



2019 Annual Report

Demonstrating the Value of the Auditor General's Office **January 27, 2020**

Beverly Romeo-Beehler, FCPA, FCMA, CFF, ICD.D, JD, B.B.A.
Auditor General

**AUDITOR
GENERAL**

TORONTO

Auditor General's Message



2019 marked another busy year for our Office. We completed 14 performance audits, investigations, and reviews, and issued several other reports. We also conducted our regular follow-up process for outstanding recommendations and managed the City's Fraud and Waste Hotline.

My staff's hard work and the willingness of City divisions, agencies and corporations to drive change has allowed us to identify opportunities to improve services and programs for the public. By implementing our audit recommendations, the City has achieved one-time and projected five-year savings totalling approximately \$318.8 million since 2015. This translates to a return of \$11.5 for every dollar invested in our Office.

To help improve how we communicate our audit findings, this year, we introduced videos to convey complex findings in a more visual way. My Office takes pride in our fair and balanced reporting, and we firmly uphold a 'no surprises' approach. We keep management informed whenever we identify potential issues, and take their experience and operational considerations into account. This relationship helps us to ensure that our recommendations are valuable to the City, and this is reflected in the feedback we receive.

"I just want to say how respectful I am of how you've approached [the audit], to come and talk to us, and how you've listened to our comments and advice."

Phil Verster,
Metrolinx Chief Executive Officer

"I believe this is an excellent roadmap on how we move forward as a commission and as the TTC operates."

Jaye Robinson, City of Toronto Councillor,
TTC Board Chair

"The first two audits have been very insightful and helpful in our efforts for continual improvement and I am sure that this third and final audit will follow suit... I am looking forward to working with your team."

Mary-Anne Bédard, General Manager, Shelter, Support and Housing Administration

As we implement best practices and continue to innovate, the Office is being recognized as a leader in the profession. Our work has been featured in industry publications and we were invited to share our audit practices with the Association of Local Government Auditors, Municipal Internal Auditors Association, Canadian Council of Legislative Auditors, the Canadian Audit and Accountability Foundation and the Association of Certified Fraud Examiners.

It takes an empowered professional audit team working to make a difference, the leadership of City Council, and a public service committed to continuous improvement to achieve these results. We are fortunate to have all three elements in these five years that I've been Toronto's Auditor General. I would like to thank management and staff from the various City divisions, agencies and corporations we've worked with and City Council – it is through their continued work and effort to implement the recommendations that the City is able to ultimately realize these savings.

My Office looks forward to continuing to make recommendations that assist City Council in delivering the best possible service to Torontonians for the remainder of my term.

Sincerely,

Beverly Romeo-Beehler, FCPA, FCMA, CFF, ICD.D, JD, B.B.A.
Auditor General

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Our Mission, Mandate, and Team

Mission

To be recognized as a leading audit organization, respected for excellence, innovation and integrity, in supporting the City of Toronto as a world-class organization.

Mandate

Under Section 178 of the *City of Toronto Act, 2006*, the Auditor General is “*responsible for assisting city council in holding itself and city administrators accountable for the quality of stewardship over public funds and for achievement of value for money in city operations.*”

The Auditor General’s Office is independent of management and has the authority to conduct performance audits including reviews of financial controls, operations, and information system security. The Office also conducts investigations and other special reviews of City divisions, and certain City agencies and corporations. Exhibit 1 contains more details about our background, responsibilities and authority under the *City of Toronto Act, 2006*.

Meet our Team

Our team is energetic and dedicated to helping make the City better for Torontonians. In addition to our roles at the Office, we collectively speak more than 10 different languages, volunteer in our communities, and enjoy spending time with our families and friends in this world-class city.



2019 Highlights

The Toronto Municipal Code requires that we report annually to City Council on the activities of our Office, including the savings achieved. Here's a snapshot of our work:



TTC Fare Evasion



Social Housing Wait List



Cybersecurity



Electronic Billing



Tree Maintenance



Fleet: Asset Management



Other Reports

14 Audits, Investigations, Reviews plus Other Reports

211 Recommendations

\$11.5 Return on Investment (2015-2019)



TTC Fare Equipment



Social Housing Revitalizations



Fleet: Vehicle Downtime



Contract Change Management



Social Housing Eligibility



Fleet: Underutilized Vehicles



Investigations / Reviews

This Annual Report demonstrates our value to the City by reporting the quantifiable financial and non-quantifiable benefits resulting from our audits and investigations. The total one-time and projected five-year savings realized in 2019 were \$32.6 million. For every dollar invested in our Office, there was a return of approximately \$11.5. This is discussed in more detail in the Financial Benefits section in this report.

Equally important are the non-financial benefits from Auditor General recommendations. A number of our 2019 reports will lead to strengthened internal controls, improved policies and procedures, better management and use of City resources, increased operational efficiency, better customer service, and increased detection and prevention of serious safety and security issues. For example, we made recommendations aimed at:

- improving controls to **protect and maximize revenue** and reduce **fare evasion** on the TTC
- ensuring value for **tree maintenance** services
- enhancing the effectiveness of how **those in need of subsidized housing** are served
- ensuring the City has a robust **cybersecurity** program in place.

Major Audits and Investigations in 2019

14 performance audits, investigations and reviews in 2019

In 2019, our Office completed 14 performance audits, investigations, and reviews, and issued several other reports. We also conducted our regular follow-up process for outstanding recommendations and managed the City's Fraud and Waste Hotline.

Reports we released provided 211 public and confidential recommendations. These reports are listed in Exhibit 2.

Several reports released in 2019 have already resulted in immediate action

This section summarizes some of the significant reports issued in 2019. These reports contain recommendations that will benefit the City operationally and financially, and improve programs and services for the public. In many cases, management has reported that they have taken immediate action in response to these audits.

Reviews of Toronto Transit Commission's Revenue Operations



Audits focused on whether TTC was receiving all the passenger revenue it should

The Toronto Transit Commission (TTC) provides a critical service, carrying millions of Torontonians around Canada's largest city every day. Our office completed two audits reviewing the TTC's Revenue Operations to see whether it was receiving all the passenger revenue it should. Phase One focused on fare evasion and the estimated loss of passenger revenue. Phase Two examined whether the TTC was receiving all the PRESTO revenue it should, including the functionality of PRESTO/TTC fare equipment and the TTC's contract with Metrolinx.

Phase One - Fare Evasion and Fare Inspection

Fare evasion causes a loss of revenue – every transit agency faces this challenge

Fare evasion causes a loss of revenue – every transit agency faces this challenge. Reducing fare evasion may alleviate the need to raise fares. Based on our review, the TTC's overall fare evasion rate¹ is 5.4 per cent (weighted average).

\$61 million estimated loss in TTC's passenger revenue in 2018

Based on the data we collected and analyzed, we estimated that the TTC lost \$61 million in passenger revenue in 2018 due to fare evasion.

Audit recommendations will help TTC to reduce its fare evasion rate and increase passenger revenue

Implementing the 27 recommendations in this report will help the TTC to reduce its fare evasion rate and increase passenger revenue. These include recommendations to improve important preventive controls over the issuance and use of the TTC's Child PRESTO cards which are vulnerable to fraudulent use. Recommendations also address how to improve the operational effectiveness and efficiency of the TTC's fare inspection program.

Our report was well received by the TTC's Board and the City's Audit Committee. At the TTC Board Meeting, Chair Jaye Robinson thanked our Office for producing *"a very comprehensive, succinct and clear report - we can't really go wrong with these recommendations because they're so clearly laid out."*

TTC has taken immediate action and provided an action plan to its Board

Action taken since our audit:

Since our audit was published, the TTC has reported² that, amongst other initiatives, it has:

- Addressed issues with crash gates being open during staff breaks
- Stopped their planned distribution of promotional child PRESTO cards
- Strategically deployed enforcement resources based on data analytics, which led to a 39 per cent increase in fare evasion fines issued compared to charges during the same time last year
- Conducted a review of all subway station entrances to determine which are high risk for illegal entry
- Implemented a wide-ranging public awareness campaign on fare evasion called "Smile! You're on fare evader camera", using stills and video clips from our audit. One example can be found at:

<https://www.youtube.com/watch?v=iP1lpFlbQP8>.

¹ TTC's fare evasion rates for Streetcar: 15.2 per cent; Bus: 5.1 per cent; and Subway: 3.7 per cent.

² The TTC staff report on its initiatives to address the Auditor General's recommendations is available at: [http://www.ttc.ca/About the TTC/Commission reports and information/Commission meetings/2019/September 24/Reports/18 Revenue Control Strategy Phase 1 Response to the Auditor .pdf](http://www.ttc.ca/About%20the%20TTC/Commission%20reports%20and%20information/Commission%20meetings/2019/September%2024/Reports/18_Revenue%20Control%20Strategy%20Phase%201%20Response%20to%20the%20Auditor.pdf)

TTC projecting \$7M net increase in revenue in 2020 by reducing fare evasion

The TTC's 2020 Operating Budget³ includes an estimated increase in revenues of \$10.2 million (gross) by reducing fare evasion rates on streetcars and at subway stations. After deducting \$3.2 million for 50 additional Transit Enforcement Officers, the TTC is projecting net increased revenues of \$7 million in 2020.

The audit report is available at:
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.AU2.5>

Phase Two – PRESTO/TTC Fare Equipment and PRESTO Revenue

TTC may not be getting all the passenger revenue it should

This audit highlighted that the availability of PRESTO/TTC fare equipment was less than what had been publicly reported by the TTC. Due to issues, limitations, and a complicated system, the TTC may not have been getting all the passenger revenue it should. Our audit recommended that the TTC and Metrolinx work together to resolve these issues.

TTC and Metrolinx need to address the following 3 fundamental pillars to bring things back on track:

We identified three main pillars that need to be addressed by the TTC and Metrolinx:

- 1. FORESIGHT**
- 2. INSIGHT**
- 3. OVERSIGHT**

1. FORESIGHT

Strategic refocusing at the top by both TTC and Metrolinx to tackle what matters most (shared outcomes of customer experience and maximizing revenue) and to work together better. For this to work, both parties also need to:

- Define clear, agreed-upon, and formalized outcomes and Service Level Agreement targets.
- Seek a win/win for both parties, but acknowledge individual and shared accountabilities and responsibilities in this arrangement.

2. INSIGHT

Better information to identify, diagnose and resolve issues, set the Service Level Agreements, provide missing data sets to the TTC, and address issues and limitations with key information that the TTC needs to rely on.

³ The TTC staff report on the 2020 TTC and Wheel-Trans Operating Budgets can be found at:
<http://ttc.ca/About the TTC/Commission reports and information/Commission meetings/2019/December 16/Reports/1 2020 TTC and Wheel Trans Operating Budgets.pdf>

3. OVERSIGHT

Address governance gap using the governance already called for in the Master Agreement, (Joint Executive Committee, Service Level Agreement, Expert Panel) so that the TTC and Metrolinx can work together directly to address the TTC's contractual and ongoing operational needs.

Recommendations to improve controls related to fare equipment and capturing PRESTO revenue transactions

Our recommendations provided direction to address control weaknesses related to PRESTO and TTC fare equipment, including how to improve the processes to identify and resolve issues going forward. Our recommendations also addressed several control weaknesses in the capturing of PRESTO revenue transactions in PRESTO's back-end systems, and the need for increased assurance from PRESTO to the TTC on their controls.

TTC's estimate of \$3.4 million in revenue loss for 2018 due to malfunctioning PRESTO fare equipment did not appear to be overstated

Based on the work performed with the information we obtained, it was our view that the TTC's estimate of \$3.4 million in revenue loss for 2018 due to malfunctioning PRESTO fare equipment did not appear to be overstated. The TTC's availability estimates may even have been understated given the issues we identified in this report with the availability of PRESTO card readers. We did not include revenue loss calculations in our report. It was our view that the information and data gaps identified during the audit made it difficult to provide these important numbers with the required level of audit assurance.

Executive Leadership Teams of both TTC and Metrolinx found the audit brought new insight and perspectives

The Executive Leadership Teams of both the TTC and Metrolinx conveyed their support for this audit and found that it brought new insight and perspectives. They have shared a renewed commitment to achieving the vision contemplated in the business arrangement for the benefit of citizens.

The audit report is available at:
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.AU4.4>

Operational Reviews of the Shelter, Support, and Housing Administration Division



Audits focused on waiting list and eligibility for RGI assistance

Our Office completed two audits as part of our ongoing operational review of the Shelter, Support and Housing Administration (SSHA) Division. The first audit focused on the City's centralized waiting list for rent-geared-to-income (RGI) assistance. The second audit reviewed how the City ensures that only eligible households benefit from RGI assistance.

Opening Doors to Stable Housing: An Effective Waiting List and Reduced Vacancy Rates Will Help More People Access Housing

Demand for RGI housing far exceeds supply

The waiting list for RGI assistance is a waiting list for subsidized housing units. The demand for RGI assistance significantly exceeds the supply and only a small percentage of waiting families gain access to subsidized housing each year. Our audit made recommendations which can help more people to access housing assistance and social housing units.

Improving the wait list and use of social housing units can open up access to more people

We found that the City needs to improve the integrity of the centralized waiting list data, review the handling of priority applicants, make better use of social housing units and improve the oversight and controls over the social housing waiting list. These improvements are key for providing housing assistance to more people and in supporting the City in meeting its housing priorities.

Our report also identified that, on average throughout 2018, 1,400 housing units sat empty across the entire social housing system. The vacancy rate at TCHC is 2.29 per cent; more than double Toronto's average vacancy rate. Management estimated the costs of vacant units to be approximately \$7 million in 2018.

Recommendations aim to help accelerate the pace at which those in need of assistance get access to vacant housing units

The report included 28 recommendations to help accelerate the pace at which those in need of assistance get access to vacant housing units. Implementing the recommendations in the report has the potential to increase access to RGI assistance for 2,200 more people by making better use of social housing units.

Management is taking action to reduce vacancies and get more people housed

Action taken since our audit:

Since the issuance of our report, SSHA Management has reported⁴ that it is:

- continuing to improve the accuracy of the centralized waiting list
- working with providers to fill vacancies more expediently by reducing the number of offers it takes a housing provider to fill a vacancy
- working with TCHC to ensure that rentable vacant units are promptly posted to the centralized waiting list
- working towards ensuring applicants that qualify as a priority group are granted the appropriate priority status

At a recent meeting of the City's Budget Committee, when asked what TCHC was doing in response to Auditor General's concerns, TCHC Chief Operating Officer reported [emphasis added] "*I'm really pleased to report that as of December 31, the company is running at **1.76% vacancy rate, which is the lowest that we've ever seen.** We're down under 1,000 vacant units, the majority of those are in 1, 2 and 3 bedroom units that are being consumed as we address the over housed waitlist. We've got about 220 vacant bachelors that we are working with Shelter, Support and Housing on a strategy to fill those effectively.*"

The audit report is available at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.AU3.14>

Safeguarding Rent-Geared-to-Income Assistance: Ensuring Only Eligible People Benefit

City must ensure that people receiving RGI assistance are eligible

In a city with thousands of individuals and families waiting years for subsidized housing, it is vital to ensure that the people who receive assistance and occupy RGI units are eligible for this benefit. The City has delegated responsibility for administering RGI assistance to over 200 housing providers. Collectively, they are contracted to manage over 66,000 housing units and received nearly \$385 million in funding from the City in 2018.

Indicators of ineligibility need to be identified and investigated

During the audit, we found a number of indicators that may impact certain households' eligibility for RGI assistance. The audit recommended that the City protect subsidy funding by taking greater responsibility to identify and resolve indicators of ineligibility.

⁴ SSHA's 2019 Third Quarter Status Report on Audit Recommendations: Opening Doors to Stable Housing can be found at: <https://www.toronto.ca/legdocs/mmis/2019/ec/bgrd/backgroundfile-140394.pdf>

The report also identified that the City could strengthen its oversight of the system by centralizing key aspects of the eligibility review process and enhancing the quality of such reviews. In addition, efficiencies could be gained by increasing integration with other City income-based subsidy programs.

Strengthening oversight so that eligible households get the assistance they need

Annually, an average of about \$7,200 in RGI assistance is provided to each RGI household. While we expect that the vast majority of people are eligible, for every one per cent of current RGI households that are ineligible, we estimated that the City is providing over \$4 million annually in unwarranted assistance, which could be used to provide stable housing for over 650 waiting and eligible households.

Implementing the 13 recommendations in the report will help to prevent ineligible households from receiving assistance and improve access for more eligible people who are waiting to access stable housing.

Management is investigating potential eligibility issues

Action taken since our audit:

Since the issuance of our report, SSHA management reports that it has been working to improve the controls that ensure RGI households are eligible. Management is also reviewing RGI households identified by the Auditor General as having potential eligibility issues. One housing provider has reported that preliminary investigative action has already resulted in multiple ineligible households vacating RGI units. These units can now be used to provide homes for eligible households waiting for RGI assistance. The housing provider also continues to explore the recovery of the associated subsidy funding.

The audit report is available at:
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.AU4.5>

Moving Forward Together: Opportunities to Address Broader City Priorities in TCHC Revitalizations



Audit focused on how TCHC leverages the value of its land to replace its housing stock

Toronto Community Housing Corporation (TCHC) faces serious challenges in maintaining and improving the physical condition of its more than 2,100 buildings that are, on average, over 40 years old. As part of the 2019 budget, staff reported that TCHC needed \$3.4 billion over the next 10 years to support its state of good repair backlog and the requirements of current phases of revitalizations. More than half of this (\$2.3 billion) was unfunded.

TCHC's revitalization program aims to leverage the value of its lands in order to replace the existing stock of aging buildings and keep the building capital repair backlog from increasing. TCHC uses the proceeds generated from the sale of lands, as well as through private sector development partnerships, to replace, renovate, or repair the existing social housing stock in specific communities.

Moving forward together

Our audit made 23 recommendations that will help the City and TCHC work together to achieve broader city-building objectives and will improve accountability for the outcomes of current and future revitalizations.

Leveraging revitalizations to achieve city-building objectives including increased affordable housing

Our report highlighted that the City and TCHC need to strategically align their priorities and desired outcomes with an adequate funding support plan to more fully leverage revitalization opportunities. This will not only ensure that existing social housing is replaced, but can also more effectively address other city-building priorities, such as increasing the supply of affordable housing.

For example, the report indicated that through the ongoing development at six TCHC revitalizations sites, more than 12,000 new market units will be built over a period of 30 years. Yet, only 645 new affordable housing units will be built over the same period, the vast majority (96 per cent) within Regent Park.

At the May 2019 City Audit Committee, Councillor Paula Fletcher, a TCHC Board Member, commented:

"I can't tell you how timely your report is. To say, 'people: you have land. Are you using it to the highest and best use?' And by that, I don't think you mean, 'are we getting the major dollar value?' The City's highest and best use might be different than the TREB [Toronto Real Estate Board], which is to get exactly the most money. But our highest and best use of the land that we own I think is to ensure that we're meeting City-building goals."

New revitalization project includes more affordable and market rental housing

Action taken since our audit:

Subsequent to the issuance of our report, on October 28, 2019, the revitalization plan for TCHC's Don Summerville Apartments was announced. This development project will replace the existing 120 TCHC units, and add 350 condo units, 180 market rent apartments and 100 affordable rental apartments. These new affordable rental units were not included in earlier plans for the site.

Our audit also highlighted that given the significant financial pressures it is facing, TCHC can support ongoing oversight and raise the visibility of the funding required from City Council and others by enhancing the transparency and timeliness of reporting throughout the span of revitalizations.

Increasing collaboration can improve the function of both CreateTO and TCHC

The report also made recommendations for TCHC to further enhance processes and controls related to selecting its development partners. Additionally, we recommended that TCHC and CreateTO increase collaboration on practices and approaches to development and city-building, with goals of improving the function of each organization and developing a more integrated approach to planning and executing future redevelopment of TCHC sites.

Action taken since our audit:

Subsequently, at its July 16, 2019 meeting, City Council approved in principle the transition of TCHC's development functions to CreateTO in alignment with the City-wide real estate model. A report back to City Council is expected by the end of the second quarter of 2020.

The audit report is available at:
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.AU2.1>

Review of Urban Forestry – Ensuring Value for Money for Tree Maintenance Services



Second audit of Urban Forestry focused on tree maintenance services

In June 2018, we completed the first part of our audit of the Urban Forestry Branch of the Parks, Forestry and Recreation Division. The first report focused on permit issuance and tree bylaw enforcement functions. This second part of the audit of Urban Forestry focused on tree maintenance.

We found that Urban Forestry needs to strengthen its oversight and monitoring of daily tree maintenance services to ensure value for money for the City. We also found that Urban Forestry needs to improve its operational efficiency and compliance with service standards.

Loss in productivity estimated to be \$2.6 million

Based on our review of a sample of contractor crews' daily activity logs, we estimated a potential loss in contractor crews' productivity of approximately \$2.6 million per year. In addition, we identified that there could be adverse long-term effects on a tree if an inaccurate maintenance record is created, because it may be at least another seven years before the tree receives its next scheduled maintenance service.

Improving oversight and monitoring of maintenance work

We recommended having regular and supervisory reviews of crews' daily activity logs and comparing them with the Global Positioning System (GPS) reports to improve Urban Forestry's tree maintenance contract management and help to ensure the City only pays for legitimate tree maintenance work.

Opportunities to increase operational efficiency and enhance customer service

Our audit identified opportunities to increase operational efficiencies by maximizing the time that crews spend performing actual on-site tree maintenance activities. The audit also recommended further improving compliance levels with tree planting and removal service standards through proper monitoring of outstanding service requests and better tracking of tree planting requests.

Changes are being made

Action taken since our audit:

Management has reported⁵ examples of steps being taken in response to the audit, such as:

- Mandating regular reviews of contract crew Global Positioning System (GPS) information on a sample basis
- Investigating a large sample of contractors' work records to compare against GPS report records
- Performing management reviews on samples of all quality assurance work completed by forepersons
- Performing unannounced site inspections
- Standardizing the sampling and inspection requirements of crews' performance inspections to detect anomalies
- Implementing live GPS access to certain vendors that allows for real-time tracking and greater oversight of contract crews and their locations
- Initiating GPS installation in City vehicles to allow for better oversight of internal crews

The audit report is available at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.AU13.10>

Fleet Services Operational Review



⁵ The Parks, Forestry and Recreation staff report “Urban Forestry Status Update on Ensuring Value for Money for Tree Maintenance Services” is available at:

<https://www.toronto.ca/legdocs/mmis/2019/au/bgrd/backgroundfile-138849.pdf>

The City relies on its fleet to deliver many services to the public

The City relies on its fleet of just under 5,000 vehicles and equipment valued at \$330 million to deliver many services to the public, such as picking up waste, repairing roads, and maintaining our parks and communities. The Fleet Services Division is responsible for the purchase, rental, maintenance, and disposal of this diverse array of assets.

Our audit was performed in two phases. Phase One focused on fleet maintenance and Phase Two reviewed the City's management of its fleet assets.

Lengthy Downtime Requires Immediate Attention

Audit recommended improving fleet availability by reducing downtime

We found that one in seven of the City's fleet assets, totalling \$68 million, was out of service daily for repairs and maintenance. We identified several opportunities to reduce this downtime:

- Work with the contracted parts supplier to ensure that parts needed are supplied in a timely manner
- Explore options specifically to expedite service times for minor repairs
- Streamline the process to request, approve and process vehicles sent to external vendors for service

By implementing the recommendations, Fleet Services can improve fleet availability across the City, enabling staff to more reliably deliver services to the public.

\$400,000 savings annually with improved parts warranty administration

Additionally, Fleet staff only claimed warranties for 10 per cent of vehicle parts that failed within their warranty terms. We estimated that the City could save approximately \$400,000 per year with improved parts warranty administration.

Stronger Corporate Oversight Needed for Underutilized Vehicles

Avoid unnecessary costs by effectively managing fleet usage and travel costs

We also found that in 2018, 18 per cent of the City's light duty vehicles had been used for less than 5,000 kilometres, or 125 engine hours. The City paid approximately \$10 million to purchase these underutilized vehicles, in addition to \$314,000 in 2018 to maintain them. Meanwhile, the divisions that own these vehicles also paid their staff substantial travel reimbursement costs. By strengthening oversight through both Fleet Services and its operating divisions, the City can better manage its fleet and travel costs to avoid incurring unnecessary expenses.

Stronger Asset Management Needed

Vehicles should remain in operation for only as long as economical

Fleet Services has established optimal life spans for the City's fleet based on the vehicle type and usage. Units past their life span become more costly to repair, and also have a higher risk of breakdown which may affect the City's service delivery.

Our audit identified measures Fleet Services can take to ensure that vehicles remain in operation for only as long as economically feasible. For example, it can take from several months to more than two years to purchase replacement units depending on their type and complexity. The timing of the procurement process should be adjusted to reflect the expected lead time required. For vehicles approaching their end of life, consistent assessments and decision-making will enable staff to remove units from service when they are no longer economical to operate.

Savings opportunities for rental vehicles

We also noted that processes for managing vehicle rentals across the City can be improved to achieve savings. By monitoring and analyzing long-term rentals, the City can save by purchasing some vehicles instead of renting them year after year.

New vehicle warranty can be strengthened

Our report also provided a roadmap for Fleet Services to improve its new vehicle warranty administration so that the City can maximize savings from warranty activities going forward.

Overall, these three reports provided a total of 37 recommendations to help reduce downtime, improve asset management, and promote a strong central oversight function in Fleet Services. The reports are available at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.AU2.2>

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.AU2.3>

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.AU4.6>

Cyber Safety: A Robust Cybersecurity Program Needed to Mitigate Current and Emerging Threats

The Canadian Centre for Cyber Security, Canada's single unified source of expertise and guidance on cyber security, notes that:

*"A safe and secure cyber space is important for ... security, stability, and prosperity" and that "Public institutions are also attractive to cyber threat actors."*⁶

Canadian cities are not immune from cyberattacks

In recent years, many municipalities across North America have been targeted by cyberattacks. Recent attacks on the City of Saskatoon, the City of Ottawa and the City of Burlington show that Canadian cities are not immune.

This public report contained two administrative recommendations. The confidential audit findings and recommendations to improve cybersecurity controls were presented separately in a Confidential Attachment.

Investments needed to improve controls to manage and respond to cyber threats

The costs and resources needed to implement the recommendations is not determinable at this time. The investments needed to improve controls to manage and respond to cyber threats offsets the potentially significant costs that could result from security breaches, which could include, data recovery/cleanup, financial loss, reputation damage, fines and litigation.

The public report on the Auditor General's review of cybersecurity is available at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.AU4.1>

Action taken since our audit:

At the October 2019 Audit Committee, the Chief Technology Officer reported on cybersecurity measures and actions moving forward⁷.

Cybersecurity measures:

- Established a formal Cyber Security Program in 2018
- Rolled out mandatory cyber security awareness training for all City staff
- Implemented enhanced password rules for City staff
- Proactively run vulnerability assessments, penetration testing and threat risk assessments to identify and manage cyber risks
- Implemented a Chief Information Security Officer position in 2019 with the task of establishing a business-aligned cyber strategy, advising on and managing cyber risks, and maturing the existing cyber posture

⁶ Canadian Centre for Cyber Security, National Cyber Threat Assessment, October 2018

⁷ The Chief Technology Officer's presentation can be found at:

<https://www.toronto.ca/legdocs/mmis/2019/au/bgrd/backgroundfile-139307.pdf>

Moving forward:

- Continued partnership with the Auditor General's Office on activities to address recommendations and support further assessments and audits
- Continue Cyber Security Training to ensure City staff maintain awareness to recognize cyber threats and to safely use the City's assets
- Ensure effective Corporate IT security oversight and governance City-wide
- Ensure future resources and investment to support cyber security activities
- Accelerate actions where possible and report on progress

City Council recognizes importance of assessing cybersecurity

At its meeting on October 29, 2019, City Council recognized the importance of assessing cybersecurity by making the following motion:

"City Council request the City Manager, in consultation with the Auditor General, to report by the December 17 and 18, 2019 meeting of City Council on mechanisms required that would enable the Auditor General to conduct risk assessments or investigate cyber security for City Agencies and Corporations not currently within the Auditor General's purview."

The City Manager will report back on this request to the Audit Committee on February 10, 2020.

Financial Benefits

Background

We are required to report on savings achieved

The Toronto Municipal Code requires that we report annually to City Council on the activities of our Office, including the savings achieved.

The implementation of our recommendations can result in different types of financial benefits, or savings. This is illustrated in Figure 1 below:

Types of financial benefits, or savings

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

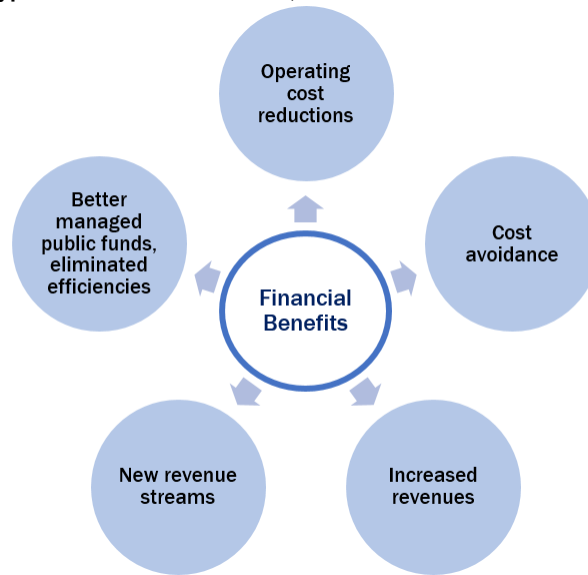


Exhibit 3 includes examples of previous audits and how they have provided various types of financial benefits to the City.

Savings can include cost reductions, new or increased revenue, or cost avoidance

In conducting our audits, we always try to quantify the potential financial benefits of implementing audit recommendations. These financial benefits, referred to as "savings", can include cost reductions, new or increased revenue streams, or future cost avoidance. Describing the potential financial impact in our audit reports is useful for highlighting to City Council, City administrators, and members of the public, the importance of timely action to implement recommendations.

Potential savings are not included when determining our ROI

Potential savings are not included in our Annual Report as savings achieved for the purposes of determining our return on investment. The Office's return on investment is calculated based on savings that have been realized and can be reasonably quantified after our recommendations have been implemented.

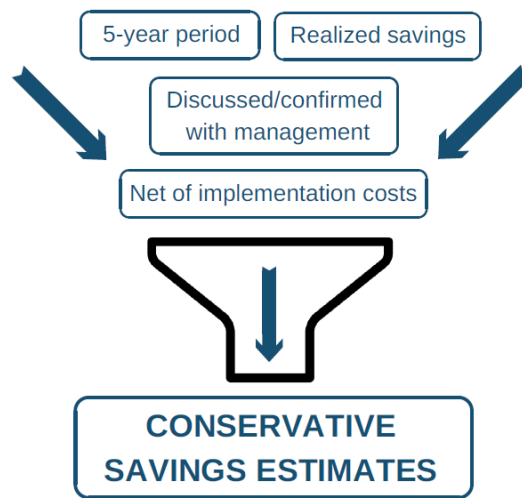
Calculation Methodology

Our underlying principles in quantifying realized savings

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

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

Figure 2: Auditor General's Office Methodology for Calculating Savings



Recommendations take into account the cost of implementation

In making audit recommendations, we are cognizant of their implementation cost and benefit. Careful consideration is given to ensuring recommendations are relevant, practical and cost-effective. In many cases, our recommendations relate to processes or controls that should be performed in the course of the City's operations, and therefore do not require additional investment. Where our recommendations require extra resources to implement, such as to acquire new capital assets, this is factored into our calculations.

Divisional funding requests

It is important to note that in some cases, divisions will request additional funding in their budgets and link them to our recommendations. However, some of these funding requests are for actions and controls the division should already have been doing in order to meet their mandate. In other cases, only a portion of the requested funding and resources are truly related to our recommendations. Going forward, we will be working with the City's Financial Planning Division to implement new processes to clarify, for budget purposes, which requests are linked to Auditor General recommendations.

Realized Savings

Savings are only included when the related recommendation has been implemented

Due to the nature of our work, many of our recommendations can result in savings being realized in years subsequent to the report release date. The timing depends on factors such as scope and complexity of the recommendations, speed of implementation, and in some cases, time elapsed for effects to become observable.

To ensure the estimated savings reported in our Annual Report are conservative and achievable, we do not include potential savings in our return on investment calculation. We are working with the City's Financial Planning Division to implement processes to ensure potential savings are considered by divisions, agencies and corporations as they prepare their budgets.

Savings are only included when management has taken action to implement the related audit recommendations.

\$32.6 million in one-time and five-year projected savings

Recommendations implemented from six previously issued audit reports resulted in the savings and revenue increases that are reported as realized this year. The combined one-time and five-year projected savings from these reports together with payment recoveries from fraud-related matters total \$32.6 million.

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

How Financial Benefits are Reflected in City Budgets

Our Office is required to report on savings and other benefits associated with our audits and investigations. We review and/or discuss realized savings with management. Management has been helpful in providing the information we need to estimate the impact resulting from their implementation of recommendations.

References to savings in divisional budgets

The timing of when recommendations are implemented and savings are achieved will impact whether or not divisions, agencies and corporations report the savings in their current Budget Notes.

Some savings were reflected in previous budgets

Table 1 contains notes on how savings were reflected in City budgets. It should be noted that certain amounts from prior year actions may have been realized in prior years or in 2019. Therefore, they may not be reflected in budget notes as a revenue or expenditure change in the upcoming year.

Also, with the ongoing transformation of the City's new budgeting process, the time available to work with divisions, agencies, and corporations to review projected and realized savings in their budgets was too short. As noted earlier, the Auditor General is working with the Financial Planning Division to have potential and realized savings considered early in the budget process.

Table 1: One-time and Recurring Savings (in \$000's) Realized in 2019, Auditor General's Office

		One-time 2019/ 2020	2021	2022	2023	2024	Total	Annual Report Pg #	Budget Impact
Savings Realized from Prior Year Reports									
1	Community Benefits Secured Under Section 37 or 45 of the Planning Act – March 2011	\$25,795					\$25,795	23	PY
2	Improvement Needed in Managing the City's Wireless Telecommunication Contracts – June 2018	\$2,080	\$1,684				\$3,764	24	NP
3	Audit of Water Billing and Collection – Phase II: Part 1 – Incorrect Vacant Land Status Properties Reduces City's Property Tax Revenue – October 2016	\$584	\$274	\$274	\$274	\$274	\$1,680	25	NP
4	Audit of Water Billing and Collection – Phase I: Overdue Water Account Collections Require Strengthening – February 2016	\$130					\$130	26	IY
5	SAP Financial and Human Resources/Payroll Information Systems – Post Implementation Review – April 2003	\$154	\$154	\$154	\$154	\$154	\$770	27	AC
6	Review of Wheel-Trans Services – Sustaining Level and Quality of Service Require Changes to the Program – December 2012	\$37	\$37	\$37	\$37	\$37	\$185	28	PY
Investigations of Fraud Related Matters									
	2019 Cost Recovery and Loss Prevention	\$110	\$51	\$51	\$51	\$51	\$314	28	
Total One-time and Recurring Savings		\$28,890	\$2,200	\$516	\$516	\$516	\$32,638		

Legend:

- PY One-time savings were realized pre-2019, but are being reported as achieved for the first time by the Auditor General in this Annual Report based on a Staff Report to City Council or a prior period's Budget Notes.
- IY One-time savings were realized in-year in 2019 and therefore not reflected in the 2020 Budget Notes.
- NP One-time and recurring savings were realized but are not reflected in the 2020 Budget Notes because the financial impact is corporate-wide (rather than to a specific division's budget) or to a non-program account.
- AC One-time and recurring savings relate to avoided costs that would otherwise have been incurred, but for implementation of our recommendation(s). Avoided costs are not reflected in the 2020 Budget Notes because they do not represent a reduction to, or an enhancement of a base budget requirement.

Return on Investment

Our return on investment is calculated based on the most recent five years. We calculate the return on every dollar invested in our Office by comparing the ratio of five-year audit costs to the cumulative estimated five-year realized savings.

\$318.8 million in cost savings and revenue increases over last five years

As illustrated in Table 2, the estimated one-time and projected five-year savings (cost reductions and revenue increases) over the same period were approximately \$318.8 million.

Table 2: Cumulative One-Time and Projected Five-year Savings (\$000s) 2015 to 2019, Auditor General's Office

ESTIMATED SAVINGS \$000's						
Year of Savings	Year of Annual Report					
	2015 \$	2016 \$	2017 \$	2018 \$	2019 \$	Total \$
2015	\$4,044					\$4,044
2016	\$3,189	\$11,849				\$15,038
2017	\$3,032	\$8,385	\$11,479			\$22,896
2018	\$3,032	\$9,839	\$13,607	\$14,095		\$40,573
2019	\$3,032	\$9,872	\$14,237	\$21,689	\$26,294	\$75,124
2020	\$921	\$9,907	\$14,237	\$23,189	\$2,596	\$50,850
2021		\$4,595	\$14,237	\$24,689	\$2,200	\$45,721
2022			\$13,652	\$24,689	\$516	\$38,857
2023				\$24,689	\$516	\$25,205
2024					\$516	\$516
Total	\$17,250	\$54,447	\$81,449	\$133,040	\$32,638	\$318,824

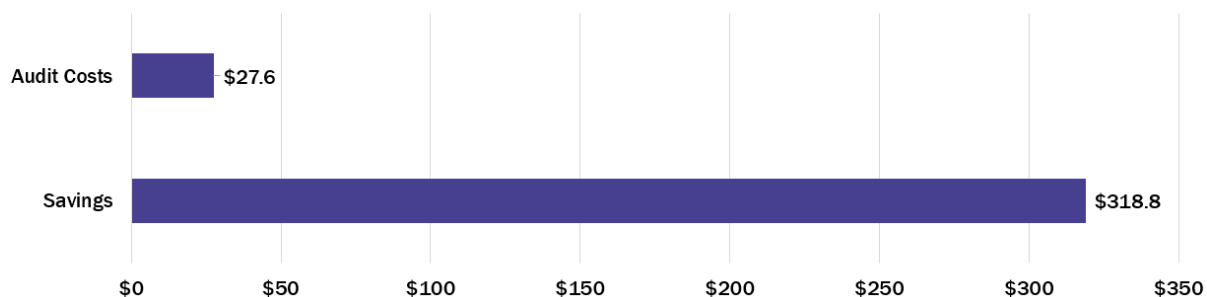
Five-year comparison of audit costs and realized savings

Our cumulative Office expenditures were \$27.6 million from 2015 to 2019. Figure 3 illustrates the comparison of our Office expenditures and cumulative one-time and projected five-year savings (2015 to 2019).

\$11.5 return on investment for every \$1 invested in our Office

From 2015 to 2019, every \$1 invested in our Office provided a return on investment of approximately \$11.5.

Figure 3: Five-Year Audit Costs Compared to Estimated Realized Savings (\$millions) 2015 to 2019, Auditor General's Office



Prior Reports with Savings Realized in 2019

This section provides a brief overview of audit reports released in 2018 and earlier which resulted in financial benefits (savings, revenue increases, and cost avoidance) that were realized in 2019.

City Planning Division - Community Benefits Secured Under Section 37 or 45 of The Planning Act, March 2011

Audit identified the need for improved controls to ensure all secured community benefits are received

The *Planning Act* allows the City to grant increases in height and/or density in return for a negotiated community benefit either by Council or Committee of Adjustment approvals. The benefit can be either cash or non-cash, such as child care spaces or affordable housing. The City Planning Division monitors the securing and receipt of these benefits.

In 2011, the Auditor General completed an audit of the administration of community benefits secured under the Planning Act. The audit found weaknesses in the controls in place to ensure all community benefits due were received.

The audit report is available at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2011.AU2.4>

Detailed review of each secured community benefit to ensure receipt of overdue benefits – \$3.4 million in overdue community benefits were identified

In response to the audit, management performed a detailed review of each development approval where a community benefit was secured to ensure receipt of any outstanding and overdue benefits. This review was completed at the end of 2018 and covered the period from amalgamation up to the end of 2017. From the review, City Planning found several community benefits which had been secured but not received. By working collaboratively with Legal Services, the Division identified and collected at least \$3.4 million in overdue community benefits.

The results of this review were presented to the Planning and Housing Committee in October 2019. The staff report is available at: <http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.PH8.8>

The Division recently reported to our Office that they have now fully implemented the recommendation from the audit. As part of our follow-up process, our Office will assess whether additional overdue benefits were recovered as part of management's detailed review of each development approval.

Indexing secured benefits protects their value over time – a value of \$22 million from 2013 to 2019 on secured but outstanding benefits

Our audit also identified that although certain cash benefits are secured at the time that an agreement is reached, the collection of the funds is often well into the future. We recommended that an inflationary index be applied to secured benefits to adjust the amount to be collected at a future date. This action protects the value of all community benefits secured. Based on the amounts secured but outstanding each year from 2013 through 2019, and the applicable index for the same period, the value of the inflationary adjustment is approximately \$22 million.

\$180 million in community benefits to be collected in the future

At the end of 2019, \$180 million in secured benefits⁸ remains outstanding and continues to have an inflationary adjustment applied that will become collectable at some time in the future.

Cash community benefits are recorded in a dedicated City reserve fund when collected

Community benefits are recorded directly to the dedicated City reserve fund at the time the cash is received. While these funds do not impact City Planning's divisional operating budget, the City's Section 37 and 45 Reserve Fund cash flow is included in the Planning Division 2020 Budget Notes. As at December 31, 2018, there was a balance of \$302 million in the reserves.

Improvement Needed in Managing the City's Wireless Telecommunication Contracts – Information & Technology Division, June 2018

Audit recommended review of price plans

In 2018, the Auditor General completed an audit of the City's wireless service contracts. The audit included recommendations for:

- Improving management of telecommunication contracts through selecting the most competitive price plan(s)
- Considering inter-governmental cooperative procurement

The audit report is available at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.AU13.17>

The City has realized savings of approximately \$843,000 in 2019

Management has already made progress in implementing the recommendations. The Information & Technology Division negotiated a reduced monthly service charge on an existing smartphone rate plan with the vendor from whom the majority of the services were acquired. The rate reduction was effective as of March 2019. As a result, the City has realized savings of approximately \$843,000 in 2019 and will realize savings of about \$1 million in each of 2020 and 2021.

⁸ This amount does not include non-cash benefits, the value of which may not be quantifiable until the time of receipt. It is possible that at a future date, cash contributions may be made in lieu of non-cash benefits. The cash value would be subject to indexing.

Annual recurring savings are expected

In addition, the City explored other opportunities to reduce wireless services costs and decided to leverage the contract used by the Province of Ontario for a two-year term, beginning January 1, 2020 to January 31, 2022. Savings will be achieved as existing and new lines are migrated to this contract. Using historical data for the number of smartphone lines and device migration rates as a baseline, we quantified the projected additional savings to be approximately \$191,000 in 2020 and \$638,000 in 2021.

There will be additional savings from the City's agencies and corporations

The savings will further increase as other City agencies and corporations also leverage the same contract as the City. We will be reporting on these additional savings in the upcoming year.

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

Audit identified City may be losing out on property tax revenue

A change in the property classification, from 'vacant land' to an 'occupied' property status, results in an increased assessment value of the property. In 2016, we conducted an audit of the City's water billing and collection processes. At the time of the audit, we analyzed properties classified as 'vacant land' with ongoing water consumption. We found properties classified as vacant land that appeared to be occupied. This impacts property valuations and property tax revenues.

The audit report is available at:
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.AU7.3>

Management has reviewed classification of certain 'vacant' properties

The audit recommended improvements to identify and collect additional property tax revenue that the City may have been potentially losing because of incorrect classifications of properties as vacant land.

\$274,000 in additional property taxes annually on 26 properties

In response to our audit recommendation, management developed a process to review vacant land property classifications reported by MPAC⁹ on an annual basis and to identify and correct any improper property classifications. By correcting classifications of 26 properties, the City billed approximately \$310,000 in retroactive property taxes for prior years and \$274,000 in annual property taxes going forward. Over five years, this translates to approximately \$1.68 million in additional property tax revenue to the City.

⁹ The Municipal Property Assessment Corporation (MPAC) is a legislated body responsible for assessing properties in Ontario

Ongoing reviews may result in further revenues

Additional financial benefits may be achieved in future years as the City continues to review other vacant land properties with MPAC, and as appeals are settled. Incremental property tax revenue from the review of additional properties may be included in future Annual Reports.

Increased property tax revenues for the City are not reported in divisional budget notes, but are incorporated into the City's tax base.

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

Audit identified improvement needed to collect delinquent water accounts

The focus of this audit was to determine whether all properties had water meters, and to see if customers were being billed appropriately. We identified a number of water accounts with overdue balances that had accumulated over a period of time, including water accounts that were billed to condominium corporations and not individual condominium unit owners. This resulted in significant arrears. We recommended Revenue Services to improve processes to collect overdue water bills for condominiums.

\$130,000 recovery from high risk delinquent condominium accounts in 2019

As at December 31, 2015, approximately \$4.9 million in accounts receivable were past due for water service provided to certain condominiums. Since the audit, management has been taking action to collect these outstanding amounts. By the end of 2018, management had collected \$4.5 million of the amount that was outstanding at the time of our audit. In 2019, management advised that they successfully collected an additional \$0.13 million in outstanding receivables.

Recovery of previously uncollected and overdue water accounts are not reflected in the 2020 Budget Notes because the impacts are related to prior year revenues.

The audit report is available at:
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.AU5.3>

SAP Financial and Human Resources/Payroll Information Systems – Post Implementation Review, April 2003

2003 audit recommended an SAP First policy for future software needs

A 2003 Auditor General's report "SAP Financial and Human Resources/Payroll Information Systems – Post Implementation Review" included, among other things, a recommendation for the Chief Administrative Officer to develop an SAP First Policy for the City's future software needs. The idea behind the SAP First philosophy was that software needs should be evaluated against the capability of the City's SAP software that it already owned before other software solutions were sought.

The audit report is available at:
http://www.toronto.ca/audit/2003/sap_final_apr4_2003.pdf

Benefits to adopting the City's financial information system

A 2011 Auditor General report reiterated the benefits of agencies and corporations adopting SAP as the financial information system of choice across the City.

This report is available at:
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2011.AU5.8>

TPA will avoid \$154,000 in annual costs by leveraging the City's pricing

In late 2019, the Toronto Parking Authority (TPA) leveraged the City's Master Services Agreement with SAP Canada to obtain special pricing to implement a modernized cloud-based Enterprise Resource Planning and Reporting (ERP) solution. Using the City's pricing, the TPA will save approximately \$154,000 in annual license fees beginning in 2020. In total, the TPA stands to save almost \$770,000 over the five-year contract.

The savings on licensing fees reduces the overall cost TPA will incur to replace its current accounting system, a custom-built application initially developed and implemented in the mid-1980s, which is approaching a state of obsolescence.

A copy of the staff report describing the need to upgrade the obsolete system is available at:
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.PA7.6>

Avoided costs are not reflected in the 2020 Budget Notes because they do not represent a reduction to, or an enhancement, of a base budget requirement.

Review of Wheel-Trans Services - Sustaining Level and Quality of Service Requires Changes to the Program, December 2012

In 2012, the Auditor General completed a review of the Toronto Transit Commission's (TTC) Wheel-Trans Services.

\$37,000 in annual savings by reducing annual printing and mailing costs

The audit recommended TTC reduce the annual printing and mailing costs of Wheel-Trans' quarterly newsletters and bulletins to customers. In response to the audit recommendation, management reviewed the process for communicating information to customers and implemented the following changes:

- Provided customers the option of receiving publications in an electronic format
- Reduced the number of publications from quarterly to three times a year

By implementing this audit recommendation, management advised that they have already saved \$37,000 in 2018, which is the cost associated with one fewer publication. Over five years, this translates to about \$185,000 in cost savings.

The report is available at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2013.AU12.16>

Other Responsibilities

Impact of the Fraud and Waste Hotline Program

Forensic Unit conducts and provides oversight over investigations

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

587 complaints containing approximately 950 allegations

Prevention and detection remain key components in managing business risks, which may result in direct financial losses and indirect costs such as additional management resources to investigate and mitigate wrongdoing. In 2019, the Hotline Program received 587 complaints, consisting of approximately 950 allegations.

2019 quantifiable financial benefits included one-time cost recovery and prevention of future losses

For complaints that are identified by divisional management and referred to the Hotline Program, their associated savings and cost recovery are not included in our 2019 savings calculations. This is in keeping with our conservative approach in reporting savings in this report.

Five-year savings of \$314,000 from Fraud and Waste Hotline complaints

The one-time cost recovery and annual savings as a result of complaints reported to the Hotline Program from sources other than referrals from divisional management is approximately \$59,000 and \$51,000 respectively. Over five years, the City will save approximately \$314,000. The 2019 Annual Report on the Fraud and Waste Hotline will be presented at the February 10, 2020 Audit Committee meeting.

Follow-up on Implementation of Audit Recommendations

Annual audit recommendation follow-up

City Council is responsible for ensuring that the recommended changes and improvements from our audits and investigations, as adopted by Council, are implemented. The Auditor General assists Council in exercising this responsibility through an annual recommendation follow-up process.

This process is included in the Auditor General's Annual Work Plan.

Results of recommendation follow-up are reported to Audit Committee

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

Audit Committee request to report on outstanding recommendations of greatest concern

In early 2019, the Audit Committee requested the Auditor General to report on outstanding audit recommendations which are of greatest concern to the Auditor General. We addressed this request by providing this additional information in each of our follow-up reports.

Exhibit 4 outlines the implementation status of audit recommendations that our Office verified during the 2019 follow-up process.

Monitoring the City Financial Statement Audit

Monitoring the external financial statement (attest) audit

In accordance with the audit framework approved by City Council in 2002, our Office also monitors the work and manages the contract of the external auditors performing annual financial statement audits of the City and certain of its agencies and corporations.

Although we do not provide assurance in relation to the financial statements, we conduct sufficient work to understand the business of, the issues in, and the audit risk involved with these entities. We often review the appointed auditor's audit plans, materiality, summary of unadjusted errors, and accounting issues identified. We also work with the appointed auditor to determine if there is a specific issue in an entity that needs to be addressed, as we may be able to provide necessary information or request that additional audit work be performed if required.

An RFP for an external auditor to perform financial statement audits for the City was issued in 2019

The current five-year contract for external audits of the City and its major agencies and corporations expires with the completion of the 2019 financial statements. In 2019, the Auditor General's Office issued a Request for Proposal (RFP) to select an external auditor licensed under the Public Accounting Act, 2004, to perform the annual financial statement audits for the City and certain of its agencies and corporations for the years ending December 31, 2020 to 2024 inclusive, as well as other attest audits of financial information required during this period. The results of the RFP will be considered by the Audit Committee and City Council in early 2020.

Leaders in our Profession

Sharing expertise and learning from mutual experiences

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

Sharing our Knowledge

Presentations on issues that could also impact other municipalities

At the Municipal Internal Auditors Association Fall Conference, staff from our Office presented the methodology and findings from our audit of fare evasion on the TTC. This brought awareness to other government audit offices of our findings and audit approach.

We also share our insights with those impacted by our audits. For example, after our audit relating to construction contract change management controls, the Engineering and Construction Services Division invited us to present our findings and recommendations to the entire Division. In addition, the Institution of Fire Engineers (Canada branch) invited the Auditor General to share with their members, her observations and recommendations from the report *"Raising the Alarm: Fraud Investigation of a Vendor Providing Life Safety Inspection Services"*. They recognized the importance of exploring issues in the report to strengthen their industry and public safety across Ontario.

Recognized in industry publications

In 2019, a number of industry groups featured our practices, approach, and methodologies, including:

- The Canadian Audit and Accountability Foundation (CAAF) April 2019 research publication titled *"The Impact of Performance Audits: Defining, Measuring and Reporting Impact"* described how audit institutions in Canada and abroad measure and report the impact of their performance audits. It highlights our Office's good practices in reporting the financial impact of our audit reports.

More specifically,

"... [the Auditor General's Office of the City of Toronto] is the only one in Canada to regularly report on the financial impacts of its performance audits."¹⁰

- On their respective websites, the CAAF and the Association of Local Government Auditors (ALGA) also featured our audits "Review of Toronto Transit Commission's Revenue Operations: Phase One – Fare Evasion and Fare Inspection" and "Opening Doors to Stable Housing: An Effective Waiting List and Reduced Vacancy Rates Will Help More People Access Housing".

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

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

¹⁰ Canadian Audit and Accountability Foundation, [The Impact of Performance Audits: Defining, Measuring and Reporting Impact](#), April 1, 2019, p.29,

Contributing to the Audit Industry

Serving on industry committees and boards to foster the growth of the profession

We also make valuable contributions to the audit industry. Staff from our Office serve as active members on various committees and boards that foster the growth of the profession, including:

- Association of Local Government Auditors committees, including the Professional Issues and Peer Review Committees, as well as conducting independent peer reviews of other audit offices.
- Municipal Internal Auditors Association of Ontario Executive Board which arranges training and knowledge-sharing workshops attended by 120 municipal auditors from over 35 municipalities and other jurisdictions.
- The City is a member of the Toronto Region Immigrant Employment Council's mentoring partnership program. Through this program, members of our staff have provided mentoring services to skilled immigrants, and helped them to integrate successfully into the Canadian job market.

Providing mentoring services to skilled immigrants

2020 and Beyond

2020 Audit Work Plan

Audit projects included in our annual Work Plan are identified through a periodic City-wide risk prioritization process, a review of emerging issues, and an analysis of trends in allegations made to our Fraud and Waste Hotline.

Examples of planned audit projects

The City Audit Committee and City Council adopted our 2020 Audit Work Plan in October 2019. Planned projects in 2020 include audits of:

- Emergency shelter operations
- Affordable housing
- Winter maintenance
- Parks, Forestry & Recreation
- Information technology audits

Extensive City-wide risk assessment to begin in 2020

Our Office will begin a new City-wide audit priority assessment process in early 2020. This is an extensive project that will review all City divisions, and certain agencies and corporations. The results of this assessment will inform the audit priorities for the next five years. For the first time, the Toronto Police Services Board and the Toronto Public Library Board have invited the Auditor General to conduct a risk assessment of their agencies.

Conclusion

2019 at a glance

Our Office completed 14 performance audits and investigations in 2019. We also completed our annual follow-up of the status of recommendations, and operated the Fraud and Waste Hotline.

\$11.5 saved for every dollar invested in the Office

Cost savings reflect the quantifiable financial benefits of the Auditor General's work. The estimated cumulative savings for the last five years are approximately \$318.8 million. The total audit cost for the same period is approximately \$27.6 million. This means that for every \$1 invested in our Office, the return on this investment was approximately \$11.5.

Audits and investigations result in significant non-quantifiable benefits

Equally important are the recommendations we make to safeguard City resources, address internal control weaknesses, and ensure proper use of public funds. Many audit reports have significant non-financial and long-term benefits to the City.

Management's commitment to addressing recommendations

We would like to express our gratitude to City staff and management for their cooperation and valuable input during our respective engagements, and their willingness to consider and take immediate action on changes brought forth by our recommendations. We look forward to continuing to work together with all management and staff in 2020 and beyond.

Exhibit 1: Mandated Responsibilities of the Auditor General

The *City of Toronto Act*, 2006 (the *Act*), formalized the establishment of the Auditor General. Under the *Act*, the Auditor General is responsible for assisting City Council in holding itself and City administrators accountable for the quality of stewardship over public funds and for achievement of value for money in City operations. The Auditor General conducts value for money audits and forensic examinations to fulfill this mandate.

Specific responsibilities of the Auditor General are set out in Chapter 3 of the *Toronto Municipal Code*, including:

- Reporting to City Council on annual Office activities, including savings achieved.
- Conducting audit projects identified by the Auditor General, or approved by a two-thirds majority resolution of City Council.
- Undertaking financial (excluding attest), compliance and performance audits and provide recommendations to City-controlled agencies and corporations.
- Undertaking financial (excluding attest), compliance and performance audits and provide recommendations upon request by the Toronto Police Services Board, Toronto Public Library Board and the Toronto Board of Health.

In June 2014, City Council adopted the Toronto Public Service By-law that includes a Disclosure of Wrongdoing and Reprisal Protection framework. The framework reinforces the Auditor General's independent oversight role in the investigation of reported wrongdoing. Chapter 192 of the Toronto Municipal Code contains the By-law which came into effect on December 31, 2015.

In addition, the Auditor General's responsibilities in relation to her role in the investigation of complaints and alleged wrongdoing are also set out in Chapter 192:

- Operating the Fraud and Waste Hotline Program, including the referral of issues to divisional management.
- Conducting investigations into fraud and other wrongdoing, as well as allegations of employee reprisals.

In accordance with the audit framework approved by City Council in 2002, the Auditor General's Office also performs the following duties:

- Monitoring and managing the contract of the external auditors performing financial statement audits.
- Coordinating audit activities with the City's Internal Audit Division to ensure the efficient and effective use of audit resources.
- Coordinating audit activities with internal auditors of the City's agencies and corporations.
- Coordinating activities with the City's three other Accountability Officers: the Ombudsman, the Lobbyist Registrar and the Integrity Commissioner.

Exhibit 2: Reports Issued in 2019

2019 Audit and Investigative Reports:

- Review of Toronto Transit Commission's Revenue Operations: Phase One – Fare Evasion and Fare Inspection
- Review of Urban Forestry: Ensuring Value for Money for Tree Maintenance Services
- Moving Forward Together: Opportunities to Address Broader City Priorities in TCHC Revitalizations
- Opening Doors to Stable Housing: An Effective Waiting List and Reduced Vacancy Rates Will Help More People Access Housing
- Audit of Interface Invoice Payments - Improving Contract Management and Payment Processes
- Engineering and Construction Services – Phase Two: Construction Contract Change Management Controls Should Be Strengthened
- Fleet Services Phase 1: Lengthy Downtime Requires Immediate Attention
- Fleet Services Phase 1: Stronger Corporate Oversight Needed for Underutilized Vehicles
- Review of Toronto Transit Commission's Revenue Operations: Phase Two – PRESTO/TTC Fare Equipment and PRESTO Revenue
- Fleet Services Operational Review: Phase Two – Stronger Asset Management Needed
- Safeguarding Rent-Geared-to-Income Assistance: Ensuring Only Eligible People Benefit
- Cyber Safety: A Robust Cybersecurity Program Needed to Mitigate Current and Emerging Threats
- Investigation Into Allegations of Reprisal: Reprisal Not Found, But Lessons Learned
- Toronto Building Division: Conditional Permits - Follow-up Review¹¹

Other Reports:

- 2018 Annual Report on the Fraud and Waste Hotline
- 2018 Annual Report - Demonstrating the Value of the Auditor General's Office
- Supplementary Report – Establishment of City Wide Cyber Security Breach Incident Management Procedures Required

2019 Recommendation Follow-up Reports:

- Auditor General's 2019 Status Report on Outstanding Audit Recommendations for City Divisions in Corporate Services and Finance and Treasury Services
- Auditor General's 2019 Consolidated Status Report on Outstanding Audit Recommendations
- Auditor General's Office – Forensic Unit Status Report on Outstanding Recommendations
- Report from the Auditor General – 2019 Status Report on Outstanding Audit Recommendations for City Divisions in Infrastructure and Development Services
- Auditor General's 2019 Status Report on Outstanding Audit Recommendations for City Agencies and Corporations
- Auditor General's 2019 Status Report on Outstanding Audit Recommendations for Divisions in Community and Social Services and the City Manager's Office

¹¹ Although work was completed in 2019, due to a technical update, the report will be issued at the February 10, 2020 Audit Committee.

- Auditor General's Response to the Audit Committee's Request on the Outstanding Audit Recommendations Which Are of Greatest Concern
- Auditor General's 2018 Status Report on Outstanding Audit Recommendations for City Divisions in Corporate Services and Finance and Treasury Services
- Auditor General's 2018 Consolidated Status Report on Follow-up of Outstanding Audit Recommendations
- Auditor General's Office – Forensic Unit Status Report on Outstanding Recommendation

Exhibit 3: Examples of How Audit Recommendations Benefit the City

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

Increase City revenues, develop new revenue streams, and reduce operating costs		
Increase City revenues	2018 Enhance Focus on Lease Administration of City-owned Properties	By renewing an expired lease at market rates in a timely manner, the City will receive \$420,000 in new annual rent revenue. Combined with utility cost savings, over five years, this will result in savings and increased revenues of \$2.6 million.
	2016 Water Supply Contract for the Region of York	The City successfully negotiated a new water supply contract with the Region of York which will generate additional annual revenue and also contribute towards improvement of water infrastructure. Over five years, the City is estimated to increase revenues by over \$33 million.
	2016 Phase Two Audit of the City's Long-Term Disability Benefits	The City recovered approximately \$240,000 in overpaid HST charges due to duplicated charges embedded in invoices and in monthly statements.
	2015 Audit of Property Tax Assessments and Payment in Lieu of Taxes	Within a selected sample of properties, the audit identified potentially undervalued or incorrectly assessed properties. Resolving these issues resulted in a retroactive \$2.4 million collection of property tax and payment in lieu of tax (PILT) revenue from previous years. Improved processes to initiating assessment appeals will increase property tax and PILT revenue by an estimated \$5.8 million annually.
Develop new revenue streams	2018 Court Services Review	By using improved data analytics processes to match debtors with defaulted Provincial Offences Act fines to properties information, the City was able to add \$710,000 in fines to debtors' property tax rolls.
	2011 Audit of Police Parking Enforcement Review	\$3 million annually in new revenue to the City by enabling Parking Enforcement Officers to enforce licence renewal legislation. Revenue from expired licence plates previously resided with the Province.
	2011 Audit of Energy Efficiency Office	<p>The audit highlighted the need for increased diligence regarding claiming carbon credits. Carbon credits are the dollar value associated with reductions in greenhouse gas emissions.</p> <p>Staff estimated that the sale of up to 50,000 tonnes of carbon credits could generate \$250,000 to \$500,000 revenues per year.</p>
Reduce operating costs	2018 Review of the Green Lane Landfill Operations	During 2018, Solid Waste Division re-balanced the tonnage of waste sent to the Green Lane landfill versus third party landfill sites. This will result in approximately \$970,000 in annual cost savings.

	2017 and 2016 Audit of Employee Health Benefits	Findings from the audits contributed to more rigorous control requirements expected from the new administrator, and more robust oversight by staff in the City's Pension, Payroll & Employee Benefits Division. These factors collectively contributed to a \$5.45 million reduction in health benefits costs subsequent to the audit.
	2016 Phase Two Audit of the City's Long-Term Disability Benefits	Changes to long-term disability benefits resulted in \$1.9 million in annual savings beginning in 2017.
	2016 Audit of City Cleaning Services	Changes to the procurement and administration of cleaning contracts achieved annual savings of \$850,000 realized beginning in 2017 and additional \$740,000 annually beginning in 2018.
	2014 Phase One Audit of TTC Bus Maintenance and Shops Department	Significant improvements to the bus warranty claim process resulted in one-time warranty savings of \$8 million and an estimated annual recurring savings of \$5.8 million.

Better manage or use City resources, including management of public funds, personnel, property and equipment		
Better manage public funds	2016 Phase One Audit of TTC Inventory Controls	The audit prompted a review of inventory that had been received but not recorded in the inventory system. This review resulted in \$324,000 worth of inventory that was input in the system and could be made available for operational use.
	2016 & 2015 CCM of City Telecom Expenses (2014)	Continuous Control Monitoring (CCM) of telecommunication expenses resulted in additional annual savings of \$348,000 through the cancellation of inactive devices, adjustments to monthly phone plans and recoveries from staff for personal use of telecommunications devices.
	2014 Telecom Expenses Audit	Analysis of telecom expenses resulted in cancellation, suspension and re-assignment of City phones with no activity, multiple phones issued to the same users, and reduced excessive data/roaming/texting and other charges. To date, implemented audit recommendations have resulted in one-time and five-year savings of approximately \$3.5 million.
Better manage City equipment	2014 Phase One Review of TTC Bus Maintenance and Shops Department: Bus Maintenance and Warranty Administration	<p>Management evaluated the merits of the current bus preventive maintenance inspection (PMI) interval in preventing mechanical failures. TTC staff piloted a revised interval to ensure the change in the PMI interval would not adversely affect vehicle safety and reliability.</p> <p>The higher inspection interval decreased the number of inspections required. This resulted in annual recurring savings of \$120,000.</p>

	2012 Audit of Inventory Controls Over Traffic Control Devices	Consolidated the storage of emergency supplies which were previously stored in rented facilities. By storing them in City warehouses, the \$48,000 annual rental cost was eliminated.
	2012 Audit of TCHC Fleet Management	The transfer of management and ownership of TCHC fleet to the City resulted in annual savings of \$520,000. TCHC also reduced its fleet by 30 vehicles which resulted in \$380,000 annual savings in operating and capital expenses.

Eliminate inefficiencies		
Eliminating inefficiencies in use of staff resources	2015 CCM - TTC, 12-Month Review of Employee Absenteeism (2014)	The CCM report provided an impetus for the TTC to focus on management of overtime. A number of changes were initiated by TTC management to reduce overtime in bus, station and Wheel-Trans operations. By moving the after business hour Wheel-Trans trips to contracted taxi services, TTC realized an annual savings of approximately \$800,000 from reducing the overtime otherwise required by TTC Wheel-Trans bus operators. This new process likely contributed to half of the net savings from improved overtime monitoring (annualized estimate of \$400,000).
	2011 Police Paid Duty Audit	Seventeen uniformed police officers were redeployed from paid duty administrative work (distributing paid duties) to policing duties, an equivalent of \$1.7 million per year in cost avoidance.
	2010 Insurance and Risk Management Review	Achieved annual savings of \$745,000 by creating more internal solicitor positions to reduce fees paid to outsource insurance claims related work to external law firms.
Eliminate inefficiencies in purchasing	2017 Review of TTC Procurement Policies and Practices	TTC has already achieved annual savings of \$3.69 million related to improved procurement processes (including blanket orders, better core management practices, and improvements to the aftermarket warranty program). These initiatives result in savings of \$18.45 million over five years.
	2010 Audit of TCHC Procurement Policies	TCHC reviewed opportunities to cooperate purchasing arrangements with the City. Staff estimated annual savings between \$5 million and \$7 million by obtaining goods through City stores.

Exhibit 4: 2019 Follow-up Results on Outstanding Audit Recommendations

The table below summarizes the implementation status of all applicable recommendations issued by the Auditor General's Office from inception (January 1999) to December 31, 2017.

Recommendations issued by the Auditor General's Forensic Unit are also included in the respective City division's follow-up results.

2019 Follow-Up Review Results - Status of all Recommendations for Reports Issued from Inception to December 31, 2017

	Fully Implemented	Not Fully Implemented	No Longer Applicable	Total
Community and Social Services	247	11	33	291
Infrastructure and Development	450	43	18	511
Corporate Services	382	84	35	501
Finance and Treasury Services	365	95	37	497
City Manager's Office	233	17	35	285
Agencies and Corporations	584	61	127	772
Total Recommendations	2,261	311	285	2,857

The Auditor General's 2019 Consolidated Status Report on Outstanding Audit Recommendations is available at:

<https://www.toronto.ca/legdocs/mmis/2019/au/bgrd/backgroundfile-138831.pdf>

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