

Auditor General's Office 2020 Work Plan

Date: October 9, 2019

To: Audit Committee

From: Auditor General

Wards: All

SUMMARY

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

The purpose of this report is to provide City Council with an overview of the work the Auditor General plans to conduct in 2020. The Auditor General may amend the annual Work Plan if new priorities arise.

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

Flexibility within the Auditor General's Work Plan is needed to address emerging risk areas and high-risk complaints to the Fraud & Waste Hotline.

In order to appropriately respond to certain emerging risks, the Auditor General may need to re-prioritize or delay audits included in the Annual Work Plan. This is necessary in order to provide City Council with assurance that emerging risks are being adequately addressed in a timely manner. For example, there is an increasing prevalence of reported breaches of governmental systems across Canada and the United States. It is appropriate that the Auditor General respond by increasing her focus on cyber-security of City assets.

In addition, the Auditor General anticipates that the need for complex and in-depth forensic investigations will continue. This will require a significant commitment of resources, given the increasing complexity of complaints received by the Fraud and Waste Hotline. Currently, the Auditor General's Office has over eight active

investigations underway and there are a number of other high-risk complaints that are waiting to be addressed.

In accordance with Chapter 3 of the Toronto Municipal Code, City Council may add to the annual audit plan by a two-thirds majority vote of all Council members.

RECOMMENDATIONS

The Auditor General recommends that:

1. City Council receive the Auditor General's 2020 Work Plan.

FINANCIAL IMPACT

The recommendation in this report has no financial impact beyond the amount provided in the Auditor General's 2020 budget request.

DECISION HISTORY

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

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

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

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

Chapter 3 of the Toronto Municipal Code requires that:

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

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

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

COMMENTS

Risk-Based Approach to Audit Selection

The Auditor General undertakes a risk-based approach to audit selection. To identify audit priorities, every five years the Auditor General performs an extensive assessment of the City operations and its major agencies and corporations. The results of this assessment are used to set the audit priorities for the next five years.

Starting in Q4 2019, the Auditor General's Office will begin a new risk assessment of City divisions and its major agencies and corporations. A significant amount of audit resources will be dedicated for completing this task. The results of this assessment will be considered when setting the audit priorities for the next five years.

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

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

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

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

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

- The Auditor General will make another request in October 2019 to the Toronto Police Services Board to invite her Office to conduct a risk assessment.

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

The provincial-municipal cost-sharing of public health funding is being adjusted. In 2020, the City will be responsible for 30 per cent of public health program costs, or approximately \$47.5 million. As the City's share of funding continues to increase, the Auditor General should play a greater role in providing independent information to City Council on the stewardship of funding provided by the City. The first step is to ask the Board of Health to allow the Auditor General to complete a risk assessment to identify and bring forward potential audits for consideration by the Board.

Audit Work Plan

In recent years, the Auditor General completed a number of comprehensive and complex audits and investigations that covered a broad range of programs and services across the City and its agencies and corporations. The audits and investigations completed between 2017 and 2019 are summarized in Attachment 1.

The current work plan is intended to be flexible, allowing the Auditor General to respond to emerging issues, including the need to assign resources to investigations, when needed. The in-progress and upcoming projects in 2019-2020 are summarized in Table 1. The new audits will be initiated based on a balancing of audit priorities and available audit resources. The audit horizon for 2020-2021 is provided in Table 2.

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

Table 1: In-progress and Upcoming Projects in 2020

No.	Project	Description	Project Status
City Divisions			
<i>Transportation Services</i>			
1.	Transportation Services - Winter Maintenance	This audit focuses on the award and management of major winter maintenance contracts, including a review of contract compliance and contractor performance.	In-progress

No.	Project	Description	Project Status
<i>Shelter, Support and Housing Administration</i>			
2.	Shelter, Support and Housing Administration - Emergency Shelter Operations	<p>The operational review of the Shelter, Support and Housing Administration Division is divided into three phases.</p> <p>Phases one and two were completed in 2019 and focused on the administration of the centralized social housing wait list and on how the City administers Rent-Geared-to-Income assistance.</p> <p>Phase three will focus on emergency shelter operations. The review may include state of good repair and other capital projects to acquire, maintain, or construct shelters.</p>	Phase III to commence in Q4
<i>Parks, Forestry and Recreation</i>			
3.	Parks, Forestry and Recreation - Community Recreation Branch	This is an operational review of community recreational facilities. The audit will focus on economy and efficiency of operations, and adherence to service and performance standards.	To commence in Q4
<i>Affordable Housing</i>			
4.	Affordable Housing	This is an operational review of the Affordable Housing Office. The audit will assess the City's systems and processes to oversee and co-ordinate the delivery of affordable housing programs and services including the construction of affordable housing and administration of ongoing housing subsidy/supplement programs. The audit will also include an evaluation of the City's performance and outcomes in delivering its strategy for affordable housing.	To commence in Q4

No.	Project	Description	Project Status
<i>Information Technology</i>			
5.	Information Technology - Infrastructure Security	This audit will focus on the assessment of cyber security risks for critical systems and infrastructure operated by City divisions e.g. SCADA System.	To commence in Q4
<i>Revenue Services</i>			
6.	Revenue Services - Administrative Penalty System	This audit will review the City's new Administrative Penalty System, which is the City's process to address disputed parking by-law violations. The new process has been in place since August 2017.	To commence in 2020
<i>Information Technology</i>			
7.	Information Technology - Capital Projects	This audit will focus on the review of processes and controls to acquire, maintain and implement major IT capital projects and systems.	To commence in 2020
<i>City Revenues</i>			
8.	City Revenue Streams	The Auditor General plans to continue her series of audits on City revenue streams. The new revenue stream audits may include a review of collection processes for new taxes, as well as Council's requested review of permit application fees for construction hoarding signs.	To commence in 2020
Other Significant Areas of Work			
<i>Data Analytics</i>			
9.	Pension, Payroll and Employee Benefits - Employee Dental Claims	The Office is currently conducting analyses of employee dental claims data to identify areas for improved management controls and monitoring of employee benefit costs.	In-progress

No.	Project	Description	Project Status
<i>Investigations</i>			
10.	Auditor General's Forensic Unit	The Auditor General's Forensic Unit currently has over eight major ongoing investigations of allegations of fraud or other wrongdoing. These allegations require a significant amount of Auditor General resources to investigate. These investigations are expected to be completed during 2020.	In-progress
<i>Risk Assessment</i>			
11.	City Divisions and Major Agencies and Corporations	The Auditor General undertakes a risk-based approach to audit selection. To identify audit priorities, every five years the Auditor General performs an extensive assessment of the operations of the City and its major agencies and corporations.	To commence in Q4
Agencies and Corporations			
<i>Toronto Community Housing Corporation (TCHC)</i>			
12.	Toronto Community Housing Corporation (TCHC) - Contract Management	This audit will focus on TCHC's contract management processes and controls including overall contract oversight, monitoring of contractor performance, change order management and payment verification processes.	In-progress
13.	Toronto Community Housing Corporation (TCHC) - Property Management	The audit will assess TCHC's contract management processes and controls for overseeing contracted property managers' service delivery and performance.	In-progress
<i>Other Agencies and Corporations</i>			
14.	Treasury, investment and cash management by City agencies and corporations / City-wide	This audit focuses on treasury, cash and investment management practices at selected agencies and corporations. The primary focus of this audit is on City agencies and corporations.	In-progress

No.	Project	Description	Project Status
<i>Toronto Transit Commission (TTC)</i>			
15.	Toronto Transit Commission (TTC) - Bus Transportation Department	The audit will assess the effectiveness and efficiency of TTC bus operations and services to identify service improvement and cost savings opportunities.	To commence in Q4

Table 2: Project Horizon for 2020-2021 (These are additional projects that will be initiated in 2020 or 2021, contingent upon availability of audit resources)

No.	Project	Description
City Divisions		
1.	Parks, Forestry and Recreation - Parks Branch	This is an operational review of the delivery of parks-related services. The audit may include a review of the management of the construction and maintenance programs for City parks.
2.	City Planning - Operational Review	<p>This is an operational review of the City Planning Division. The audit will focus on economy and efficiency of City Planning operations including processing of development applications.</p> <p>The Auditor General will commence her review after the Division has had sufficient time to implement recommendations from the recently completed end-to-end review of the planning development review process.</p>
3.	Pension, Payroll and Employee Benefits - Illness or Injury Plan (IIP), Sick Pay Plan (SPP) and Sick Occurrences	This audit will assess compliance with the City's Illness or Injury Plan (IIP) and Sick Pay Plan (SPP). The audit will include a review of the City's new e-time system.
4.	Seniors Services and Long-Term Care - Operational Review	This is an operational review of long term care facilities and an assessment of the efficiency and effectiveness of delivery of care and program services; such as, adult day programs, supportive housing services, tenancy support and homemakers and nurse's services for vulnerable individuals who reside in the community.

No.	Project	Description
5.	Toronto Building - Operational Review	<p>The audit will focus on the review of processes and controls relating to the divisions operations. Potential areas to be audited include:</p> <ul style="list-style-type: none"> • review and issuance of building permits • performance of building inspections in accordance with the Ontario Building Code, the City of Toronto's zoning by-laws and other legislation • review of the City's development approval process.
6.	Toronto Water and Engineering and Construction Services - Basement Flooding Protection Program	<p>The audit will review the City's Basement Flooding Protection Program. The audit will assess the effectiveness of the basement flooding program in reducing flooding in the areas where projects have been completed.</p> <p>In July 2019, City Council requested the Ombudsman to review the City of Toronto's process for public claims for damage due to the escape of water from the City's sewage system, including basement flooding, and to conduct an investigation into this process, if warranted. Our audit will be scoped so that any work conducted by our Office will not duplicate or interfere with investigative work by the Ombudsman.</p>
Agencies and Corporations		
7.	Toronto Transit Commission (TTC) - TTC Transportation Phase 2	The second phase may examine service planning and/or another transportation mode (e.g. streetcars, subway) to identify service improvement and cost saving opportunities, for the most effective and efficient use of TTC's revenue vehicles and operators.
8.	Toronto Transit Commission (TTC) - Operational Review	This is an operational review of TTC's major operations. Specific areas to be audited are to be determined.
9.	Agencies and Corporations - Information Technology	The nature of this work will include IT vulnerability assessments and penetration testing of networks and systems at major agencies and corporations to assess cybersecurity risks, processes and controls.

No.	Project	Description
10.	Waterfront Toronto	<p>As a tri-government organization, Waterfront Toronto is accountable to the governments and people of Canada, Ontario and the City of Toronto. It has been audited in the past by the Federal and Provincial governments, including a recent audit completed by the Auditor General of Ontario.</p> <p>An initial phase of work will be conducted by the Auditor General's Office to assess what areas may warrant an audit. The scope of this project will depend on the City's contributions to date towards the work of Waterfront Toronto and the audits already conducted by others.</p>

Other Significant Areas of Work		
11.	Data Analytics	Other projects will proceed based on availability of resources (see below).
12.	Investigations related to allegations of fraud or other wrongdoing	Major investigations conducted by the Forensic Unit as needed (see below). There are a number of other high-risk complaints that are waiting and have yet to be addressed.

Data Analytics

Data analytics is a key component of the Auditor General's performance audits. From time to time, the Auditor General has used specialized software to perform continuous controls monitoring (CCM) on selected expenses at the City. Other CCM projects will proceed based on staff availability.

The Auditor General is also exploring how to adopt artificial intelligence (AI) powered analytics into her performance audits and continuous controls monitoring program.

Investigative Work related to Allegations of Fraud or Other Wrongdoing

Since 2016, the Auditor General's Office has conducted seven major investigations that resulted in public reports. Conducting these complex investigations required a significant amount of resources. On average, each in-depth investigation took over nine months to complete.

Investigations are led by the Forensic Unit, but may leverage outside forensic experts due to limited staff resources. The Auditor General currently has over eight investigations underway that are expected to be completed during 2020, and there are a number of other high risk complaints that are waiting to be addressed. The delay in

addressing these other high risk complaints is primarily due to resource constraints as the Forensic Unit is small for the City's size and complexity.

In addition to the full-scale investigations, the Auditor General's Office also operates the Fraud and Waste Hotline Program. As at September 30, 2019, the Hotline Program received 460 complaints representing approximately 700 allegations. Forensic Unit staff review all complaints that are received and conduct preliminary inquiries on the majority of allegations. Certain complaints also require additional investigative procedures.

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

It is not possible to predict the number and complexity of fraud allegations and reprisal complaints that must be investigated each year. Therefore, it is a challenge to determine the extent of resources that will be needed to conduct these investigations in a timely manner. The Annual Work Plan must leave capacity to deal with unexpected investigation requests.

Other Responsibilities of the Auditor General

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

- Following up on outstanding audit and Forensic Unit recommendations
- Implementing Cloud based solutions for the Auditor General's Office to improve operational efficiency and security
- Coordinating external audits of the financial statements of the City and its agencies and corporations.

Deferred Audit Projects

The following project has been deferred to a later date due to other audit priorities or operational reasons.

Information Technology Shared Services Audit

The Auditor General's Office performed a series of information technology (IT) audits from 2016 to 2018 including IT vulnerability assessments and penetration testing, as well as reviews of IT network infrastructure, asset management and telecommunications management.

Included in the 2019 Audit Work Plan was an audit on Information Technology Shared Services. The intent of this audit was to evaluate opportunities for technology integration and services across City divisions, agencies and corporations. The Auditor General is deferring this audit to a future date. This audit is being replaced by a higher priority IT audit on the management of cyber security risks for critical systems and infrastructure operated by City divisions e.g. SCADA systems.

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SIGNATURE

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ATTACHMENTS

Attachment 1 – Reports Issued from 2017 to 2019