TORONTO

REPORT FOR ACTION

Process to Track and Report on the Implementation of Outstanding Auditor General Recommendations

Date: October 2, 2019
To: Audit Committee
From: City Manager
Wards: All

SUMMARY

At its meeting of June 28, 2019, the Audit Committee directed staff to report back on a process to track and report the progress on management's implementation and target completion date of outstanding recommendations, with emphasis on those identified by the Auditor General as items of greatest concern. This report responds to this request for information and presents an overview of a proposed process.

Internal Audit will compile a database of all outstanding council approved recommendations issued to management by the Auditor General. This will include recommendations from audits, investigations, Fraud and Waste Hotline reports and those added by Audit Committee. On a quarterly bases Internal Audit will solicit updates from management and prepare a report to Audit Committee on management's assessed progress on the implementation of the recommendations. The report will provide detailed action taken on the implementation of recommendations of greatest concern.

It is expected that the first quarterly report will be tabled at the February 2020 Audit Committee meeting.

RECOMMENDATIONS

The City Manager recommends that the Audit Committee receive this report for information.

FINANCIAL IMPACT

The information contained in this report has no financial impact.

DECISION HISTORY

On June 28, 2019, Audit Committee passed a motion to report to the October 25, 2019 meeting of the Audit Committee on a process to track and report on a quarterly basis, progress on management's implementation and target completion date of outstanding audit recommendations, with emphasis on those identified by the Auditor General as items of greatest concern.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.AU3.10

COMMENTS

Background

In order to fulfill its mandate, the Auditor General's Office completes audits and investigations. The resulting reports provide recommendations to management to improve internal controls, policies and procedures, use of city resources and operational efficiencies. The recommendations may also have a financial benefit to the City once implemented. The Auditor General (AG) quantifies potential financial benefits within its reports, where applicable, and when recommendations are implemented the financial benefits realized are reported in the Auditor General's Annual Report demonstrating the value of the office. To ensure these financial benefits or operational efficiencies are realized, management must be held accountable to implement the recommendations in a timely manner.

The AG performs an annual follow up review to determine the implementation status of recommendations in previously issued reports. Once the AG has verified that a recommendation has been implemented the status will be changed to fully implemented. The results of these reviews are reported through Audit Committee.

As part of the follow up process the AG highlights noteworthy recommendations, such as those that have been persistently delayed in implementation and those that have resulted in significant financial or non-financial benefits after implementation. In response to an Audit Committee request, the AG summarized the high-priority outstanding recommendations issued to City divisions in the "*Auditor Generals Response to the Audit Committees request on the Outstanding Audit Recommendations which are of Greatest Concern*" report to the May 3, 2019 Audit Committee. The report highlighted 30 high priority recommendations, of which 4 are confidential, and 60 recommendations that remain outstanding for 5 years or longer.

For the 2019 annual follow up process, the AG includes all outstanding recommendations from reports issued prior to December 31, 2017. This gap allows management the opportunity to take appropriate action to implement the recommendations. In 2020, the AG will include all outstanding recommendations issued prior to December 31, 2018.

Other than the AG follow up, certain divisions have created tracking mechanisms to monitor recommendations the division is responsible to implement. However, management lacked a corporate wide consolidated database to monitor all outstanding AG recommendations. As a result, the Chief Financial Officer and Treasurer along with the Internal Audit Division (IA) established a framework for City management to track and monitor progress on all outstanding recommendations.

IA has compiled a database of all outstanding recommendations up to and including reports tabled at the June 28, 2019 Audit Committee meeting. The database presently includes all outstanding public recommendations from audits, investigations, Fraud and Waste Annual reports and recommendations added by Audit Committee.

To complete the database, IA is working with the City Clerk's Office to obtain all outstanding confidential recommendations included in AG reports within the context of respecting privacy and security matters.

The database will track all recommendations by Service Area, division, report title, and year report issued. The recommendations will also be characterized by implementation status as identified by the AG, potential for cost savings, priority and expected implementation date.

Once the database is up to date, as at the June 2019 Audit Committee meeting, IA will maintain the database by adding new recommendations and update the implementation status as the AG tables her value for money audit and follow up review reports at Audit Committee.

Disclaimers:
There will be a number of differences that will affect the number and status of recommendations between IA and the Auditor General, such as:

- The status of the recommendations will be as at the previous Audit Committee meeting, and will not include new recommendations and changes to recommendation status included in AG reports tabled in the meeting the report is tabled.
- Outstanding recommendations will include all recommendations up to the previous Audit Committee meeting. The AG is currently following up on outstanding recommendations prior to December 31, 2017.
- As the AG is the owner of the recommendations there may be differences in how the outstanding recommendations are assigned to divisions.
- The IA database will include council added recommendations, however, the AG does not include these in her follow up process.

A reconciliation of the total number of recommendations between IA and AG will be performed once IA has completed the compilation of recommendations.

Monitoring Process

In a process modelled after best practices noted at other government organizations, such as municipalities and the Province of Ontario, IA will monitor progress on outstanding AG council approved recommendations on a quarterly basis. The process will ensure:

- The timely implementation of recommendations

- A risk based approach to implementation
- Divisions are aware of recommendations under their responsibility
- Cost savings identified are achieved in a timely manner
- A collaborative approach to recommendations with multiple accountabilities or affect multiple divisions.

Internally, on a quarterly basis, Internal Audit will provide Deputy City Manager's (DCMs) and the Chief Financial Officer & Treasurer with a dashboard highlighting total recommendations outstanding for their service area. This will be broken down by number per division, number overdue, number by expected implementation date, and number that are considered high priority. The dashboard will allow DCM's to understand, at a glance, progress on the outstanding recommendations.

Attached to the dashboard will be separate spreadsheets outlining detailed recommendations for each division accountable to the DCM. To enable external reporting to Audit Committee, divisions will be requested to provide the following updates for each outstanding recommendation back to Internal Audit:

- Percentage of completion;
- Updated implementation date;
- Reason for change to implementation date; and
- For recommendations noted as high priority or outstanding for over 5 years by the AG only, a detailed narrative of the action taken to implement.

The responses are management's assessment of progress, and Internal Audit will not validate the accuracy of the response. Also, recommendations must be assessed by the AG to determine status, only after this assessment can the status of a recommendation be changed.

Utilizing this information, IA will prepare the report to Audit Committee. The quarterly report will provide timely information to Audit Committee on management's progress on the implementation of recommendations over and above the annual reporting provided by the AG. To enable effective monitoring the report will highlight progress on recommendations, recommendations that are overdue and recommendations with changes to expected implementation timelines. This will be shown in the report through separate statistics for total outstanding recommendations and high priority recommendations:

- Number per Service Area:
- Length of Time Outstanding;
- Number overdue based on original implementation date;
- Recommendations by updated Expected Implementation Date;
- Instances and reasons for changes in implementation dates.

The report will also provide detailed action taken on the recommendations identified by the AG as high priority or outstanding for over 5 years.

The first quarterly reporting to Audit Committee will be provided at the February 10, 2020 meeting.

Next Steps:
Currently, IA is tracking all outstanding recommendations in an Excel spreadsheet, and utilizing a very manual process to distribute and collect status updates which requires significant staff time. IA is in the process of exploring a technological solution to better streamline this process and leverage efficiencies with the Auditor General.

CONTACT

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SIGNATURE

Chris Murray
City Manager

ATTACHMENTS