Auditor General's Office – Forensic Unit Status Report on Outstanding Recommendations

Date: October 9, 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.

SUMMARY

This report provides information regarding the implementation status of publicly reported recommendations made by the Forensic Unit. These recommendations were made in the context of the annual reports on the Fraud and Waste Hotline and investigations.

Following up on outstanding recommendations from previous reports is important and ensures that management has taken appropriate action to implement recommendations.

From January 1, 2007 to December 31, 2017, a total of 57 recommendations related to City Divisions made by the Forensic Unit were reported publicly. Twenty-nine of them were implemented before 2018. Of the remaining 28 recommendations:

- 3 recommendations were implemented in 2019
- 7 recommendations remain outstanding
- 17 were deferred until the next follow-up
- 1 recommendation was no longer applicable

For the current follow-up process, management reported that seven were fully implemented. However, based on our review we determined that three of those recommendations have not been fully implemented and one is no longer applicable. Management agreed with our assessments and will take additional actions to fully implement the outstanding recommendations in the future.
One additional confidential recommendation was made to management staff and has been fully implemented. The implementation status of confidential recommendations is communicated directly to the City Manager.

The Forensic Unit also made 11 recommendations related to City agencies and corporations as at December 31, 2017. The status of these recommendations was included in the Auditor General's 2019 Status Report on Outstanding Audit Recommendations for City Agencies and Corporations that was considered by Audit Committee on June 28, 2019. Follow-up on any outstanding recommendations for agencies and corporations will be included in a separate Forensic Unit report next year.

Continued efforts to implement outstanding recommendations will provide additional benefits to the City through cost savings, additional revenue, control improvements 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.

FINANCIAL IMPACT

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

DECISION HISTORY

On an annual basis, the Auditor General reviews the implementation status of outstanding recommendations and reports the results of the review to Council through the Audit Committee. This report is the tenth annual report issued by the Auditor General related to the implementation status of outstanding recommendations made by the Auditor General's Forensic Unit.

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 and is available at:


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 Auditor General's Forensic Unit is responsible for the operation of the Fraud and Waste Hotline. This includes conducting and coordinating investigations or reviews directed at the detection of fraud, waste and wrongdoing involving City resources. In this context, the Auditor General's Office may make recommendations that management is responsible for addressing.

The Auditor General reports to the Audit Committee each year on the implementation status of outstanding recommendations.

**Figure 1: Key Steps in the Forensic Unit Recommendation Follow-up Process**

1. We provide a list of outstanding recommendations to management.

2. Management responds with information detailing the action taken on recommendations implemented as well as progress made on those not fully implemented.

3. The Auditor General's Office reviews information provided by management to determine the accuracy of management assertions related to each recommendation considered as fully implemented or no longer relevant.

4. The Auditor General reports the results of the follow-up review to City Council through the Audit Committee.
Our follow-up process, as summarized in Figure 1, requires divisional management to review the outstanding recommendations and provide information on their implementation status. For recommendations reported as not fully implemented, we do not conduct further 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 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 investigation report to obtain an understanding of the issues which underlie the recommendations.

The work performed in relation to this follow-up report does not constitute an audit conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS). However, we believe the evidence obtained provides a reasonable basis for our findings and conclusions.

COMMENTS

From January 1, 2007 to December 31, 2017, a total of 57 recommendations related to City Divisions made by the Forensic Unit were reported publicly. Twenty-nine of them were implemented before 2018. Of the remaining 28 recommendations:

- 3 recommendations were implemented in 2019
- 7 recommendations remain outstanding
- 17 were deferred until the next follow-up
- 1 recommendation was no longer applicable

We did not conduct any work on the recommendations management reported as not fully implemented during the 2019 follow-up review.

A total of 17 follow-up recommendations in the 2017 report entitled "Toronto Building Division: Conditional Permits" have been deferred until next year due to ongoing work being performed in this area by the Auditor General's Office.

Table 1 below contains cumulative results for all publicly issued recommendations related to City Divisions made by the Forensic Unit in the context of the Auditor General's operation of the Fraud and Waste Hotline Program and investigations from January 1, 2007 to December 31, 2017.
Table 1: Status of Recommendations Issued from January 1, 2007 to December 31, 2017

<table>
<thead>
<tr>
<th>Status of Recommendations</th>
<th>Number of Recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of recommendations issued from 2007 to 2017</td>
<td>57</td>
</tr>
<tr>
<td>Deferred</td>
<td>17</td>
</tr>
<tr>
<td>Subtotal</td>
<td>40</td>
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</tbody>
</table>

Implementation Status as of September 2019

<table>
<thead>
<tr>
<th>Status</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fully Implemented</td>
<td>32</td>
</tr>
<tr>
<td>Not Fully Implemented</td>
<td>7</td>
</tr>
<tr>
<td>Not applicable</td>
<td>1</td>
</tr>
<tr>
<td>Fully Implemented as a percentage of total recommendations</td>
<td>80%</td>
</tr>
</tbody>
</table>

Recommendations determined as fully implemented will not be included in the next year's follow-up review. The remaining seven recommendations reported as not fully implemented and 17 recommendations reported as deferred will be included in future follow-up reviews until they have been implemented.

As at December 31, 2017, the Forensic Unit also made 11 recommendations related to City agencies and corporations. Follow-up of these recommendations in the following 2016 and 2017 reports were reported out in the Auditor General's 2019 Status Report on Outstanding Audit Recommendations for City Agencies and Corporations that was tabled at the June 28, 2019 Audit Committee meeting:

- "Auditor General's Observations of a Land Acquisition at Finch Avenue West and Arrow Road by the Toronto Parking Authority", 2016
- "Auditor General's Observations of a Land Acquisition at Finch Avenue West and Arrow Road by the Toronto Parking Authority - Part 2", 2017
- "Review of Complaint Regarding the June 29, 2016, Toronto Transit Commission Briefing Note", 2017


A total of 11 recommendations were included in these reports, consisting of nine public and two confidential recommendations. Follow-up on any outstanding recommendations from these reports will be included in a separate Forensic Unit report for agencies and corporations next year.
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.

High-priority recommendations are identified in Attachment 1.

Of note is one recommendation related to Pension, Payroll & Employee Benefits that has not been implemented for greater than five years.

Finance & Treasury Services – Pension, Payroll & Employee Benefits

Improving Reporting and Monitoring of Employee Benefits (Manulife), June 2012

In 2012, the Auditor General found a need to improve the benefit service provider's reporting to the City with respect to incidents of benefits fraud by employees and their dependants that the service provider has investigated.

The report is available at: https://www.toronto.ca/legdocs/mmis/2012/au/bgrd/backgroundfile-48565.pdf

One recommendation is noted to be outstanding for five years or longer:

Recommendation No. 2
“City Council request the Director Pension Payroll and Employee Benefits, give consideration to the formal documentation of an annual evaluation of the benefit administrator performance as it relates to prevention, detection and investigation of benefit fraud including fraud related to the receipt of Long Term Disability benefits.”

We are concerned with the lack of progress on this recommendation. Timely implementation of this recommendation could help with managing the risk of benefits fraud. Although management has continuously indicated in their response that the implementation is in progress, we have noted similar responses at each follow-up, but with an extended timeline for completion.

Follow-up of this recommendation will be included in future reviews until it has been implemented. Management has indicated that they are engaging an external consultant who will provide a final report by Q4-2019.
Conclusion

Among the 57 recommendations issued by the Forensic Unit since 2007, 32 recommendations have been fully implemented, 7 recommendations have not been fully implemented, 17 have been deferred and one recommendation is no longer applicable.

This report also summarizes the high-priority outstanding recommendations from investigation reports issued to City Divisions between 2007 and 2017.

Management needs to continue to make progress in implementing outstanding Forensic Unit recommendations. The outstanding recommendations will be included in next year's follow-up review, together with public recommendations from the investigation report issued in 2018.

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

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SIGNATURE

Beverly Romeo-Beehler
Auditor General

ATTACHMENTS

Confidential Attachment 1 – Forensic Unit – Confidential Recommendations – Fully Implemented

Attachment 1 – Forensic Unit – Public Recommendations to City Divisions – Fully Implemented, Not Fully Implemented, No Longer Applicable and Deferred

Attachment 2 – Forensic Unit – Public Recommendations to City Divisions – Investigation Reports Issued since December 31, 2017 that are Not Included in 2019 Follow-up Review