

Auditor General's 2019 Status Report on Outstanding Audit Recommendations for City Divisions in Corporate Services and Finance and Treasury Services

Date: October 10, 2019
To: Audit Committee
From: Auditor General
Wards: All

REASON FOR CONFIDENTIAL INFORMATION

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

The attachment to this report involves labour relations or employee negotiations.

The attachment to this report involves litigation or potential litigation that affects the City of Toronto.

SUMMARY

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

This report provides information regarding the implementation status of audit recommendations issued to City divisions in Corporate Services and Finance and Treasury Services. Our 2019 follow-up review included 206 outstanding recommendations from audit reports issued between 2005 and 2017 for the following City divisions:

- Accounting Services
- Corporate Real Estate Management
- Environment and Energy

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

Our review verified that 24 recommendations (12 per cent) have been fully implemented, 178 recommendations (86 per cent) have been partially implemented and four recommendations (2 per cent) are no longer applicable.

Recommendations reported by management as implemented that the Auditor General determined as not fully implemented

During the current follow-up process, management reported that 87 out of 206 outstanding recommendations were fully implemented. However, based on our review we determined that 63 (72 per cent) of those recommendations have not been fully implemented. Management agreed with our assessments and will take additional actions to fully implement these recommendations.

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

RECOMMENDATIONS

The Auditor General recommends that:

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

FINANCIAL IMPACT

There is no financial impact resulting from the adoption of the recommendations in this report.

DECISION HISTORY

At the February 22, 2019 meeting, a motion was adopted by the Audit Committee requesting the Auditor General to report to the May 3, 2019 Audit Committee meeting on the outstanding audit recommendations which are of greatest concern to the Auditor General.

In response to the motion, the Auditor General presented a report entitled "Auditor General's Response to the Audit Committee's Request on the Outstanding Audit Recommendations Which Are of Greatest Concern" to the Audit Committee at its May 3, 2019 meeting. The report summarizes the high-priority outstanding recommendations, such as those that could potentially result in significant cost savings and avoid health and safety or reputation risks to the City after implementation. The report is available at:

<https://www.toronto.ca/legdocs/mmis/2019/au/bgrd/backgroundfile-132161.pdf>

At the May 3, 2019 Audit Committee meeting, a motion was made to "Request the Auditor General to continue to bring forward to each meeting of the Audit Committee, a list of outstanding recommendations she considers to be a high priority".

ISSUE BACKGROUND

The follow-up of outstanding recommendations is required by Government Auditing Standards. Following up on outstanding recommendations is important as it ensures that management has taken appropriate actions to implement the recommendations. The Auditor General reports to the Audit Committee each year on the implementation status of outstanding recommendations.

In accordance with the Auditor General's 2019 Work Plan, we have completed a review of the implementation status of audit recommendations issued to City divisions in Corporate Services and Finance and Treasury Services.

The recommendation follow-up results for 2018 for divisions in Corporate Services as well as Finance and Treasury Services and the Auditor General's consolidated year-end status report were reported to the February 22, 2019 Audit Committee meeting. The reports are available at:

<https://www.toronto.ca/legdocs/mmis/2019/au/bgrd/backgroundfile-124549.pdf>
<https://www.toronto.ca/legdocs/mmis/2019/au/bgrd/backgroundfile-124610.pdf>

Recommendation follow-up results for divisions in Community and Social Services and the City Manager's Office were reported to the May 3, 2019 Audit Committee meeting.

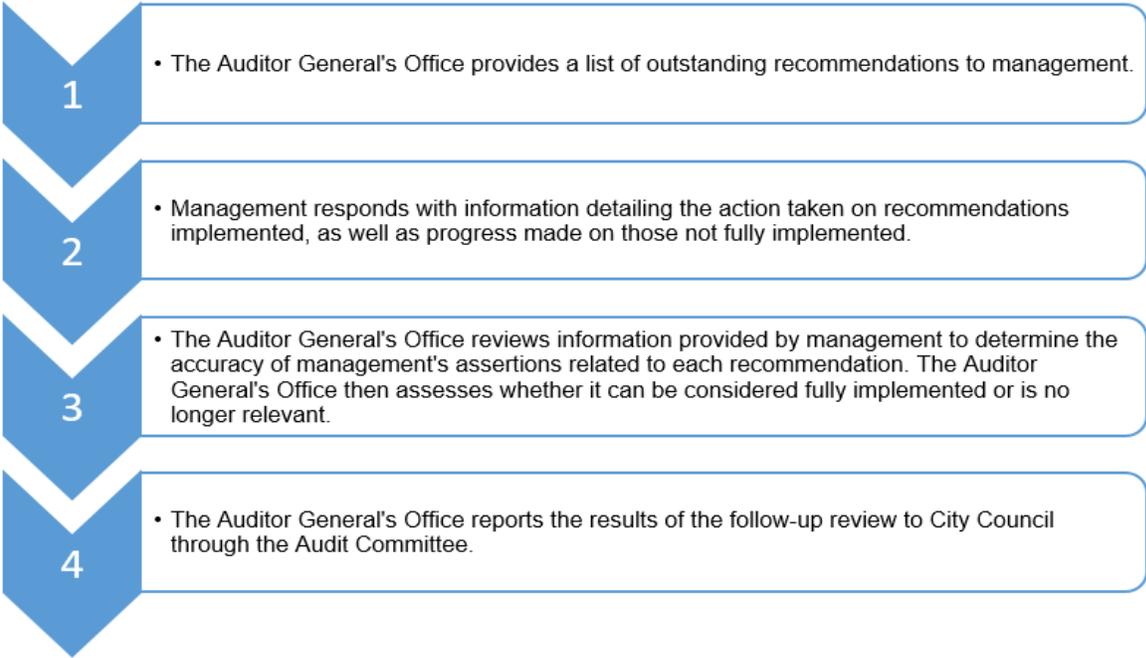
The report is available at:

<https://www.toronto.ca/legdocs/mmis/2019/au/bgrd/backgroundfile-132157.pdf>

Recommendation follow-up results for divisions in Infrastructure and Development Services and City Agencies and Corporations were reported to the June 28, 2019 Audit Committee meeting. The reports are available at:

<https://www.toronto.ca/legdocs/mmis/2019/au/bgrd/backgroundfile-134757.pdf>
<https://www.toronto.ca/legdocs/mmis/2019/au/bgrd/backgroundfile-134739.pdf>

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



Our follow-up process, as summarized in Figure 1, requires divisional management to review the outstanding audit recommendations and provide information on their implementation status. For recommendations reported as not fully implemented, we do not conduct further audit work. For recommendations reported as implemented or no longer applicable, management is required to explain why the recommendation is considered fully implemented or no longer applicable, and provide sufficient and relevant supporting documentation. The Auditor General's Office conducts audit work to verify the status of these recommendations.

In addition, as part of our process, we meet with divisional staff to review recommendations assessed by us as not fully implemented and to explain what evidence is required to conclude that the recommendations have been implemented. Management is responsible for reviewing recommendations in conjunction with the original audit report to obtain an understanding of the issues which underlie the recommendations.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

COMMENTS

Our 2019 follow-up review included 206 outstanding recommendations from audit reports issued between 2005 and 2017. A further 85 recommendations from audit reports issued after December 31, 2017 are not included in this follow-up process. This will provide management with adequate time to take appropriate action to implement the recommendations. Audit reports issued since December 31, 2017 that are not included in our 2019 follow-up review are identified in Attachment 4.

Table 1 shows the implementation status of the 206 outstanding recommendations for City divisions in Corporate Services and Finance and Treasury Services included in our follow-up process. The percentage of outstanding recommendations implemented in the past year by City Service Group is illustrated in Figure 2.

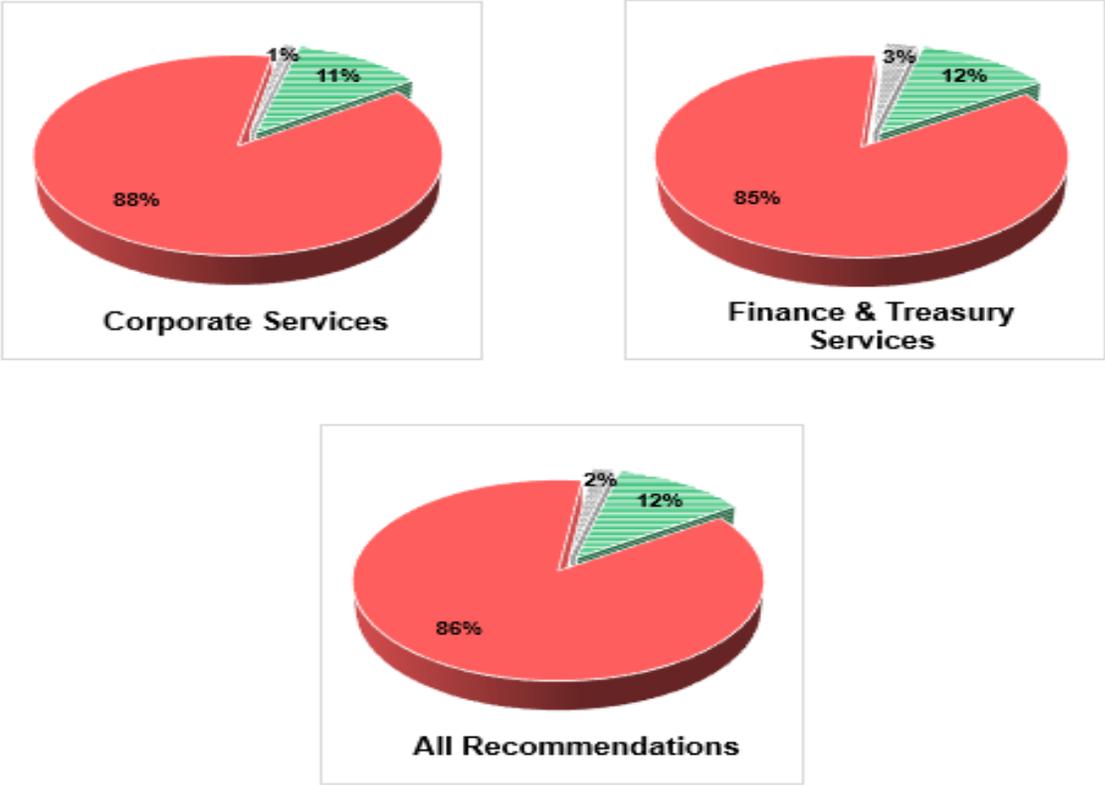
Table 1: Status of Outstanding Audit Recommendations for Reports Issued up to December 31, 2017

Divisions in Corporate Services and Finance & Treasury Services	Total Number of Outstanding Recommendations as of December 31, 2017	Results of 2019 Follow-up Review		
		Fully Implemented	Not Fully Implemented	No Longer Applicable
Corporate Services				
Environment and Energy	3	0	3	0
Corporate Real Estate Management:				
- Facilities Management	38	2	36	0
- Real Estate Services	21	6	15	0
Information and Technology	32	3	28	1
311 Toronto	2	0	2	0
Total	96	11 (11%)	84 (88%)	1 (1%)
Finance and Treasury Services				
Accounting Services	4	0	4	0
Financial Planning	1	0	1	0
Pension, Payroll and Employee Benefits	56	5	48	3

Divisions in Corporate Services and Finance & Treasury Services	Total Number of Outstanding Recommendations as of December 31, 2017	Results of 2019 Follow-up Review		
		Fully Implemented	Not Fully Implemented	No Longer Applicable
Purchasing and Materials Management	14	0	14	0
Revenue Services	35	8	27	0
Total	110	13 (12%)	94 (85%)	3 (3%)
Total for Corporate Services and Finance and Treasury Services	206	24 (12%)	178 (86%)	4 (2%)

Figure 2: Status of Audit Recommendations for Corporate Services and Finance and Treasury Services for Reports Issued up to December 31, 2017

■ Not fully implemented
 ■ Fully implemented
 ■ Not applicable



IMPLEMENTED RECOMMENDATIONS WITH REALIZED SAVINGS

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

The 2017 audit report contains 21 recommendations to remediate the collection of the City's annual leasing revenue streams and restore contract compliance. This is the first follow-up of the implementation status of recommendations from this report. Our review verified that Real Estate Services have implemented six recommendations. The audit report is available at:

<https://www.toronto.ca/legdocs/mmis/2017/au/bgrd/backgroundfile-105270.pdf>

Real Estate Services has addressed Recommendations No. 3 and No. 4 by serving notices to settle key accounts with anchor occupants. From the time of our original audit up until the time of this follow-up, the City notified occupants that they owed the City \$7.8 million for outstanding rents and recovery of operating costs for the period from 2012 through to 2018 at Union Station. To date, the City collected \$5.7 million in payments towards the amount due. During our follow-up review, we noted that Real Estate Services negotiated a settlement with one occupant in 2018 that was approximately \$1.9 million less than the estimated amount staff originally sent to the occupant in 2016.

By addressing the audit recommendations, the City has increased annual leasing revenues by \$1 million per year. As changes at Union Station stabilize, the rental installment payments are being more closely aligned to recover actual expected operating costs on an ongoing basis.

Recommendation No. 9 required the Chief Corporate Officer to report to City Council on the plans for the East Wing of Union Station. Such plans to include a complete financial analysis of the capital funding requirements and potential profits, costs, and opportunity costs of the available options for the space (i.e. City purposes, retail, office, or strata sale). In response to the audit recommendation, the City contracted a third party to complete a Highest and Best Use analysis of the second, third and fourth floor of the East Wing in Union Station. The report concluded that the best use for this space is for office purposes. In reporting these results to Council it was further noted that the City currently leases space in the downtown area from third party landlords and has several leases that will expire in 2020. By consolidating certain leases into Union Station the report states that the City will generate a minimum cost savings of at least \$2.5 million per year. The staff report with all the details is available at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.EX7.4>

Audit of Water Billing and Collection - Phase II: Part 1 - Incorrect Vacant Land Status Properties Reduces City's Property Tax Revenue, October 2016

The 2016 audit report contains five recommendations to improve the administration of building permits, inspections, and review of vacant land property assessments.

Revenue Services has implemented two out of five recommendations. The report is available at:

<https://www.toronto.ca/legdocs/mmis/2016/au/bgrd/backgroundfile-97426.pdf>

Recommendation No. 3 required City staff to review the reported vacant land properties to ensure that appropriate property taxes are billed and recovered. The Municipal Property Assessment Corporation (MPAC) is a legislated body responsible for assessing properties in Ontario. A change in the property classification from vacant land status to an occupied property commonly results in increased assessment value.

In response to this audit recommendation, management developed a process to review vacant land property classifications on an annual basis. The implementation of the recommendation allowed management to collect approximately \$100,000 in previous year's property taxes and \$250,000 in annual revenues by correcting property classifications of 26 properties. Additional financial benefits will be achieved in future years as the City continues to review other vacant land properties with MPAC and appeals are settled.

RECOMMENDATIONS REPORTED BY MANAGEMENT AS IMPLEMENTED THAT THE AUDITOR GENERAL DETERMINED AS NOT FULLY IMPLEMENTED

It is important that management perform an adequate review of the implementation status before reporting a recommendation as implemented, otherwise they may be providing false assurance that identified risks have been addressed. A significant amount of work is required to verify implementation of recommendations, and in circumstances where recommendations are not implemented, it is a waste of audit resources.

During the current follow-up process, management reported that 87 out of 206 outstanding recommendations were fully implemented; however, based on our review we determined that 63 (72 per cent) of those recommendations were not fully implemented because the steps undertaken or the extent of the improvement did not fully address the issue or the intent of the recommendation, or management was unable to provide sufficient evidence of actions taken. Management agreed with our assessments and will take additional actions to fully implement these recommendations.

The examples below provide additional information on these recommendations.

Example 1: Corporate Real Estate Management - Facilities Management

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

The reports are available at:

- Audit of City Cleaning Services - Part 1: Opportunities to Control Costs, Improve Productivity and Enhance Quality of Cleaning Services, June 2016
<https://www.toronto.ca/legdocs/mmis/2016/au/bgrd/backgroundfile-94477.pdf>
- Audit of City Cleaning Services - Part 2: Maximizing Value from Cleaning Contracts, June, 2016
<https://www.toronto.ca/legdocs/mmis/2016/au/bgrd/backgroundfile-94618.pdf>

In 2018, we conducted our first follow-up review of the status of recommendations from the two reports. We verified that Facilities Management had implemented four out of 30 recommendations (13 per cent).

During this follow-up review, management reported that five recommendations are fully implemented. However, the Auditor General was only provided with sufficient audit evidence to verify that only one recommendation is fully implemented and the other four are not fully implemented.

In the 2016 audit, we found a cleaning services vendor was not providing services in accordance with the awarded contract. During the audit, at the request of the Auditor General, further work was performed by the Fair Wage Office and Facilities Management. The vendor was found to be non-compliant with the City's Fair Wage Policy and By-Law for each of the following:

- Some vendor employees were being paid in cash. No payroll records were available
- Other vendor employees were being paid on their spouse's payroll cheque; that is, two people were paid on the same pay cheque under one name
- Vendor did not retain all records related to services provided as required by the contract
- An individual on the vendor's payroll resided in another country

These matters resulted in a warning letter being issued to the vendor.

In the Part 2 report, the Auditor General included Recommendation No. 12 that stated "*City Council request the General Manager, Facilities Management to work*

collaboratively with the Fair Wage Office to provide any necessary contract related records required to strengthen the compliance reviews conducted to ensure fair wages.”

This recommendation was reported by Facilities Management as fully implemented in 2018 and 2019. However, we determined that for each year the recommendation is not fully implemented.

Management provided the following comments when reporting the recommendation as fully implemented.

Facilities Management update provided to AG's Office for follow-up in 2018	Facilities Management update provided to AG's Office for follow-up in 2019
Contract Clauses have been integrated into the current contract which require the submission of auditable documentation through the contract all documents will be shared with the Fair Wage Office. Roles and Responsibilities under the Quality Assurance Assessor positions are being established for the audits of supporting documentation and collaborative communication with field staff and the fair wage office.	Facilities Management and the Fair Wage Office have been working collaboratively. FM and the FWO have confirmed there are no outstanding issues related to this contract.

The Fair Wage Office has advised us that since the audit in 2016, no fair wage audit or compliance reviews have been completed on any cleaning vendors.

There is no evidence that issues identified during the audit were addressed or resolved after the audit. Nonetheless, a form dated April 18, 2018 was completed by the Fair Wage Office asserting that the vendor was compliant with Fair Wage Policy. Our Office is further reviewing this matter.

Management's action plan and expected timeline for implementing the 25 outstanding recommendations are included in Attachment 2.

Example 2: Information & Technology

In 2016 and 2017, the Auditor General issued three reports related to the Information and Technology vulnerability assessment and penetration testing of the City's network and systems.

The audit assessed whether the City's information technology systems and assets were adequately protected from external and internal cyber security threats. The three reports contained a total of 10 recommendations (3 public and 7 confidential recommendations) to improve IT controls to manage and respond to cyber threats.

The reports are available at:

Phase 1: External Penetration Testing, with Confidential Attachment, February 2016
<https://www.toronto.ca/legdocs/mmis/2016/au/bgrd/backgroundfile-90751.pdf>

Phase II: Internal Penetration Testing, Part 1 - Accessibility of Network and Servers (Confidential Attachment), October 2016

<https://www.toronto.ca/legdocs/mmis/2016/au/bgrd/backgroundfile-97617.pdf>

Wrap-up of Phase I and Phase II, March 2017

<https://www.toronto.ca/legdocs/mmis/2017/au/bgrd/backgroundfile-101892.pdf>

During the current follow-up review, the Division reported two recommendations as fully implemented. However, the Auditor General found that these recommendations were not fully implemented because the steps undertaken or the extent of the improvement did not fully address the issue or the intent of the recommendation.

A separate report on the retesting of the City's IT network and systems for cyber security risks will be presented at the October 25, 2019 Audit Committee.

The outstanding recommendations from these reports are of great concern to the Auditor General. Management's action plan and expected implementation timelines are included in the Confidential Attachment 1.

Example 3: Pension, Payroll and Employee Benefits

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

In 2016 and 2017, the Auditor General issued three audit reports related to Employee Extended Health and Dental Benefits. The audit of health benefits was conducted in two phases. Phase one focused on drug benefits, and identified a series of unusual claims and dispensing patterns for controlled substances. A supplementary report was issued with further recommendations pertaining to drug benefits. Phase two focused on extended health care benefits such as professional services and medical equipment.

The reports are available at:

- Phase One: The City Needs to Ensure Adequate Detection and Review of Potentially Excessive and Unusual Drug Claims, October 2016
<https://www.toronto.ca/legdocs/mmis/2016/au/bgrd/backgroundfile-97612.pdf>
- Phase Two: Ineffective Controls and Plan Design Leaving the City Vulnerable to Potential Benefit Abuse, March 2017 (Confidential Attachment)
<https://www.toronto.ca/legdocs/mmis/2017/au/bgrd/backgroundfile-102168.pdf>
- 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
<https://www.toronto.ca/legdocs/mmis/2017/au/bgrd/backgroundfile-105243.pdf>

The three reports contain a total of 44 recommendations, six of which had been determined as implemented in our prior follow-up process in 2018.

During the current follow-up review, management reported that 30 out of 38 outstanding recommendations were implemented; however, our review determined that only three recommendations were implemented and three recommendations were no longer applicable.

Among the recommendations that were reported by management as fully implemented but were determined by the Auditor General as not fully implemented are several high-priority recommendations that relate to:

- Review of potentially excessive claims and reimbursements for erectile dysfunction drugs
- Ensuring the reimbursement of over-the-counter drug claims is in accordance with City policies and minimizing the cost of dispensing fees for eligible over-the-counter drug claims
- Review of the accuracy of City records to ensure claim reimbursements are made to eligible individuals

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

Based on Manulife's 2013 to 2015 quarterly and annual claims reports provided to the City, for the active employee plans, the City had higher percentages of expenditures and/or percentages of claims when compared to other organizations administered by Manulife in the following categories:

- Erectile dysfunction
- Hepatitis C
- HIV/AIDS
- Pain narcotic analgesics, and
- Preventative vaccines

In particular, for erectile dysfunction drugs, the City's percentages of total reimbursements and the total number of claims were four times that of other organizations administered by Manulife from 2013 to 2015. For the remaining categories, the City's percentage of total reimbursement costs or percentage of the number of claims were double the percentages of those organizations.

During the 2017 audit, we found reimbursement for erectile dysfunction (ED) drugs was approximately \$1.9 million in 2015. The annual benefits payment for this type of drug increased 18 per cent from 2013 to 2015. We noted patterns of claimants obtaining a large quantity of the same, or combination of, different erectile dysfunction drugs from different pharmacies within a one-year period. To address this observation, the Auditor General recommended:

Recommendation No. 3

City Council request the Treasurer to clarify with the City's benefits plan administrator its practice of adjudicating erectile dysfunction drugs to identify anomalies such as excessive dosage, significant year-over-year increases, and obtaining multiple types of drugs at the same time.

In the 2019 follow-up, management reported that the benefit plan administrator monitor the usage of the ED drugs: *"The City's benefits plan administrator has advised that their team will audit drug usage and has done so for ED drugs."*

We followed up with the plan administrator to confirm. The Green Shield Canada (GSC) informed us that in 2018 they conducted a one-time manual audit of ED drugs as part of the presentation to the City. There was no review of ED drugs conducted in 2019, contrary to Pension, Payroll and Employee Benefits (PPEB) statement, that the plan administrator was auditing ED drugs.

The benefit plan administrator also stated that: *"The City of Toronto elected to opt out of the GSC standard ED drug adjudication policy, which includes maximum dosing level of XX¹ tablets every X² months and prior authorization for this type of drug."* Further, *"The City advised GSC not to audit claims at this threshold level as the plan is unlimited."*

When we inquired why there was no monitoring of ED drugs, the GSC stated that *"The GSC have not been provided with a determined level of drugs that would be of concern as per the City."* We noted the City does not even have GSC use its own thresholds to identify high claimants for potential review to verify medical necessity.

Regardless of whether the City has a cap on the upper limit of ED drugs, as recommended by the Auditor General, monitoring is still required. The City should still request its benefits plan administrator to identify anomalies such as excessive dosage, significant year-over-year increases, and obtaining multiple types of drugs at the same time while it determines coverage limits for the next collective agreement.

In the 2016 Phase One report, the Auditor General made a recommendation to put a maximum drug benefit coverage limit on drugs with usage significantly higher than industry standards. Management advised that the implementation of this recommendation is pending 2019/2020 collective bargaining negotiations.

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

Over-the-counter (OTC) drugs are medications that can be purchased without a prescription. During the 2016 audit we found that from 2013 to 2015, the City paid a total of \$564,590 for OTC drugs, in which about 67 per cent, or \$375,906, was for dispensing fees. For instance, in 2015, a number of claimants who obtained Aspirin were reimbursed, on average, \$14 for each claim, in which \$9 was for the dispensing fee, and only \$5 was for the medication.

1 Due to proprietary information, the limits cannot be disclosed

2 Due to proprietary information, the limits cannot be disclosed

We also found a small amount of OTC drug reimbursements, approximately \$64,205 over three years were for skin conditions, miscellaneous eye disease, allergy, sunscreen agents and cough and cold that do not appear to have a life-sustaining purpose. To address this observation, the Auditor General recommended:

Recommendation No.7

City Council request the Treasurer to ensure the City only reimburses over-the-counter drug claims in accordance with City policies and to ensure cost effective reimbursement of over-the-counter drug claims. Steps should be taken but not be limited to:

- a. Following up with Manulife to validate the eligibility of over-the-counter drug claims to ensure they meet the life sustaining requirements in the City’s policies and recover any ineligible amounts paid;*
- b. Ensuring the new plan administrator has a process in place to obtain evidence of life sustaining purpose when reimbursing over-the-counter drugs in accordance with City policies; and*
- c. Working with the new plan administrator to develop ways to minimize the cost of dispensing fees for eligible over-the-counter drug claims.*

During our 2018 and 2019 follow-up reviews, management reported that the recommendation was fully implemented, however, management did not provide us with sufficient evidence to support action has been taken. The requirement to assess whether such OTC drug claims are for life-sustaining purposes has not been addressed by PPEB.

PPEB Management update provided to AG’s Office for follow-up in 2018	PPEB Management update provided to AG’s Office for follow-up in 2019
<p>a) Manulife Contract with City terminated December 31, 2016, not obligated to provide further support.</p> <p>b) The new carrier verified that the rules based system has been programmed to allow for the predefined life sustaining OTC drugs to be processed and provided.</p> <p>c) GSC rules based system has been coded to allow the contracted \$9 dispensing fee as per the City of Toronto plan. Will work with the new carrier to explore feasibility of minimizing cost of dispensing fees for eligible OTC life sustaining drug claims. Target Q1/2019</p>	<p>Based on the current plan design and collective agreement restrictions a maximum is already in place for dispensing fees. Additional maximums specific to eligible OTC drug claims may be addressed within a Preferred Provider Agreement(s). PPEB currently has a preferred provider agreement in place.</p>

PPEB does not have the list of the approved OTC drugs to ensure that GSC processes the claims correctly. We received the list of approved OTC drugs from GSC and found that the City pays for OTC drugs that are non-life sustaining because they were either grandfathered in previous benefits plans or based on the analyses of previous claims. According to the Collective Agreements and Plan Documents, non-prescription drugs must be life-sustaining. In our view, half of the OTC drugs on the list do not appear to be life-sustaining. PPEB should consult with experts such as the Ontario Pharmacists Association for the definition of life-sustaining medication.

In addition, the Preferred Provider Agreement will not minimize the cost of the dispensing fees if the claims continue to be processed electronically by the pharmacy. The division needs to explore opportunities to minimize the dispensing fees for the OTC drugs.

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

During the 2016 audit, we found individuals with questionable dates of birth in the City's benefits system. For example, individuals with a default date of birth of 01/01/1900, individuals who were over 100 years old, and dependents with no date of birth information. To address this observation, the Auditor General recommended:

Recommendation No.15

City Council request the Treasurer to undertake a review of the City's records of eligible individuals for health benefits coverage to ensure accurate and complete information in the City's system. A review of the health benefit claim histories should be conducted on individuals with questionable or missing dates of birth. Where claim reimbursements were made for ineligible individuals, steps should be initiated to recover overpayments.

Management update provided to AG's Office for follow-up in 2018	Management update provided to AG's Office for follow-up in 2019
Monthly/quarterly/annual internal controls had been implemented to ensure eligible employees/retirees and dependents are enrolled in the appropriate plan. Will review to ensure controls capture all scenarios. Target January 31, 2019	Monthly/quarterly/annual internal controls had been implemented to ensure eligible employees/retirees and dependents are enrolled in the appropriate plan. All discrepancies are addressed on a timely basis and used as training opportunities for impacted staff.

During our 2018 and 2019 follow-up reviews, management reported that internal controls were implemented to ensure eligible claimants are enrolled in the appropriate plan. During both follow up reviews, we continued to find individuals with questionable dates of birth in the benefits plan provider and the City's records.

The Pension, Payroll and Employee Benefits division needs to review date of birth records in their systems to ensure the information is accurate and complete so that only eligible claimants receive benefit coverage. A review of the health benefit claim histories should be conducted on individuals with questionable or missing dates of birth. Where claim reimbursements were made for ineligible individuals, steps should be initiated to recover overpayments.

Management of the City's Long-Term Disability Benefits

The audit of Long Term Disability Benefits (LTD) was conducted in two phases. Phase one focused on how City staff managed the LTD benefits. Phase two of the audit focused on the claim adjudication and monitoring processes by the benefits administrator. The reports are available at:

- Phase One: Improving City Management to Address Growing Trends in Long-Term Disability Benefits, October 2015 (Confidential Attachment- made public with redactions on October 27, 2016)
<https://www.toronto.ca/legdocs/mmis/2015/au/bgrd/backgroundfile-84556.pdf>
<https://www.toronto.ca/legdocs/mmis/2015/cc/bgrd/backgroundfile-97721.pdf>
- Phase Two: Interim Report on the Approval and Monitoring of Claims, June 2016
<https://www.toronto.ca/legdocs/mmis/2016/au/bgrd/backgroundfile-94773.pdf>
- Phase Two: The Need for a Proactive and Holistic Approach to Managing Employee Health and Disability, October 2016
<https://www.toronto.ca/legdocs/mmis/2016/au/bgrd/backgroundfile-97412.pdf>

The three reports contain a total of 35 recommendations. The Division has implemented 14 out of 35 recommendations prior to this year follow-up.

It has been more than three years since the reports were issued. We would have expected to see most of the recommendations implemented by now; however, the target date for implementation of recommended actions has been adjusted more than once.

During this year's follow-up review, of the 21 outstanding recommendations, management has indicated that the implementation of five recommendations have been delayed due to system development and will be implemented in Q4, 2019. We recognize that some of the recommended changes require significant system or process changes, hence necessitating a longer period for full implementation.

Of the remaining 16 recommendations, management also reported that 10 recommendations were fully implemented. Our review determined that only two have been fully implemented. We are concerned with the lack of progress on the remaining 14 outstanding recommendations.

Among the outstanding recommendations, we identified important recommendations that relate to:

- Obtaining detailed supporting documents from the benefits administrator to review the accuracy and reasonableness of the monthly charges
- Enhancing the oversight of LTD benefits in relation to employees terminated with cause and employees facing allegations of fraud or disciplinary action
- Developing a process to deal with work-related issues to facilitate a claimant's return to work process

Management of the City's Long-Term Disability Benefits Phase One: Improving City Management to Address Growing Trends in Long-Term Disability Benefits, October 2015

During the original audit, we found that the City was charged for a service that was not consistent with Manulife's bid proposal. The division did not obtain supporting

documents such as invoices and cost breakdown prior to payment approval to verify the accuracy or reasonableness of the charges. Consequently, the City was overcharged approximately \$2 million resulting from billing errors and duplicate HST charges. To address this observation the Auditor General recommended:

Recommendation No. 8

City Council request the Director, Pension, Payroll and Employee Benefits Division, to request supporting documents and cost breakdowns from Manulife for all "Other Charges" in the monthly billing statement for Long-Term Disability benefit administration services. Staff to recover charges paid by the City for which Manulife cannot provide supporting documents or reasonable cost breakdowns.

During a previous follow-up review, management reported that they had commenced quarterly audits to ensure that the billing charges are accurate and reasonable. However, our review found that Manulife was still applying HST charges twice on some services. This error was not detected through management's quarterly audits.

During this year's follow-up review, we were not able to verify if all 'Other Charges' processed by Manulife are accurate and reasonable because management does not obtain the supporting invoices for 'Other Charges' every month - invoices are only obtained for one month each quarter. Our review of 'Other Charges' and the supporting invoices for the month audited by the division did not find any exceptions.

To ensure the accuracy and reasonableness of the charges, the division needs to obtain the supporting invoices for all 'Other Charges' processed by the benefits plan administrator and where necessary, verify that they are appropriate.

Management of the City's Long-Term Disability Benefits - Phase One: Improving City Management to Address Growing Trends in Long-Term Disability Benefits, October 2015, Attachment 1 – Confidential Information (made public with redactions on October 27, 2016)

During the 2015 audit, we found some employees who continued to receive LTD benefits even though they had been terminated with cause relating to fraudulent use of health benefits. While the City ceased provisions of health benefits (e.g. dental and prescriptions) to these employees upon employment termination, they continued to receive LTD benefits. We also found some employees who started LTD leave close to the time when they might have been facing disciplinary actions. The Benefits Administrator Plan Document did not contain any provision relating to employees facing disciplinary actions or allegations of fraud. To address this observation, the Auditor General recommended:

Recommendation No. 3

City Council request the City Manager to review City policies and practices in relation to continuing Long-Term Disability benefits to employees terminated with cause and employees facing allegations of fraud or disciplinary action with a view to minimizing potential abuse of Long-Term Disability benefits.

During this year's follow-up review, management has not provided evidence that it implemented measures that might be appropriate in such circumstances to enhance oversight in relation to LTD applications.

Management of the City's Long-Term Disability Benefits Phase Two: Interim Report on the Approval and Monitoring of Claims, June 2016

During the original audit, we reviewed a sample of claims and found that some claimants stated that they were experiencing work-related issues such as discipline, harassment and bullying. The benefits provider was not communicating this information to the City. The City, as an employer, may not be able to address potential work-related issues if the relevant information is not communicated to the appropriate City staff. Consequently, the City cannot take appropriate steps to accommodate employees or address harassment or discrimination issues in the workplace. To address this observation, the Auditor General recommended:

Recommendation No. 4

City Council request the Treasurer to develop a process whereby the appropriate City staff are informed by the City's Long-Term Disability (LTD) Benefits Administrator of workplace related issues associated with LTD claims and return to work. The workplace related issues should be communicated in a manner that complies with applicable privacy legislation and in a timely manner allowing the appropriate City staff to adequately address the issues and accommodate LTD claimants' needs for returning to work.

During the 2018 follow-up review, management reported that Manulife has a process in place which will be formalized and documented by Q3, 2019. During the current follow-up review, management was not able to provide evidence to show that the City has processes in place where relevant information is communicated to appropriate City staff to address the potential work-related issues.

PPEB Management update provided to AG's Office for follow-up in 2018	PPEB Management update provided to AG's Office for follow-up in 2019
<p>The Treasurer will engage the Director of PPEB and the Director of Occupational Health & Safety and Legal Services continue to work with The City's Long Term Disability (LTD) Administrator on this issue. Manulife has confirmed that there is a process currently in place where The City's LTD Administrator will involve both the City's Employee Health Consultant and Division Manager to inform all parties about any issues impacting return to work in order and to ensure the City has the opportunity to accommodate a Plan Members needs for returning to work. The Treasurer will engage the Director of PPEB and the Director of Occupational Health & Safety and Legal Services to work with the City's LTD Administrator to formally document the process by 2019 Q3.</p>	<p>Manulife has confirmed a process is in place whereby Manulife will involve both the City's Employee Health Consultant and Division Manager to inform all parties about any issues impacting return to work in order and to ensure the City has the opportunity to accommodate a Plan Member needs for returning to work.</p> <p>Manulife has also implemented a process to identify if the employee has raised issues relating to work related harassment or discrimination complaints to the City's Human Rights Office when these issues are brought forward during case management process.</p>

We followed up with the City Human Rights Office (HRO) who confirmed that there is no process in place that they are aware of. The HRO would not take information from Manulife regarding a complaint but rather from the complainant themselves.

As long as the recommended actions remain not fully implemented, there is a risk that the City may not be taking appropriate steps to accommodate employees or address workplace issues that should be addressed.

HIGH-PRIORITY OUTSTANDING RECOMMENDATIONS

In response to the Audit Committee request at its May 3, 2019 meeting, this report also summarizes the high-priority outstanding recommendations, such as those that could potentially result in significant cost savings and avoid health and safety or reputation risks to the City after implementation.

Some of the significant recommendations that have not been implemented are from audit reports issued to the following divisions:

- Corporate Real Estate Management
- Pension, Payroll and Employee Benefits

Corporate Real Estate Management - Facilities Management

Audit of City Cleaning Services - Part 2: Maximizing Value from Cleaning Contracts, June, 2016

In 2016, the Auditor General completed a review of City cleaning services with an objective to assess whether City cleaning services are effective, efficient and economical. The report includes 16 recommendations to strengthen the procurement, management, and administration of cleaning contracts.

The report is available at:

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

As reported by management at the June 28, 2018 Audit Committee, management is in the process of addressing both of the following recommendations which are not fully implemented:

Recommendation No. 3

“City Council request the General Manager, Facilities Management to compare current contracted cleaning service levels to the standard service level in the Custodial Standard Service Model and industry cleaning times to examine opportunities to reduce costs.”

Recommendation No. 9

“City Council request the General Manager, Facilities Management implement controls to monitor actual services delivered and cleaning hours provided are in accordance with contracts. Where services do not adhere to contracts, payments should be adjusted for any variances in actual cleaning hours provided.”

We acknowledge the progress made by management to address these recommendations by consolidating six contracts into one and by standardizing service levels and streamlining monitoring controls in 2017. The adoption of the Custodial Standard Service Model (CSSM) in this new contract resulted in annual savings of \$1.5 million. In addition to the new contract there are two larger cleaning contracts awarded in 2015, which do not conform to the CSSM and there may be opportunities for further reductions in cleaning costs.

The two cleaning contracts that do not conform to the City's cleaning standard are valued at over \$12 million and were to expire on May 31, 2018. Management exercised the option to renew both these cleaning contracts for a two-year renewal option and extended them to May 31, 2020. The \$7.3 million (net of all taxes) contracted value was increased by an additional \$5 million (net of all taxes).

The 2016 audit of cleaning services found that on average actual cleaning hours were 17 per cent lower than what vendors were to provide. The audit noted that through effective contract management there may be an opportunity to avoid \$2.5 million in cleaning costs by adjusting invoices to pay for actual cleaning hours received. One of the contracts reviewed during the audit was consolidated under the new cleaning contract awarded in 2017 while the other contract was extended to 2020. The Division has not provided evidence of any corrective action taken with this vendor after the audit.

Corporate Real Estate Management - Real Estate Services

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

In 2017, the Auditor General completed an audit of the leasing at Union Station to ensure leasing revenues and operating costs were settled between the City and each occupant, in accordance with each respective occupancy agreement.

The audit identified that the City had not annually billed nor collected an estimated \$9.4 million in leasing revenue from anchor occupants at Union Station for the period 2012 to 2016. In addition, we could not provide assurance that the City settled all the financial affairs from the retail activity at the station for 2010 to 2015. The audit report contained 21 recommendations and is available at:

<https://www.toronto.ca/legdocs/mmis/2017/au/bgrd/backgroundfile-105270.pdf>

During this year's follow-up review, management reported that 14 of the 21 recommendations have been fully implemented. However, our review verified that only six recommendations were fully implemented.

Of the remaining 15 recommendations, the Auditor General has identified five recommendations as a high-priority because of the potential financial impact in recovering operating costs. In addition, net revenues generated from the leasing

activities at Union Station, once fully complete is expected to be a repayment of the debt. The high-priority recommendations are included in Attachment 2.

With respect to the current head lease arrangement, the original audit estimated that the City may absorb \$1.5 to \$ 2.5 million in operating costs due to the agreed upon limits on operating costs eligible to be recovered in the head lease agreement. During this follow up, we noted that direct costs for utilities, such as hydro and gas have not been billed or settled with the Head Lessee at Union Station for the retail units that are currently operational.

Operating Cost Recovery

The construction activity related to the Union Station Revitalization Project, which began in 2010, had a significant impact on the day to day leasing activities at Union Station. During this period areas of the station were closed due to construction and occupants were moved around until construction was complete, however the station remained open and accessible to the public. Certain sections of the Station were sold. The drawings by the architect and engineering firm responsible for the Union Station Revitalization Project note that once the construction is complete and the space is operational, the footprint of the Station would be increased by approximately 163,000 square feet. The transformation of Union Station is anticipated to be fully completed by the third quarter of 2020. Management is still working on understanding the impacts the new construction and changes to the gross and rentable floor area of the station will have on recoverable operating costs and leasing revenues at Union Station.

Accurate measurements of space at Union Station and rates to recover operating costs were both issues raised in the audit. Although certain settlements with occupants completed and agreed to by the occupants, some are not based on actual measurements or actual operating costs but rather have been determined through separate agreements with tenants. Recommendations No.1 and No.12 are still outstanding. Accurate measurements directly impact the City's ability to proportionately recover operating costs from each occupant at the Station. The approaching end of the construction at the Station makes this a high priority to ensure costs are being accurately allocated and recovered.

Commercial Activities at Union Station

Our audit identified that the financial affairs of the commercial activities at Union Station were not adequately resolved for 2010 to 2015. For example, we were unable to verify the accuracy and completeness of the total gross retail revenues reported as earned or the \$22.3 million distributed back to the City. This was due to the absence of supporting documentation related to the Leasing Manager's financial statements.

Although management is actively taking steps to address this concern, these matters have not been resolved. The longer any potential outstanding amounts owing go uncollected, the more difficult it becomes to collect.

Pension, Payroll and Employee Benefits

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

Phase one of the audit focused on drug benefit claims. The report contains 18 recommendations to help improve the City's oversight of claims administration services, prevent and detect potential misuse of the benefits, strengthen payment verification, and identify opportunities for cost savings and overpayment recovery. The report is available at:

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

Of note are two recommendations from the Phase One report that management reported as not fully implemented:

Recommendation No.17

"City Council request the Treasurer to ensure the performance standards agreement with the new benefits plan administrator comprehensively measures all the service areas to be delivered by the plan administrator."

Recommendation No.18

"City Council request the Treasurer to ensure that the new benefits plan administrator provides the City with the necessary supplementary information to enable the City to independently assess the administrator's performance, and consider engaging an independent auditor to assess the new plan administrator's performance. Clear provisions should be included in the contract to enable the City's Auditor General to conduct an independent audit of the administrator's performance."

Recommendation No.17 relates to ensuring that the Service Level Agreement (SLA) between the City and Green Shield Canada (GSC) includes measures to assess the benefits plan provider performance. Part of Recommendation No.18 relates to having clear provisions in the contract to enable the City's Auditor General to conduct an independent audit of the administrator's performance.

GSC became the City's extended health and dental benefits plan administrator effective January 1, 2017. Almost three years into the contract, the SLA and the contract still have not been signed. Without the signed contract and the SLA, the City's interests are not protected and it also prevents the Auditor General from ensuring compliance with the contract requirements.

Management indicated that the contract cannot be finalized until the SLA is finalized. The expected implementation date reported by management is on or before December 30, 2019.

We are concerned with the lack of progress on the outstanding recommendations. Timely implementation of these recommendations could potentially result in cost savings, and avoid health and safety, or reputation risk to the City. According to management, the new target date for implementation of high-risk recommendations is Q4, 2019. Management comments and action plans are included in Attachment 2.

Conclusion

Among the 206 recommendations included in the 2019 follow-up review, we verified that 24 recommendations have been fully implemented, 178 recommendations have been partially implemented and four recommendation are no longer applicable. This report also summarizes the high-priority outstanding recommendations from audit reports issued to City divisions in Corporate Services and Finance and Treasury Services between 2005 and 2017.

It is important that management perform adequate review of the implementation status before reporting a recommendation as implemented, otherwise they waste audit resources and may be giving false assurance that identified risks have been addressed.

Recommendations implemented in 2019 for Corporate Real Estate Management and Revenue Services Divisions, resulted in savings and revenue increases. As a result of management actions, the City achieved approximately \$2.2 million in one time savings and approximately \$2.8 million in annual recurring savings.

Management needs to continue to make progress in implementing outstanding audit recommendations. The outstanding recommendations will be included in next year's follow-up review, together with audit recommendations from reports issued in 2018.

We express our appreciation for the cooperation and assistance we received from management and staff of City divisions in Corporate Services and Finance and Treasury Services during this year's follow-up review.

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SIGNATURE

Beverly Romeo-Beehler
Auditor General

ATTACHMENTS

Confidential Attachment 1 - City Divisions in Corporate Services and Finance and Treasury Services - Confidential Audit Recommendations - Fully Implemented and Not Fully Implemented

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

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

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

Attachment 4 - City Divisions in Corporate Services and Finance and Treasury Services - Audit Reports Issued since December 31, 2017 that are Not Included in 2019 Follow-up Review