

## **Status Report on Outstanding Audit Recommendations for City Divisions in Community and Social Services, the City Manager's Office and the People and Equity Division**

**Date:** January 27, 2020

**To:** Audit Committee

**From:** Auditor General

**Wards:** All

### **REASON FOR CONFIDENTIAL INFORMATION**

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

### **SUMMARY**

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

This report provides information regarding the implementation status of audit recommendations issued to City divisions in Community and Social Services, the City Manager's Office and the People and Equity Division. Our 2020 follow-up review included 82 outstanding recommendations from audit reports issued between 2009 and 2018 for the following divisions:

- City Manager's Office
- Children's Services
- Court Services
- Parks, Forestry and Recreation
- People and Equity
- Shelter, Support and Housing Administration
- Social Development, Finance and Administration
- Toronto Paramedic Services

Our review verified that 30 recommendations (37 per cent) have been fully implemented, 51 recommendations (62 per cent) have not been fully implemented and one recommendation (1 per cent) is no longer applicable. While a number of the recommendations have not been fully implemented, we recognize management's efforts to implement these recommendations. We also recognize that audit recommendations in recently issued reports may need more time to be fully implemented. Of the 51 outstanding recommendations, 37 are outstanding from the audit reports issued in 2018.

Continued efforts to implement outstanding recommendations will provide additional financial and non-financial benefits to the City. These benefits include cost savings, additional revenue, enhanced service delivery and improved controls. The Auditor General reports to the Audit Committee each year on the implementation status of outstanding recommendations.

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

During the current follow-up process, management reported that 55 out of 82 outstanding recommendations were fully implemented. However, based on our review we determined that 25 (45 per cent) of those recommendations have not been fully implemented because the steps undertaken or the extent of the improvement did not fully address the issue or the intent of the recommendation, or management was unable to provide sufficient appropriate evidence of action taken. Management agreed with our assessment and will take additional actions to fully implement these recommendations.

## **RECOMMENDATIONS**

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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**

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

## **DECISION HISTORY**

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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/or avoid health and safety or reputation risks to the City after implementation. The report is available at:

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

At the May 3, 2019 Audit Committee meeting, a motion was made to "Request the Auditor General to continue to bring forward to each meeting of the Audit Committee, a list of outstanding recommendations she considers to be a high priority. The high priority recommendations are included in the Attachment 2.

## **ISSUE BACKGROUND**

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The follow-up of outstanding recommendations is required by Government Auditing Standards. Following up on outstanding recommendations is important as it ensures that management has taken appropriate actions to implement the recommendations.

In accordance with the Auditor General's 2020 Work Plan, we have completed a review of the implementation status of audit recommendations issued to City divisions in Community and Social Services, the City Manager's Office and the People and Equity Division.

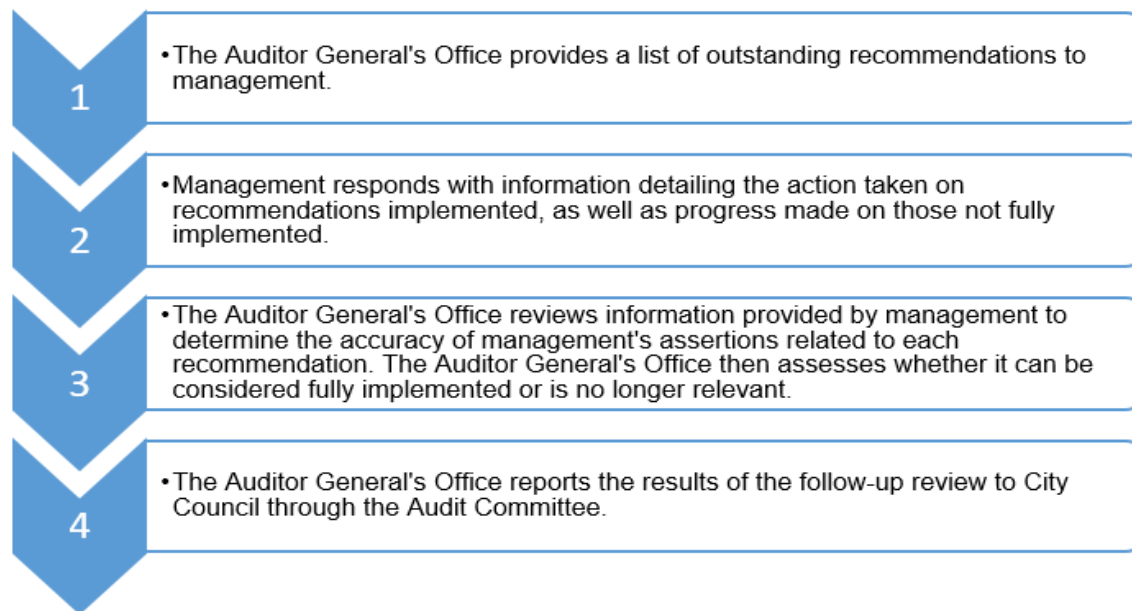
The 2019 audit recommendations follow-up results for all City divisions, the City Manager's Office, Agencies and Corporations, and recommendations issued by the Auditor General's Forensic Unit are summarized in the consolidated year-end report presented to the October 25, 2019 Audit Committee meeting. The report is available at:

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

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

The Auditor General also conducts a follow-up review of the recommendations issued in separate letters to management for less significant issues identified during the audit. The review results are reported to the City Manager and not included in this report.

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



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 fully implemented.

Management is responsible for reviewing recommendations in conjunction with the original audit report to obtain an understanding of the issues which underlie the recommendations.

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

## **COMMENTS**

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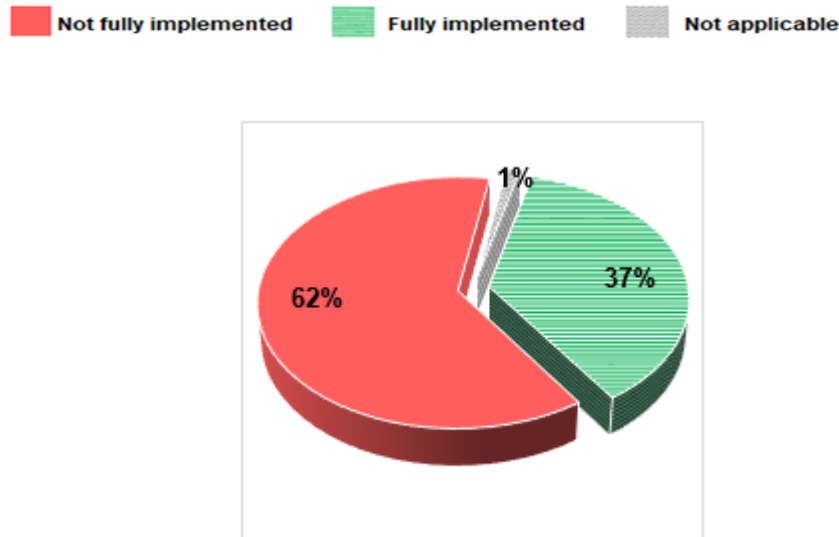
Our 2020 follow-up review included 82 outstanding recommendations from audit reports issued between 2009 and 2018. A further 51 recommendations from audit reports issued after December 31, 2018 are not included in this follow-up process. This will provide management with adequate time to take appropriate action to implement the recommendations. These recommendations will be included in our next year's follow-up review. Audit reports issued since December 31, 2018 that are not included in our 2020 follow-up review are identified in Attachment 4.

Table 1 shows the implementation status of the 82 outstanding recommendations included in our follow-up process for City divisions in Community and Social Services, the City Manager's Office and the People and Equity Division. The overall percentage of outstanding recommendations implemented in the past year is illustrated in Figure 2.

**Table 1: Status of Outstanding Audit Recommendations for Reports Issued up to December 31, 2018**

Divisions in Community and Social Services, City Manager's Office and People and Equity Division	Total Number of Outstanding Recommendations as of December 31, 2018	Results of 2020 Follow-up Review		
		Fully Implemented	Not Fully Implemented	No Longer Applicable
City Manager's Office	3	1	2	0
Children's Services	20	8	12	0
Court Services	31	14	16	1
Parks, Forestry and Recreation	14	3	11	0
People and Equity	5	2	3	0
Shelter, Support and Housing Administration	1	0	1	0
Social Development, Finance and Administration	5	2	3	0
Toronto Paramedic Services	3	0	3	0
<b>Total</b>	<b>82</b>	<b>30 (37%)</b>	<b>51 (62%)</b>	<b>1 (1 %)</b>

**Figure 2: Overall Implementation Status of Recommendations Issued up to December 31, 2018 for Divisions in Community and Social Services, the City Manager's Office and the People and Equity Division**



## **Notable Development in Implementing Recommendations**

### **Toronto Court Services: Collection of Provincial Offence Default Fines, April 2018**

In 2018, the Auditor General completed an audit of the City's collection of defaulted Provincial Offences Act (POA) fines. At that time, we reported that there was \$577 million<sup>1</sup> in defaulted POA fines owing as of June 30, 2017. As of November 30, 2019, there are now \$592 million<sup>2</sup> in defaulted POA fines outstanding.

Our audit included 31 recommendations to strengthen Court Services' strategy, oversight, and tools to collect defaulted POA fines. The audit report is available at:

<https://www.toronto.ca/legdocs/mmis/2018/au/bgrd/backgroundfile-114757.pdf>

This is the first follow-up of the implementation status of recommendations from this report. The Court Services Division has made progress in addressing our recommendations and implementing procedures to improve collections. Our review verified that Court Services have implemented 14 recommendations and one

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<sup>1</sup> Comprised of \$421 million owing to the City, \$63 million to be collected by the City on behalf of the Province, and \$93 million for collection agency costs added by Court Services in order to pay for potential collection agency commissions.

<sup>2</sup> Comprised of \$425 million owing to the City, \$64 million to be collected by the City on behalf of the Province, and \$103 million for collection agency costs added.

recommendation was assessed as no longer applicable. Implementation of a further 16 recommendations is underway.

In some cases, new strategies, policies, and procedures were implemented in late 2019. Audit standards require that we obtain sufficient appropriate evidence that changes are effective. Not enough time has passed to provide sufficient appropriate audit evidence that recommendations have been fully implemented on a consistent basis over a period of time. We will review these recommendations in our next year's follow-up process.

A number of outstanding recommendations will result in increased revenues to the City once effectively implemented. In its 2020 Operating Budget, Court Services is projecting a base budget increase in revenues of \$1.48 million from implementation of audit recommendations. Some of these savings relate to improved collection strategies and will be verified and included in our future follow-up reports when the related recommendations are fully implemented.

*Recommendation Nos. 2, 3, 10, 11, 13, 15, 16*

A number of recommendations were made for the City to request the Province to enhance the range and effectiveness of collection tools available, improving the City's ability to manage and pursue defaulted fines.

During 2018, the City Manager sent two letters to the Deputy Attorney General requesting consideration of legislative changes, additional sanctions, and process improvements to enhance Ontario municipalities' ability to collect defaulted POA fines.

The Deputy Attorney General responded that the Ministry is reviewing the City's recommendations and will continue its ongoing work with municipalities, other ministries, and interested stakeholders like the City of Toronto to improve the enforcement of POA fines in Ontario. The City has not received any correspondence or other indication of progress on these requests since early 2019.

Management has implemented our recommendations by presenting the City's requests to the Province for consideration. We are closing this recommendation, but will provide a further update in our next report if there is any positive movement on the City's requests. The City Manager should also consider following up with the Ministry of the Attorney General on a periodic basis.

*Recommendation No. 18*

The recommendation requested the City Manager to:

*a. undertake the necessary consultation with the relevant provincial Ministries to evaluate whether the City's defaulted Provincial Offences Act fines can be added to the Canada Revenue Agency Set-Off Programs; and if so,*

*b. submit a request to participate in the Programs.*

The CRA Set-Off program is a mechanism to help collect Crown debt efficiently and effectively. It is a prerequisite to participating in CRA's Set-Off Program that the Province advise CRA that POA fines are debts owed 'to the Crown' even though the administrative process to collect the debts has been delegated to the City.

It is the City's opinion that the fines and related debts owed under the POA are Crown debts, and that the transfer of administration activities from the Province to the City in 2002 did not change the nature of that debt. The Ministry of the Attorney General's Provincial Offences Act Write-off Directive and Operating Guideline (2008), also clearly states that fines imposed by POA Courts are debts owed to the Crown. The Province continues to receive approximately 20 per cent of amounts collected.

Where the Province considers POA fines as amounts that are owed in perpetuity to the Crown (i.e. a convicted offender cannot be absolved by the municipality from the requirement to pay a fine) unless forgiven by the Crown, then the Province should support the City in exhausting all possible means of collection, including working with the City to enter into an agreement for participation in Canada Revenue Agency's Refund Set-Off Program.

We observed that the City, through Municipal Court Managers' Association of Ontario (MCMA), have sent multiple communications to the Province to attempt to move this forward with little success. One of the main challenges is the question of whether POA fines should be classified as Crown debt, which the CRA considers a prerequisite to participating in its Set-Off Program.

For the purposes of our follow-up, management has implemented our recommendation by presenting the City's requests to the province for consideration, so it will be removed from our follow-up process. However, the City Manager may wish to continue to further strategic discussions and possibly obtain a formal legal opinion from the Ministry of the Attorney General on the nature of debt arising from defaulted POA fines.

#### *Recommendation No. 21*

*The City Manager was to consider whether a request should be made to the Province regarding whether incentives for early fine payment can and ought to be established, such as discounts to fine amounts where a defendant does not dispute a ticket and submits payment promptly or interest charges applied to fines that go into default.*

The City Manager has considered this recommendation and the decision was made not to convey this particular request to the Province, based on the advice received from Legal Services.

#### *Recommendation No. 23*

*The recommendation requested the Director, Court Services, to explore the use of predictive data modelling and decision analytics in order to optimize collections and resource allocation based on the debt profile.*



Court Services primarily relies on the work of their outsourced collection agencies to drive the analysis of collection performance and strategy for the respective accounts assigned to the agency for collection. Court Services has also consulted with York Region Court Services to understand their data analysis strategies.

The Division has advised that it will incorporate predictive data modelling and decision analytics in the development of business requirements for a collection information system in 2020, and that any data analytic/debtor profiling solutions for defaulted POA fines will be consistent with the City's financial system transformation project.

Given that Recommendation No. 30 *“requests the Treasurer, in coordination with the Chief Purchasing Officer, and in consultation with the other program areas responsible for receivables management and debt collection including Court Services, to seek private sector expertise in designing transformative solutions for collecting overdue amounts owing to the City”*, we will close Recommendation No. 23 under the assumption that predictive data modelling and decision analytics for POA fines will be considered as part of the Accounting Services' efforts to respond to Recommendation No. 30. We will continue to monitor how Court Services, and the City as a whole, is advancing the use of data modelling for their collection efforts.

### **Maximizing Value from a Learning Management System, October 2015**

In 2015, the Auditor General completed an audit on the value of a corporate learning management system. This audit identified that the City was not receiving the anticipated value from the investment in the City's enterprise eLearning initiative (ELI) because adequate controls were not in place to ensure costs and benefits associated with the project were being accurately recorded. The report is available at:

<https://www.toronto.ca/legdocs/mmis/2015/au/bgrd/backgroundfile-84579.pdf>

The following outstanding recommendation was verified as implemented during this follow-up process:

#### *Recommendation No. 4*

*City Council request the Executive Director, Human Resources and the Chief Information Officer to ensure total project costs reported at the end of the Enterprise eLearning Initiative identify and include all planning costs for the project.*

This recommendation highlights the importance of incorporating all planning and anticipated operating costs when developing a business case. This ensures the City makes decisions based on best available information.

The planning for the capital project of a corporate learning management system, known as ELI, started in 2010. The anticipated budget of approximately \$3 million was revised and increased to \$5 million in 2015. The ELI capital project was closed out in 2019 with total project costs at \$13.2 million, including both operating and capital funding.

## 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/or avoid health and safety or reputation risks to the City after implementation. The Auditor General identified 10 high-priority outstanding recommendations included in Attachment 2.

The high-priority audit recommendations with potential significant cost savings are provided below:

### **Children's Services Division Opportunities to Achieve Greater Value for Child Care from Public Funds, April 2018**

The 2018 audit report contains 20 recommendations to improve the effectiveness and efficiency of key functions and services provided by the Children's Services Division while ensuring child care services in the City are economically viable. This is our first follow-up review of the recommendations made in this audit. Our review verified that Children's Services have implemented eight recommendations. The report is available at:

<https://www.toronto.ca/legdocs/mmis/2018/au/bgrd/backgroundfile-114760.pdf>

The Auditor General identified Recommendation No.1 as high-priority because it presents an opportunity for more economical service delivery at 52 City child care centres. The estimated savings are substantial and could result in more subsidies and lower or more affordable fees for families with children in care. The City Manager's Office, at the direction of Council, started a review of Toronto Early Learning and Child Care Services in July 2019. The review is in response to this audit recommendation and the report is anticipated in early 2020.

The Auditor General identified Recommendation No. 2 as high-priority because it is an immediate solution that makes better use of existing licensed child care spaces or current infrastructure and does not require any long-term financial planning. The Division responded to the recommendation by taking immediate action to expand the number of spaces in the contracted non-profit sector. In particular, the Division has worked in partnership with the Boards of education to expand the number of Before and After School spaces in schools and worked with child care centres to expand their operating capacity. This has resulted in an additional 3,171 spaces being added between December 2017 and December 2018 by Licensed not for profit operators who have a Service Agreement for Child Care Fee Subsidy with the City.

Children's Services continues to explore ways to expand the number of child care spaces that can be purchased from contracted non-profit child care operators already in the system.

## **Review of Urban Forestry - Permit Issuance and Tree Bylaw Enforcement Require Significant Improvement, June 2018**

The 2018 audit report contains 12 recommendations to help Urban Forestry Branch strengthen controls over permit issuance, management oversight, and compliance with permit requirements. This is our first follow-up of the recommendations made in this audit. Our review verified that three recommendations have been implemented. The report is available at:

<https://www.toronto.ca/legdocs/mmis/2018/au/bgrd/backgroundfile-117956.pdf>

Recommendation No.6 relate to unclaimed Tree Planting Security and Tree Protection Guarantee deposits. The recommendation requests the General Manager, Parks, Forestry and Recreation Division, to develop a clear policy and process to address old unclaimed Tree Security and Tree Protection Guarantee deposits and to transfer the unclaimed deposits to the City's revenue account once all reasonable efforts to locate the applicants have been exhausted.

The audit identified that as of February 2018, \$29.3 million of unclaimed refundable deposits was collected between 1994 and 2017. Of the \$29.3 million, approximately \$9.8 million was held for less than two years and will probably need to be refunded to the applicants. The remaining balance of approximately \$19.5 million consists of both deposits collected from projects that can take years to complete and old deposits collected in 2012 and prior years.

We acknowledge that management has taken steps to address the recommendation and has developed a process to address old unclaimed deposits. However, at this time Urban Forestry have not transferred the unclaimed deposits to the City's revenue account because it is awaiting further guidance from Accounting Services Division.

### **Conclusion**

Among the 82 recommendations included in the 2020 follow-up review, we verified that 30 recommendations have been fully implemented, 51 recommendations have not been fully implemented and one recommendation is no longer applicable. This report also summarizes the high-priority outstanding recommendations from audit reports issued to City divisions in Community and Social Services, the City Manager's Office and the People and Equity Division between 2009 and 2018.

It is important that management perform adequate review of the implementation status before reporting a recommendation as implemented, otherwise it wastes audit resources and provides false assurance that identified risks have been addressed.

Management needs to continue to make progress in implementing outstanding audit recommendations. The outstanding recommendations will be included in next year's follow-up review, together with audit recommendations from reports issued in 2019.

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

## **CONTACT**

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## **SIGNATURE**

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Beverly Romeo-Beehler  
Auditor General

## **ATTACHMENTS**

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Confidential Attachment 1: City Divisions in Community and Social Services, the City Manager's Office and the People and Equity Division Confidential Audit

Recommendations - Not Fully Implemented

Attachment 1: City Divisions in Community and Social Services, the City Manager's Office and the People and Equity Division - Public Recommendations - Fully Implemented

Attachment 2: City Divisions in Community and Social Services, the City Manager's Office and the People and Equity Division - Public Recommendations - Not Fully Implemented

Attachment 3: City Divisions in Community and Social Services, the City Manager's Office and the People and Equity Division - Public Recommendations - No Longer Applicable

Attachment 4: City Divisions in Community and Social Services, the City Manager's Office and the People and Equity Division - Audit Reports Issued since December 31, 2018 that are Not Included in 2020 Follow-up Review