Contracts
- Engineering and Construction Services, Phase One: Controls over Substantial Performance and Warranty Inspection Processes Should be Strengthened
- Review of Toronto Transit Commission Employee Expenses and Reward and Recognition Programs: Opportunities to Improve Policies and Controls and Save Costs
- Toronto Transit Commission: Managing Telecommunication Contracts and Payments
- Children’s Services Division: Opportunities to Achieve Greater Value for Child Care From Public Funds
- Toronto Court Services: Collection of Provincial Offence Default Fines
- Review of Toronto Transit Commission Procurement Policies and Practices: A Case Study to Improve Future Wheel-Trans Accessible Taxi Services Procurement
- IT Infrastructure and IT Asset Management Review: Phase 1: Establishing an Information Technology Roadmap to Guide the Way Forward for Infrastructure and Asset Management

2018 Annual Reports:

- 2017 Annual Report on the Fraud and Waste Hotline
- 2017 Annual Report - Demonstrating the Value of the Auditor General's Office

2018 Recommendation Follow-up Reports:

- Auditor General’s 2018 Status Report on Outstanding Audit Recommendations for Divisions in Cluster A and the City Manager’s Office
- Auditor General's 2018 Status Report on Outstanding Audit Recommendations - City Divisions in Cluster B
- Auditor General’s 2018 Status Report on Outstanding Audit Recommendations for City Agencies and Corporations

** Note: There was no Audit Committee meeting in the second half of 2018 due to the municipal elections.*

EXHIBIT 3: Examples of How Audit Recommendations Benefit the City

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

Increase City revenues, develop new revenue streams, and reduce operating costs		
Increase City revenues	2018 Enhance Focus on Lease Administration of City-owned Properties	By renewing an expired lease at market rates in a timely manner, the City will receive \$420,000 in new annual rent revenue. Combined with utility cost savings, over five years, this will result in savings and increased revenues of \$2.6 million.
	2016 Water Supply Contract for the Region of York	The City successfully negotiated a new water supply contract with the Region of York which will generate additional annual revenue and also contribute towards improvement of water infrastructure. Over five years, the City is estimated to increase revenues by over \$33 million.
	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.
Develop new revenue streams	2018 Court Services Review	By using improved data analytics processes to match debtors with defaulted Provincial Offences Act fines to properties information, the City was able to add \$710,000 in fines to debtors' property tax rolls.
	2011 Audit of Police Parking Enforcement Review	\$3 million annually in new revenue to the City by enabling Parking Enforcement Officers to enforce licence 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.
Reduce operating costs	2018 Review of the Green Lane Landfill Operations	During 2018, Solid Waste Division re-balanced the tonnage of waste sent to the Green Lane landfill versus third party

		landfill sites. This will result in approximately \$970,000 in annual cost savings.
	2017 and 2016 Audit of Employee Health Benefits	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 collectively contributed to a \$5.45 million reduction in health benefits costs subsequent to the audit.
	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.
	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 use 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	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.

	Warranty Administration	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)	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. This new process likely contributed to half of the net savings from improved overtime monitoring (annualized estimate of \$400,000).
	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	2017 Review of TTC Procurement Policies and Practices	TTC has already achieved annual savings of \$3.69 million related to improved procurement processes (including blanket orders, better core management practices, and improvements to the aftermarket warranty program). These initiatives result in savings of \$18.45 million over five years.
	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: 2018 Follow-up Results on Outstanding Audit Recommendations

The table below summarizes the implementation status of all applicable recommendations issued by the Auditor General's Office from inception (January 1999) to December 31, 2016. Recommendations issued by the Auditor General's Forensic Unit are also included in the respective City division's follow-up results.

2018 Follow-Up Review Results - Status of all Recommendations for Reports Issued from Inception to December 31, 2016

	Fully Implemented	Not Fully Implemented	Total
Community and Social Services (Former Cluster A)	246 (95%)	12 (5%)	258
Infrastructure and Development (Former Cluster B)	431 (94%)	26 (6%)	457
Corporate Services (Former Cluster C)	370 (83%)	74 (17%)	444
Finance and Treasury Services (Former Chief Financial Officer)	352 (85%)	62 (15%)	414
City Manager's Office	225 (90%)	26 (10%)	251
Agencies and Corporations	565 (91%)	59 (9%)	624
Total Recommendations	2189 (89%)	259 (11%)	2448

The Auditor General's 2018 Status Reports on Follow-up of Outstanding Audit Recommendations are available at:

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

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

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

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