

Previous Audit Reports – Common Themes and Issues

Date: January 31, 2020

To: Audit Committee

From: Auditor General

Wards: All

SUMMARY

Over the years, we've noticed that when management is busy working within their division, they may not see or be learning from broader lessons that may help to move their divisions *and* the City forward as one City.

In this report, the Auditor General has identified three common themes in audit recommendations that will, if applied City-wide, help the City move forward in a positive way. These themes include:

1. Shifting mindsets and culture so that the Public Service works as one to achieve City-wide objectives and **outcomes**
2. Strengthening oversight and **accountability** for contracts by more effective procurement, management, and monitoring
3. Modernizing processes, integrating technology, and **leveraging data** to deliver programs and services more effectively and efficiently

The number of recurring issues we see in our reports could be reduced if every manager runs their division, agency or corporation with a 'one City' mindset focused on outcomes and accountability. Recurring issues will also be reduced if managers can make better use of technology, leveraging data to inform their business processes.

By narrowing these lessons down to three themes, and by expanding them with examples¹, the Auditor General hopes these lessons will remain top of mind for each and every manager.

¹ The examples are provided to illustrate that issues are recurring in several reports. It supports management in identifying underlying problems that will prevent similar issues in the future. In the particular examples shown, however, the division or organization may have already taken action to implement the recommendations shown.

To achieve lasting change, every leader should ask themselves the following questions after each audit report is published:

- Is our division experiencing similar issues?
- Are there opportunities and lessons learned that we can leverage?
- Who is involved with delivering on the service? Is someone else doing what we are doing? How can we work together?
- Who has overall responsibility?
- Are we empowered to make the needed changes?

We endorse the City Manager's key message that trust and confidence is, in part, achieved "through our actions and decisions," which he stated in the Toronto Public Service's Corporate Strategic Plan. We also support his move to Results Based Accountability² as a performance management and accountability framework.

<https://www.toronto.ca/wp-content/uploads/2019/10/9886-DS-19-0438-Corporate-Strategic-Plan-V4-MG1.pdf>

The lessons learned from this common themes report supports the City Manager's focus on achieving outcomes, ensuring accountability, and using data. This report will be helpful in guiding the actions and decisions of staff accountable for achieving results.

RECOMMENDATIONS

The Auditor General recommends that:

1. City Council receive this report for information.
2. City Council request the City Manager to forward this report to Division Heads and Heads and Boards of the City's major agencies and corporations and request them to review and consider the relevance of the themes identified in the report for their respective operations and any actions that may need to be taken.

FINANCIAL IMPACT

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

² Results Based Accountability is a data-driven, decision-making process to help take action to solve problems. It gets from talk to action quickly. It helps identify barriers to innovation, builds collaboration and consensus, and uses data and transparency to ensure accountability for both the wellbeing of people and the performance of programs. (Toronto Public Service's Corporate Strategic Plan, p.24)

DECISION HISTORY

In 2011, the Auditor General issued a report to provide a summary of the more common themes and issues identified in previously issued audit reports. Highlighting these issues in a separate report provided an opportunity to revisit each one of these areas in order to ensure that they continue to receive an appropriate level of attention. The 2011 report "Previous Audit Reports – Common Themes and Issues" can be found at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2011.AU5.8>

The Auditor General is providing this report as a helpful tool for management, staff, Audit Committee, and City Council. This is not an audit. Rather, this report provides a summary compilation of the key common issues identified in previously issued audit reports of the Auditor General.

These common themes and issues should receive ongoing attention by senior management at both the City and its agencies and corporations. When individual audits identify instances where the recommendations relating to the key common issues have not been implemented, they have been and will continue to be reported to the Audit Committee.

COMMENTS

This report summarizes our analysis of previous reports we have issued to see whether similar findings appear across different reports. Where findings come up in several audits, it is likely to be a broader issue found across the City that should receive ongoing attention by senior management at both the City and its agencies and corporations.

The key common themes are:

1. Shifting mindsets and culture so that the Public Service works as one to achieve City-wide objectives and **outcomes**
2. Strengthening oversight and **accountability** for contracts by effectively procuring, managing, and monitoring contracts
3. Modernizing processes, integrating technology, and **leveraging data** to deliver programs and services more effectively and efficiently

This report is structured by a brief description of each of the key common issues, followed by some of our report examples in table format. Our examples are provided to illustrate the issues — they are not an exhaustive list. We have focused mainly on the most recent five years, with some earlier examples included. All of our audit reports are publicly available at:

This summary, together with our previous reports issued, should be taken as an opportunity to learn from past audits of various City divisions, agencies, and corporations³.

1. Shifting mindsets and culture so that the Public Service works as one to achieve City-wide objectives and outcomes

a. Break down the silos: improve information-sharing, communications, and coordination

There are many silos existing within the City and its agencies and corporations. When teams, units, divisions, districts within divisions and agencies act in isolation, and do not coordinate and share information sufficiently within and between each other, it leads to reduced efficiency and effectiveness.

Breaking down silos requires a culture shift. City divisions, agencies and corporations need to work together with a unified 'one City' vision towards a common issue or goal, and share information in order to address it. This also requires roles and responsibilities to be clearly defined, understood, and accepted by all parties.

A number of our reports identify the need to break down silos within individual divisions, agencies, and corporations, as well as City-wide.

³ We note that the Value-Based Outcome Review (VBOR), conducted to inform the City's strategy for modernizing the City's financial decision-making to achieve Council's priorities and long-term financial sustainability, was completed in December 2019. The VBOR report identified a number of opportunities related to moving the City towards financial sustainability that were previously raised by our Office which reinforce the themes identified in this report.

Table 1: Examples of Audit Reports that Include Issues Related to a Need to Break Down Silos

Report	Report date	Related observations
<p>Toronto Employment and Social Services - Income Verification Procedures Can Be Improved</p> <p>Strengthening the City's Oversight of Social Housing Programs</p> <p>Children's Services Division: Opportunities to Achieve Greater Value for Child Care from Public Funds</p> <p>Opening Doors to Stable Housing: An Effective Waiting List and Reduced Vacancy Rates Will Help More People Access Housing</p> <p>Safeguarding Rent-Geared-to-Income (RGI) Assistance: Ensuring Only Eligible People Benefit</p>	<p>October 2012</p> <p>June 2014</p> <p>May 2018</p> <p>June 2019</p> <p>October 2019</p>	<p>In multiple audits since 2012, we highlighted overlaps within City business units that verify eligibility for income-based benefit and subsidy programs. Integrating the following areas can create efficiencies, optimize resources, improve information-sharing and ensure cost effectiveness:</p> <ul style="list-style-type: none"> • central collection of client documents for income verification and eligibility assessment • common income-based program fraud investigation function • centralized overpayment recovery. <p>These observations are also consistent with the Mayor's observation in his Task Force on Toronto Community Housing that transferring responsibility for the centralized waiting list to the City was an opportunity to integrate the delivery of RGI with other income-tested services.</p> <p>Management has estimated that service integration will result in \$2.4 million in net annual efficiencies starting in 2022.</p>
<p>Establishment of City Wide Cyber Security Breach Incident Management Procedures Required</p>	<p>June 2019</p>	<p>The report highlighted the importance and urgency for the City to develop a standard incident management process and implement it across City divisions, its agencies and corporations so that the Chief Information Officer (now called Chief Technology Officer) can coordinate how incidents should be reported and handled, and can analyze potential threats to enhance City-wide cyber security.</p>

Report	Report date	Related observations
Moving Forward Together: Opportunities to Address Broader City Priorities in Toronto Community Housing Corporation Revitalizations	March 2019	The audit identified that in order to successfully address City-building objectives through revitalizations, the City and TCHC need to align their priorities and coordinate all necessary programs, services, and financial strategies.
Raising the Alarm: Fraud Investigation of a Vendor Providing Life Safety Inspection Services to the City of Toronto	June 2018	One of the potential reasons for the state of affairs noted in the report was that the City was using a siloes model to manage life safety inspections. The report noted the need for a 'bird's eye view' of who, what, when, where, why and how inspections are conducted. Key recommendations from the Auditor General's 2005 report entitled "Maintenance and Administrative Controls Review – Facilities and Real Estate", had not been implemented to provide a corporate-wide view.
Improving the Tendering Process for Paving Contracts	June 2016	We noted considerable differences among the four district offices in how they prepared estimates for tender documents. The City should standardize business processes across all districts, incorporating best practices.
Strengthening Enforcement of the Fair Wage Policy	October 2016	This audit identified the need for increased collaboration between divisions who manage contracts and the Fair Wage Office.
Audit of Water Billing and Collection – Phase II: Part 1 – Incorrect Vacant Land Status Properties Reduces City's Property Tax Revenue	October 2016	The audit identified the need for improved coordination and reporting between Revenue Services and Toronto Building Divisions , and MPAC. The audit found improper assessments and billing of property taxes, particularly where occupied properties were incorrectly classified as 'vacant land'.

Report	Report date	Related observations
Maximizing the Value from a Learning Management System	October 2015	The audit identified that in the absence of a corporate plan, each division needed to develop their own resource and maintenance plan for this system. Our report highlighted the risk of resource duplication across the City when the system was deployed.

b. Increase consolidation and centralized oversight for common functions through Corporate Services

Often the priorities, needs, and desired outcomes of the City as a whole can get lost as individual divisions focus on delivering on their mandates. Sometimes even within divisions, districts are operating differently as noted in our examples in Table 2 below.

In order to ensure a City-wide lens is used, a centralized area such as Corporate Services is needed to provide oversight of common functions. In addition, some common functions are duplicated across the City. Consolidating those functions can result in cost savings.

Our 2011 Auditor General's report on Common Themes and Issues also identified this issue. Opportunities were identified for consolidating services and saving significant costs in the City including the following areas:

- Financial Information Systems
- Information Technology
- Human Resources
- Procurement
- Legal Services
- Audit Services
- Accounting including payroll
- Fleet
- Real Estate Management

These opportunities continue to exist today in many areas.

In cases where there may have already been a corporate service area created to consolidate a common function, such as Fleet Services, there also needs to be the authority and oversight to ensure that a City-wide approach is truly taken. An example of this is outlined in the Auditor General's October 2019 audit report on the asset management of Fleet Services (see Table 2 below).

There are some areas where Corporate Services should be given the authority to set the direction and policy to strengthen oversight City-wide and, in turn, to be accountable for achieving corporate priorities and objectives. It is also important that the participation by divisions, agencies, and corporations not be optional in corporate activities.

Table 2: Examples of Audit Reports that Include Issues Related to a Need for Increased Consolidation and Centralized Oversight for Common Functions

Audit report	Audit report date	Related observations
Fleet Services Operational Review, Phase Two – Stronger Asset Management Needed	October 2019	<p>The audit found situations often arose where it was unclear whether Fleet Services was expected to take the overseer role or to simply assume the role of administrator on behalf of its user groups (divisions, agencies and corporations). When asset management decisions are made by user groups without the benefit of a City-wide perspective, it may result in higher overall costs to the City. The City should consider Fleet Services' appropriate role, responsibilities, and authority in order to enable it to act effectively as overseer of the City's fleet assets. This issue was also raised in previous audits of Fleet Services.</p>

Audit report	Audit report date	Related observations
<p>Review of the Management of the City's Divisional Accounts Receivable</p> <p>Toronto Court Services: Collection of Provincial Offence Default Fines</p>	<p>April 2012</p> <p>April 2018</p>	<p>Many divisions manage and administer their respective accounts receivable. There is no single point of authority to ensure the City-wide accounts receivable function operates effectively, efficiently and within a framework that ensures consistent practice and control. Steps should be taken to ensure accounts receivable managed by all divisions are consistent with one City-wide accounts receivable framework. As part of the ongoing shared services review, the City, agencies and corporations should explore opportunities to consolidate policies, procedures and collection activities.</p> <p>This audit highlighted again that it is time for the City to consolidate, centralize and transform the collection of overdue accounts. City-wide leadership and centralized oversight will assist the City in collecting its debts in a cost-effective manner. The report further highlighted that the recommendation from the above 2012 report had still not been implemented.</p>
<p>IT Infrastructure and IT Asset Management Review: Phase 1: Establishing an Information Technology Roadmap to Guide the Way Forward for Infrastructure and Asset Management</p>	<p>January 2018</p>	<p>This audit highlighted that responsibility, control and accountability for IT infrastructure is not fully centralized. The report highlighted a need for a culture shift so that the Chief Information Officer is in charge of information technology City-wide. However, where there is an operational need to continue with a decentralized approach, appropriate governance and accountabilities should be established to ensure divisions adhere to corporate policies and procedures.</p>

Audit report	Audit report date	Related observations
Audit of Information Technology Vulnerability and Penetration Testing - Phase 1: External Penetration Testing	February 2016	The audit noted that while the corporate Information & Technology Division acts as a City-wide coordination point, the management of the City’s IT infrastructure and business applications is not fully centralized. The City needs a single corporate view of cyber security and a unified City-wide approach to managing cyber threats.
Facilities Management – Security and Safety Improvements Required	February 2015	The audit identified that physical security measures at City Facilities need improvement. However, we noted that many of the improvements needed were not considered to be the responsibility of Corporate Security but rather that of divisional management and staff. The report indicated that in our view, Corporate Security has an important oversight role to play in verifying that divisional staff have adequately addressed significant deficiencies.
Audit of Interface Invoice Payments: Improving Contract Management and Payment Processes	June 2019	The audit suggested strengthening contract management by centralizing contract monitoring to reduce the internal administrative burden on divisions. Centralized contract management and contract monitoring using data analytics provides a high-level integrated view of actual usage when compared to what is in the contract.

The Value-Based Outcome Review (VBOR) report reinforced the Auditor General's previous report recommendations in this area, and reiterated that there is opportunity for common functions (called "shadow functions" in the report) to be consolidated, pulling as much as possible into the existing Corporate Services Division.

c. Focus on accountability for results, including implementation of previous Auditor General recommendations

Through our audits, we have found that some divisions within the City focus on process – such as planning and studies – rather than on getting down to the business of making changes to achieve results. For example, in 2016, the Auditor General reported on cyber security. The recommendations were not fully implemented for three years.

Instead of taking immediate action, the division created more plans and hired consultants to plan and assess risk.

In other instances, divisions and agencies have hired consultants to examine the same areas that the Auditor General examined in her audits or test her savings calculations, before implementing the report recommendations. It is not surprising that when consultants have been hired in these situations, they find very similar or the same results as our audits. Our audits are conducted in compliance with Government Auditing Standards and have sufficient appropriate audit evidence to support the audit findings. The dollars spent on hiring consultants could have been better used on taking needed actions to change. This is not to say that consultants are never needed, but the focus should be on achieving outcomes.

It is important for senior City management (including its agencies and corporations) to take prompt action to address risks and to focus on achieving results. We believe there is an increased need for setting outcomes and being held accountable for results within a specified timeframe. This approach, in our view, will help leaders to better balance their mindsets between planning and process with results and action.

The City's Audit Committee's has shown support for increased accountability by requesting periodic updates from management about action taken on recommendations and explanations and timelines for those not yet fully implemented.

Table 3: Examples of Audit Reports that Include Issues Related to a Need to Focus on Accountability for Results

Audit report	Audit report date	Related observations
Audit of IT Vulnerability and Penetration Testing – Phase 1: External Penetration Testing	February 2016	The Auditor General identified cyber security risks in each of her IT audits from 2016 to 2018. The Auditor General recommended that the City:
Audit of IT Vulnerability and Penetration Testing – Phase II: Internal Penetration Testing, Part 1 – Accessibility of Network and Servers	October 2016	<ul style="list-style-type: none"> • develop baseline IT security standards to provide guidance across the City to address cyber security threats • develop and implement standard incident management procedures across City divisions, agencies and corporations • implement an ongoing cyber security monitoring program • create an independent role of the Chief Information Security Officer (CISO).
IT Vulnerability Assessment and Penetration Testing - Wrap-up of Phase I and Phase II	March 2017	In the 2019 audits, the Auditor General found that sufficient action had not been taken on the previous IT recommendations.
Establishment of City Wide Cyber Security Breach Incident Management Procedures Required	June 2019	
Cyber Safety: A Robust Cybersecurity Program Needed to Mitigate Current and Emerging Threats	October 2019	

Audit report	Audit report date	Related observations
Raising the Alarm: Fraud Investigation of a Vendor Providing Life Safety Inspection Services to the City of Toronto	June 2018	The report stated that it was evident some of the issues identified have existed for years . Key recommendations from the Auditor General's 2005 report entitled "Maintenance and Administrative Controls Review – Facilities and Real Estate", had not been implemented .
Enhance Focus on Lease Administration of City-owned Properties	June 2018	The report highlighted that the systemic deficiencies in basic lease administration practices we observed during this audit were not new . The report highlighted that many of the issues identified in this audit were the same as those raised in the 2006 Review of the Administration of Leases on City-owned Property. Furthermore, since 2006, other reports by the Auditor General have identified related issues relevant to effective lease administration.
Safeguarding Rent-Geared-to-Income Assistance: Ensuring Only Eligible People Benefit	October 2019	The audit highlighted that weaknesses in the City's oversight of housing providers has contributed to potential eligibility and non-compliance issues going undetected. Concerns with provider oversight were also raised in a 2014 audit report, "Strengthening the City's Oversight of Social Housing Programs", and again in the 2019 report , "Opening Doors to Stable Housing".
Opening Doors to Stable Housing: An Effective Waiting List and Reduced Vacancy Rates Will Help More People Access Housing	June 2019	At the time of the audit, Access to Housing had been working with the corporate Information & Technology Division since 2015 to acquire a new system to support the centralized social housing waiting list. Five years later , no vendor had been selected and a new system was not yet in place.

2. Strengthening oversight and accountability for contracts by effectively procuring, managing, and monitoring contracts

As long as the Auditor General's Office has been in place, findings and recommendations to strengthen management controls and oversight of procurement and contract management processes have been raised time and again.

The 2005 Bellamy Inquiry report, in its "Good Government," section provides a basic roadmap for contract management and procurement processes.

For example, the Bellamy Report states:

"The City should treat contract management as an important priority and resource it accordingly. For effective contract management, a well-staffed contract management office is needed. Contract management is an essential part of the post-contract process. The City has a responsibility to know that it is receiving precisely what it contracted for. The City should devote the necessary time to develop contract management processes and refine them whenever necessary."

The "Procurement" addenda (research paper) to the "Good Government" section states:

"The development of specifications is consistently identified as a potential high risk area for procurement in two respects:

- Value-for-money: the ability of organizations to understand their own purchasing requirements and to clearly articulate these for vendors.
- Fairness and equity in the process: ensuring that specifications do not present a risk to fair and open competition."

It is important that City divisions, agencies, and corporations treat effective procurement and contract management as a priority.

a. Strengthen contract management by monitoring contract performance and outcomes

Many of our previous audit reports have identified the need to improve monitoring and management of contracted services. Common findings include:

- insufficient evidence of services being performed or concerns with the quality of work performed
- incorrect billing and payments compared to contracted pricing and terms
- need for continued improvement of change order management processes
- inaccurate or incomplete recording of budget/actual data in the financial information system.

In some cases, our audits have led to recoveries or cost savings for the City and its agencies and corporations.

Contracting for services does not equate to relinquishing accountability or risk, and it does not mean that City staff will not be required to provide oversight.

All staff responsible for contracts should be reminded that even though the City is relying on a contracted provider to deliver services (or goods), staff are still accountable and responsible to structure and monitor the contract to ensure the contractor achieves expected outcomes and deliverables.

Table 4: Examples of Audit Reports that Include Issues Related to a Need to Monitor Performance and Outcomes of Contracts

Audit report	Audit report date	Related observations
Review of Toronto Transit Commission's Revenue Operations: Phase Two – PRESTO/TTC Fare Equipment and PRESTO Revenue	October 2019	According to TTC's calculations, Metrolinx has not yet delivered at least 40 per cent of TTC's contractual business requirements , including key priority items such as open payment. While the Master Agreement was signed in 2012, both parties have yet to sign a suite of Service Level Agreements, and they need to agree on key deliverables, targets and timelines to monitor outcomes.
Safeguarding Rent-Geared-to-Income (RGI) Assistance: Ensuring Only Eligible People Benefit	October 2019	While the City has delegated responsibility for administering RGI to over 200 housing providers, it remains accountable to the Province for any responsibilities it has delegated , even if it does not perform these functions itself. Weaknesses in the City's oversight of housing providers has contributed to potential eligibility and non-compliance issues going undetected. The Auditor General identified concerns with provider oversight in the 2014 audit report , "Strengthening the City's Oversight of Social Housing Programs", and again in the 2019 report, "Opening Doors to Stable Housing".

Audit report	Audit report date	Related observations
<p>Audit of Interface Invoice Payments: Improving Contract Management and Payment Processes</p>	<p>June 2019</p>	<p>The report highlights the need to strengthen contract management processes by ensuring contracts are set up correctly for payment and for taking discounts and volume rebates, improving the use of data analytics to help monitor contracts, and implementing appropriate and automatic reconciliations between the City and vendor billing systems.</p>
<p>Review of Urban Forestry: Ensuring Value for Money for Tree Maintenance Services</p>	<p>April 2019</p>	<p>This audit identified the need for Urban Forestry to strengthen its oversight of contractors hired to perform daily tree maintenance services. The audit recommended regular and improved reviews of contractors' work, the importance of gathering the related supporting information to ensure the City only pays for legitimate tree maintenance work, and to follow up on questionable activities.</p>
<p>Raising the Alarm: Fraud Investigation of a Vendor Providing Life Safety Inspection Services to the City of Toronto</p>	<p>June 2018</p>	<p>This investigation noted that although the City contracted out fire inspections to ensure compliance with the Ontario Fire Code, it is the building owner (the City) who is responsible to keep and review annual, monthly and weekly inspection records. The investigation identified a lack of proof to demonstrate that fire inspections were completed, including missing inspection reports and serious issues with the documents that were provided by the vendor. The oversight by City staff was insufficient.</p>

Audit report	Audit report date	Related observations
Information Technology Infrastructure and Asset Management Review: Phase 2: Establishing Processes for Improved Due Diligence, Monitoring and Reporting for Effective IT Projects and Asset Management	June 2018	The audit identified the need for better monitoring and management of software and hardware acquisitions . Better controls over acquisition and ongoing monitoring would lead to reduced costs for the City.
Review of the Green Lane Landfill Operations - Management of Contracts Needs Improvement	June 2018	The audit identified areas of improvement in contract management . For example, <ul style="list-style-type: none"> • Sufficient information is not provided to allow for an effective review of contractor invoices • Need to strengthen invoice review processes to ensure payment errors are detected, corrected and overpaid amounts are recovered on a timely basis • Informal arrangements without documentation make it difficult to accurately track, monitor, and reconcile contract line item spending • Transaction recording errors occurring in SAP • Need for a more effective change order process.
Enhance Focus on Lease Administration of City-owned Properties	June 2018	The audit highlighted that there is a need to improve the monitoring and management of leases, from negotiation through to expiry , in order to ensure lease revenues are maximized.

Audit report	Audit report date	Related observations
Audit of City Cleaning Services - Part 2: Maximizing Value from Cleaning Contracts	June 2016	The audit identified that contracts needed improved monitoring . The audit noted that Facilities Management was not adequately measuring and monitoring vendor performance against the contract scope of work to determine whether the key objectives were being achieved.
Management of the City's Long-Term Disability Benefits Phase One: Improving City Management to Address Growing Trends in Long-Term Disability Benefits	October 2015	This audit identified that City staff need to undertake a more proactive management approach in overseeing the benefits administrator's processes . Over \$2 million in payments were approved without verification. Supporting documents or cost breakdowns prior to payment approval were not obtained to verify the accuracy or reasonableness of the charges . The City also recovered approximately \$2 million in billing errors and duplicated charges as a result of the audit.
Toronto Community Housing Corporation - Procurement Policies and Procedures are not Being Followed	February 2011	While TCHC had a clearly articulated procurement policy as well as procurement procedures, we found many instances where the policy and the procedures were ignored. One concern was that management controls were inadequate to ensure invoices were paid in accordance with agreed terms and supported by details and receipts.

b. Improve procurement planning by developing stronger and/or more appropriate contract requirements

Effective contract management depends on ensuring requirements are clearly defined up front as part of the procurement process, and in the contract. Requirements and specifications should not only address outputs but also expected outcomes. Common areas of improvement in procuring goods and services include the need for:

- improved quality of designs and specifications (to reduce the need for change orders)
- estimated tender quantities based on reliable data
- coordinating purchasing and leveraging buying power.

A clearly worded contract that is understood by both the vendor and the City will be much easier to manage because it will make it easier to hold the vendor accountable for contracted deliverables, targets, and timelines.

Table 5: Examples of Audit Reports that Include Issues Related to a Need to Improve Development of Contract Requirements

Audit report	Audit report date	Related observations
<p>Improving the Tendering Process for Paving Contracts</p> <p>Auditor Detection of Warning Signs for Potential Bid Rigging Should be Strengthened</p>	<p>June 2016</p> <p>March 2017</p>	<p>Our audits identified the importance of identifying and addressing potentially unbalanced bids during a tendering process to protect the City from financial loss, and ensuring a level playing field for bidders.</p> <p>These two audits resulted in significant changes to the City’s procurement policies, including the implementation of pre-emptive measures to check and detect potential bid rigging and unbalanced bidding. Opportunities were also identified to standardize tender bid items to achieve consistency across contracts.</p>
<p>Engineering and Construction Services: Phase Two: Construction Contract Change Management Controls Should Be Strengthened</p>	<p>June 2019</p>	<p>The audit noted that over half of the change orders resulted from design errors, and identified opportunities for better planning of contract work to minimize design errors and omissions.</p>

Audit report	Audit report date	Related observations
Review of the Green Lane Landfill Operations - Management of Contracts Needs Improvement	June 2018	<p>The report noted areas for improvement in procurement by:</p> <ul style="list-style-type: none"> • Establishing a basis for developing contract contingency to limit the impact of unnecessary spending and commitment of City funds over an extended period of time • Haulage services, especially for smaller volumes, could be obtained through a competitive procurement process. Better pricing is usually achieved through competitive procurement.
<p>Toronto Community Housing Corporation - Procurement Policies and Procedures are not Being Followed</p> <p>Review of Controls Over Procurement and Payment Functions at TCHC Subsidiary: Housing Services Inc.</p>	<p>February 2011</p> <p>February 2012</p>	<p>There are significant opportunities for cost savings in many areas, including the procurement process, as a result of closer cooperation and coordination between TCHC and the City.</p> <p>The audit of TCHC's subsidiary found that purchases of similar products and services by TCHC departments, operating units, and subsidiaries are not being bundled together for procurement purposes. Openly communicating longer-term procurement plans can increase competition and improve pricing.</p>
Audit of Interface Invoice Payments: Improving Contract Management and Payment Processes	June 2019	<p>This audit identified several opportunities to improve quality controls over contract design and reduce design errors that could potentially result in the purchase of goods and services not specified in a contract with a vendor. The audit noted many contracts where goods and services purchased were not the ones specified in the contract.</p>

Audit report	Audit report date	Related observations
Improving the Procurement Process – Unbalanced Bids	January 2007	<p>Inadequate development of contract requirements (specifications and quantities) led to contractors submitting unbalanced bids. The audit highlighted the importance of developing the correct specifications and quantities for request for quotes. It also made recommendation to mitigate the costs and risks associated with the award of unbalanced bids.</p>
Management of Construction Contracts – Reconstruction of Queensway Eastbound Lanes	July 2006	<p>Examples were presented in the report to highlight the need to improve how contract requirements should be developed to avoid extra costs for additional work not included in the contract.</p>
Management of Construction Contracts – Leaside Bridge Structure Rehabilitation Contract	March 2007	<p>The audit identified that a significant premium was paid for work where quantities were not adequately estimated before the City awarded the bidder the contract. The Auditor General recommended that all tender quantities contained in construction contract tenders are accurate and are representative of actual quantities required to complete the contract.</p>
Raising the Alarm: Fraud Investigation of a Vendor Providing Life Safety Inspection Services to the City of Toronto	June 2018	<p>The report identified that during Toronto Fire Services' independent review, they noted several instances where an apparent lack of understanding of Ontario Fire Code requirements led to poorly worded RFQ requirements.</p> <p>The report also identified that there may be a need to adjust the way we hire the vendors responsible to inspect, test and repair our life safety systems. The lowest bidder may not provide the best value – performance verification is paramount. Vendors who are not doing a good job or are difficult to manage can end up costing more and creating risk for the City.</p>

Audit report	Audit report date	Related observations
Audit of City Cleaning Services - Part 2: Maximizing Value from Cleaning Contracts	June 2016	The audit identified that effective procurement requires sufficient planning by both the Facilities Management Division and Purchasing Materials and Management Division. An integral step in effectively procuring contracts is to ensure the scope of work is clearly and accurately defined. Facilities Management should improve its processes to gather, validate and leverage important operating information used to develop cleaning specifications.

c. Adopt strategic sourcing solutions when they are the most cost-effective option

In addition to improving contract management, there are sometimes opportunities to save costs by delivering services in different ways. These other ways can include going to market, and are often referred to as strategic sourcing solutions and/or alternative service delivery.

In the past, the Auditor General identified strategic outsourcing as a key area and the VBOR report also refers to strategic sourcing opportunities, and states that the City has begun considering some. The VBOR report also outlines additional opportunities in this area to increase cost savings.

"The City is currently in the process of transforming procurement to include Category Management and Strategic Sourcing with the goal of reducing spend, improving service levels, and developing mutually beneficial supplier relationships. The current aim is to achieve \$41M in recurring annual savings within three years. The efforts to date have largely focused on Strategic Sourcing; Additional value levers include demand management, process re-engineering/improvement, and operating model changes. Procurement modernization could be fully expanded to agencies and corporations." Value-Based Outcome Review report, p.43

One of the challenges with strategic sourcing is that it begins with an understanding of the needs and what is being used. If there is no usage data, an informed decision on whether to outsource cannot be made. As discussed in common theme 3 below, the City needs to modernize, have better data and leverage that data, including data on usage, to inform these types of decisions.

Table 6: Examples of Audit Reports that Include Issues Related to a Need to Consider Adopting Strategic Sourcing Solutions

Audit report	Audit report date	Related observations
Improvement Needed in Managing the City's Wireless Telecommunication Contracts	June 2018	The Auditor General recommended leveraging better price plans and consolidating with other Government contracts to strategically source wireless services . The City implemented the recommendation and is expected to achieve recurring annual savings of approximately \$1 million. The savings are expected to grow as other agencies and corporations leverage the same contract.
Children's Services Division: Opportunities to Achieve Greater Value for Child Care from Public Funds	May 2018	This audit recommended to strategically expand the maximum number of spaces that can be purchased from contracted non-profit licensed child care centres . The Division has taken immediate action to expand the number of spaces in the contracted non-profit sector.
Toronto Court Services: Collection of Provincial Offence Default Fines	April 2018	In recommending that the City look to transforming overdue collections management, the Auditor General noted that taking into account the complexity of the matter, the breadth of the issues and the amount of industry expertise needed, the City should consider using a Joint Solution procurement approach to design and choose the best solution for the City . A Joint Solution Request for Proposal is a multi-stage, collaborative process where the City would share its collection difficulties and then, as part of the procurement process, leverage private sector expertise to design a range of solutions .

3. Modernizing processes, integrating technology, and leveraging data to deliver programs and services more effectively and efficiently

a. Modernize manual processes and decrease paper-based records; take a digital approach

The City has a number of IT systems in place, but there is still a high volume of manual processes with paper-based records to record, track and store important information. In this age, taxpayers/customers expect that all or almost all information should be stored electronically, and that their information should be easily retrieved when needed. There are many benefits of moving records from manual to electronic, including:

- Efficient retrieval of information, which may in turn improve customer service
- Less costly storage costs and reduced risk of fire/water damage due to no/limited physical storage required
- Increased ability to analyze data and provide meaningful insight for more informed decision-making to improve the economy, efficiency and effectiveness of City operations.

Table 7: Examples of Audit Reports that Include Issues Related to a Need to Modernize Manual Processes and Decrease Paper-Based Records

Audit report	Audit report date	Related observations
Safeguarding Rent-Geared-to-Income Assistance: Ensuring Only Eligible People Benefit	October 2019	Because the City does not maintain a centralized database of RGI recipients, and because information about households is sometimes only available in paper-based files held by providers, the City does not readily know the identities of RGI recipients and their continued eligibility status.
Audit of Interface Invoice Payments: Improving Contract Management and Payment Processes	June 2019	Divisional processes / systems for approving interface files are manual and they are neither consistent nor integrated. Automated verification and reconciliation using data analytics would be more efficient , help prevent overpayments, and also provide usage data for decision-making on strategic sourcing.

Audit report	Audit report date	Related observations
Review of Urban Forestry – Permit Issuance and Tree By-law Enforcement Require Significant Improvement	June 2018	<p>A lack of system data and the lack of a proper information system to adequately support permit functions results in basic permit data that is either not available or not systematically tracked in the system. This prevents proper oversight by making it difficult to prevent or detect the issuance of unauthorized permits and to ensure all fees and payments are collected.</p>
<p>Real Estate Services Division – Restore Focus on Union Station Leasing</p> <p>Enhance Focus on Lease Administration of City-owned Properties</p>	<p>June 2017</p> <p>June 2018</p>	<p>Both audits found that the City does not use the SAP leasing module to accurately bill, receive, and record leasing revenue.</p> <p>Real Estate Services did not bill or collect leasing revenue, as provided for in the leasing agreements, from anchor tenants at Union Station for several years.</p>
Review of Toronto Transit Commission Employee Expenses and Reward and Recognition Programs: Opportunities to Improve Policies and Controls and Save Costs	June 2018	<p>This audit found that outdated IT systems and manually intensive processes are creating inefficiencies in administering TTC's reward and recognition programs.</p>

Audit report	Audit report date	Related observations
Improving the Tendering Process for Paving Contracts	June 2016	We observed that contract documents, including engineering estimates, are haphazardly stored in three of the four district offices. Also, as identified in the audit, the lack of standardization of tender information and centralization of contract files could significantly hinder staff's ability to analyze bid information.
Auditor Detection of Warning Signs for Potential Bid Rigging Should be Strengthened	March 2017	Opportunities were identified for compiling an electronic database of bid prices and material used for historical analysis.
Toronto Parking Authority - Phase 2: Audit of the Revenue Operations of Off-Street Controlled Facilities	February 2016	Using technology, implementing system interfaces, and automating reconciliation processes will help make administrative processes more efficient. Also, analyzing available data will strengthen internal control procedures. This data can be used to monitor exception transactions and identify potential areas of risk for further investigation.

b. Better use of existing data by leveraging through data analytics for informed decision-making

Before using data, information needs to first be captured consistently. In our audits, we use data analytics wherever possible. We have often found this challenging at the City, where records are not captured consistently. When this occurs, much work is required to cleanse the data to ensure fields are consistent. Improving how data is captured would make our audits more efficient, and would also make it easier for City staff to conduct their own data analysis.

In many cases, data already exists, but management is not using it to its full extent. Also, when electronic records and data are available, we have found that the data is sometimes inaccurate, incomplete, or out-of-date. Often our audits provide findings that management was not already aware of, but was found using data already accessible to them. Wherever possible, City management should ensure high-quality data and make better use of data that is already available, in order to provide insight for trend analysis and informed decision-making.

The VBOR Report (p.5) also stated that "an important recommendation going forward is a relentless focus on data and analysis to strengthen the City's ability to drive greater efficiencies and better outcomes."

Table 8: Examples of Audit Reports that Include Issues Related to a Need for Better Use of Existing Data through Data Analytics for Informed Decision-making

Audit report	Audit report date	Related observations
Electronic Data – Standardizing Data Formats Across City Information Systems	January 2013	This 2013 audit recommended planning for and implementing uniform data standards across the City and its agencies and corporations. This continues to be an issue we encounter during our audits.
Audit of Interface Invoice Payments: Improving Contract Management and Payment Processes	June 2019	During the audit we identified opportunities to leverage data analytics to improve strategic procurement, contract management and payment processes . However, a challenge we faced during this audit was the quality of the data from divisions and vendors. There were data entry errors, and data was not being captured by the City in a consistent, methodical manner . This audit identified the opportunity to centrally electronically capture, and analyze product usage information to inform future strategic sourcing to obtain economies of scale and identify anomalies and potential abuse.

Audit report	Audit report date	Related observations
<p>Opening Doors to Stable Housing: An Effective Waiting List and Reduced Vacancy Rates Will Help More People Access Housing</p> <p>Safeguarding Rent-Geared-to-Income Assistance: Ensuring Only Eligible People Benefit</p>	<p>June 2019</p> <p>October 2019</p>	<p>A main theme of the audit was the need to improve the integrity of waiting list data to know exactly who is actively waiting and eligible for RGI housing assistance so that units can be filled fairly and as quickly as possible.</p> <p>Enhancing the quality of eligibility reviews by leveraging data from multiple sources will enable the City to more effectively identify potential issues with households' eligibility for RGI assistance. A priority action identified in the report was to develop a strategy for analyzing available data to identify potential risk indicators.</p>
<p>Toronto Court Services: Collection of Provincial Offence Default Fines</p>	<p>April 2018</p>	<p>A key theme in the report was that there were inadequate data systems or data tracking to support the collection strategy. With improved data sharing, there may be an opportunity to improve the quality of debtor information.</p> <p>A key action identified was to modernize the use of data and technology to support effective collections.</p>
<p>Enhance Focus on Lease Administration of City-owned Properties</p>	<p>June 2018</p>	<p>In this audit we found errors and incomplete lease data in the City's financial system, which is the primary source for tracking leases. The report made recommendations to make sure the data in the system is accurate and complete.</p> <p>Further, the report recommended leveraging available functionality in the City's financial system where possible to support effective lease administration.</p>

Audit report	Audit report date	Related observations
Review of Toronto Transit Commission's Revenue Operations: Phase One – Fare Evasion and Fare Inspection	February 2019	This audit included recommendations to increase the use of data analysis to inform the strategic allocation of fare enforcement resources to reduce fare evasion . The audit also recommended that work on fare gate sensors and fare gate event data reporting be completed so that information can be used to determine the rate of illegal entries at subway stations , and to strategically allocate fare inspection resources.
<p>Controls Over Telecommunication Expenses Need Improvement</p> <p>Toronto Transit Commission: Managing Telecommunication Contracts and Payments</p> <p>Improvement Needed in Managing the City's Wireless Telecommunication Contracts</p>	<p>June 2014</p> <p>May 2018</p> <p>June 2018</p>	<p>In several telecommunications expense audits, the Auditor General recommended the use of available data to perform intelligent analysis. These audits demonstrate the use of data to generate economy and efficiencies in operations and to improve controls. Savings of over \$15 million were identified in these telecommunication audits from 2014 to 2018.</p>

Audit report	Audit report date	Related observations
Improving Controls Over Property Tax Assessments and Payment in Lieu of Taxes (PILTs)	October 2015	<p>In various audits of water billing and collection, and of property tax assessment and payments in lieu of taxes, the Auditor General used available data to perform analyses to identify exceptions, revenue leakage, and efficiencies. Divisions can use data in a similar way to bring in enhanced revenues and operational efficiencies. These audits resulted in over \$12.5 million in annual recurring savings.</p>
Audit of Water Billing and Collection – Phase I: Overdue Water Account Collections Require Strengthening	February 2016	
Audit of Water Billing and Collection – Phase II: Part 2 – Management of Water Supply Contract for the Region of York	October 2016	
Audit of Water Billing and Collection – Phase II: Part 1 – Incorrect Vacant Land Status Properties Reduces City’s Property Tax Revenue	October 2016	
Audit of Water Billing and Collections – Phase II: Water Billing and Water Meter Management Controls Require Improvement	March 2017	

Audit report	Audit report date	Related observations
Information Technology Infrastructure and Asset Management Review: Phase 2: Establishing Processes for Improved Due Diligence, Monitoring and Reporting for Effective IT Projects and Asset Management	June 2018	This audit identified that significant cost savings can be achieved using appropriate coordination and by performing data analytics. For example, costs incurred from acquiring and maintaining various software licences can be optimized through analyzing licence utilization data and terminating excessive licences in a timely manner.
Continuous Controls Monitoring Program- City Accounts Payable, January 1 to September 30, 2015	February 2016	The continuous controls monitoring projects performed by the Auditor General employ an advanced use of data analytics to detect anomalies, recommend improvements to controls, and identify savings. Continuous controls monitoring enables the timely detection of errors, fraud, and saving opportunities. City divisions should be using these data analytic techniques to improve operations and save costs.
Continuous Controls Monitoring Program – City Telecommunication Expenses for 2015	June 2016	
Continuous Controls Monitoring Program – City Overtime and Standby Pay for 2015	June 2016	
Continuous Controls Monitoring Program – Toronto Transit Commission, Employee Overtime and Absenteeism, 2015	September 2016	
Continuous Controls Monitoring Program – City Staff Absenteeism for 2015	September 2016	

c. Take City-wide approach to integrating IT systems and data

The City needs a single corporate view of Information Technology (IT). The Auditor General has issued a number of reports from January 2016 to October 2019 to identify IT risks. These audits highlight that distributed responsibilities and silos are resulting in the following three major issues:

- Cyber security risks as a result of non-uniform standards, infrastructure and security policies
- Increased cost of technology acquisition and maintenance due to redundant systems and applications, and purchase of IT equipment that are not harmonized
- Decreased effectiveness and efficiency due to lack of integrated IT systems and data at the City and its agencies and corporations

The decentralized approach to IT systems and security results in differing perspectives, risk tolerances, and levels of maturity when identifying and responding to cyber risks and acquiring new technologies. These reports also identify potential savings and more importantly, the opportunity for a reduced risk profile if the recommendations are implemented. A single corporate view will help to address the three issues above for the City to reduce risk, decrease costs, and improve effectiveness and efficiency.

In order to be successful in this City-wide approach, it will be important for the City's divisions, agencies, and corporations to share information with each other.

Table 9: Examples of Audit Reports that Include Issues Related to a Need to Take a City-Wide Approach to Integrating IT Systems and Data

Audit report	Audit report date	Related observations
<p>Information Technology Infrastructure and Asset Management Review: Phase 2: Establishing Processes for Improved Due Diligence, Monitoring and Reporting for Effective IT Projects and Asset Management</p> <p>IT Infrastructure and IT Asset Management Review: Phase 1: Establishing an Information Technology Roadmap to Guide the Way Forward for Infrastructure and Asset Management</p>	<p>June 2018</p> <p>January 2018</p>	<p>These Phase 1 and 2 audits identified that the decentralized way IT was being managed resulted in duplicate systems and extra development, acquisition, licensing and maintenance costs. Key recommendations included strategic vision, better definition of requirements and strategic sourcing.</p> <p>The IT Asset Management System implementation has been in progress for over 10 years, and at the time of audit, a complete list of IT assets, systems and applications was still not in the system. Key recommendations in Phase 1 and 2 of the audits included a complete inventory of assets, identifying the gap in requirements, strategically sourcing IT going forward, and devising a system to keep asset lists updated to better inform future decisions.</p>
<p>eCity Initiative - Improvements Needed in Governance, Management, and Accountability</p>	<p>October 2012</p>	<p>This assessment of the IT governance process identified that there was no clear ownership and accountability for the eCity governance structure.</p>
<p>Governance and Management of City Computer Software Needs Improvement</p>	<p>January 2011</p>	<p>The audit recommended steps to develop closer co-operation in terms of software sharing and software management standards and practices across City divisions, agencies and corporations. Software information contained in the IT Asset Management System was incomplete, outdated, and unreliable for making management decisions.</p>

Audit report	Audit report date	Related observations
Audit of the Management of City Information Technology Assets	January 2006	<p>The audit identified the need for a City-wide IT governance structure. Many operational decisions are made on a divisional, as opposed to a corporate, basis. There is a need to ensure that all divisional asset inventories are complete, up-to-date, and accurate. A complete and consolidated inventory of City-owned software does not exist.</p> <p>These findings still exist and were noted in the June 2018 IT infrastructure audit, and referenced in earlier tables - Table 2 and Table 3.</p>

Conclusion

This report provides the key common issues identified in previously issued audit reports. These issues should receive ongoing attention by senior management at both the City and its agencies and corporations.

Reminder of City-wide Application

Since the establishment of the Office, the Auditor General has issued a significant number of reports to City divisions, agencies and corporations. Each report contains a wide range of recommendations focused on the entity under review, but some are relevant to all entities throughout the City. For this reason, the Auditor General sometimes includes a recommendation that all City divisions, agencies and corporations consider and implement certain recommendations.

Our follow-up process verifies if recommendations are implemented, but we only focus on the entity that was originally audited. It is senior management’s responsibility to ensure that these types of recommendations are considered on a corporation-wide basis.

We believe this common themes discussion will help management to act and decide, with the Auditor General's recommendations in mind.

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SIGNATURE

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ATTACHMENTS
