

Auditor General's 2021 Consolidated Status Report on Outstanding Recommendations

Date: October 20, 2021

To: Audit Committee

From: Auditor General

Wards: All

REASON FOR CONFIDENTIAL INFORMATION

The Confidential Attachment 1 to this report involves the security of property of the City or local boards.

The Confidential Attachment 1 to this report deals with personal matters about identifiable individuals, including city employees.

The Confidential Attachment 1 to this report involves litigation or potential litigation affecting the City or a local board.

The Confidential Attachment 1 to this report describes criteria to be applied to negotiations that will be carried on by or on behalf of the City of Toronto, including information regarding the criteria that should be applied when negotiating and preparing contracts.

SUMMARY

This consolidated status report summarizes the 2021 recommendation 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.

During 2021, we verified 177 recommendations. Since inception, the Auditor General has verified 81% of recommendations as fully implemented or no longer relevant.

We performed a significant amount of follow-up work on verifying high priority recommendations implemented by City Divisions in our last follow-up cycle. The results of our review were reported to Audit Committee at its meeting on July 7, 2021 and later

to Council on July 14-16, 2021. The July 2021 status report on outstanding recommendations is available at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2021.AU9.6>

Separate Follow-up Report on Cybersecurity Recommendations

Given the critical nature of recommendations from the report entitled: “*Cyber Safety – Critical Infrastructure Systems: Toronto Water SCADA System*” we also dedicated resources to verify implementation of the recommendations in that report. The results of that follow-up are being separately reported to the November 2, 2021 Audit Committee and are not included in the results of this report due to the timing of the work performed.

November 2021 Consolidated Status Report on Outstanding Recommendations

This report provides an update on our follow-up results since our last report to Audit Committee. Specifically we are reporting on:

- Results of recommendations verified at major agencies and corporations (Toronto Transit Commission and Toronto Community Housing Corporation)
- Management’s actions to implement our recommendations, as of October 1, 2021
- High priority recommendations that management still needs to implement, as of October 1, 2021

Results of recommendations verified at major agencies and corporations

In this round of follow-up, we focused on verifying the status of high priority recommendations management reported as fully implemented at the City’s major agencies and corporations. Specifically, at Toronto Transit Commission (TTC) and Toronto Community Housing Corporation (TCHC).

Table 1: Consolidated Results of the Auditor General’s 2021 Recommendation Follow-up at Major Agencies and Corporations

Agencies and Corporations	Status of Recommendations Verified by the Auditor General**				Status of Open Recommendations as Reported by Management as of Oct 1, 2021			
	FI*	N/A*	NFI*	Total	FI (not verified by AGO)	N/A	NFI	Total
Toronto Transit Commission	39	2	5	46	35	1	80	116
TCHC	11	1	2	14	3	0	8	11
Total	50	3	7	60	38	1	88	127

* FI = Fully implemented, N/A = No longer relevant, NFI = Not fully implemented

**Status of recommendations verified for TTC as of March 2021; status of recommendations verified for TCHC as of June 2021

Management's actions to implement our recommendations (as at October 1, 2021, not yet verified)

As at October 1, 2021, there were 209 recommendations (including 86 high priority) reported by management as fully implemented or no longer relevant¹. These recommendations (for City divisions, agencies and corporations, and recommendations from fraud and waste investigations) still need to be verified by the Auditor General. This highlights that management is taking action to address our recommendations, according to their assessment.

High priority recommendations that management needs to implement, as of October 1, 2021

Of the 451 not fully implemented recommendations issued to City divisions and agencies and corporations, 202 are considered high priority. Management’s actions to implement these high priority recommendations are included in Attachment 2, Attachment 5 or Confidential Attachment 1.

¹ Conclusions from verifying recommendations from the Toronto Water SCADA System report are not reflected in these figures. The status of those recommendations is being separately reported to Audit Committee.

RECOMMENDATIONS

The Auditor General recommends that:

1. 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 or local boards, personal matters about identifiable individuals, including city employees, litigation or potential litigation affecting the City or a local board, or describes criteria to be applied to negotiations that will be carried on by or on behalf of the City of Toronto, including information regarding the criteria that should be applied when negotiating and preparing contracts.

FINANCIAL IMPACT

The recommendation contained in this report does not have any financial impact. However, management may require resources to implement the Auditor General's recommendations from audits and investigations referred to in this report. In some cases, the cost of resources can be offset by savings from reduced or avoided operating or capital costs, improved operational efficiencies, reduced fraud and waste, and new or increased revenues.

The Auditor General reports on the significant financial and non-financial impacts the City realizes by implementing the Auditor General's recommendations through her Annual Report. The 2020 annual report entitled: "Demonstrating the Value of the Auditor General's Office" was presented at the February 16, 2021 Audit Committee meeting. The report is available at:

<https://www.toronto.ca/legdocs/mmis/2021/au/bgrd/backgroundfile-163351.pdf>

The Auditor General will present her next annual report at the first Audit Committee in 2022. That report will include the results of verified financial and non-financial impacts realized from implementing previous report recommendations.

DECISION HISTORY

The follow-up of outstanding recommendations is required by Government Auditing Standards. The process is important as it helps to ensure that management has taken appropriate actions to implement the recommendations from previous Auditor General reports. The follow-up review is part of the Auditor General's annual work plan.

The Auditor General's follow-up of outstanding recommendations does not constitute a performance audit conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS). However, we believe that we have performed sufficient work to validate management's assertions on the implementation of recommendations.

The last two follow-up reports considered by the Audit Committee are available at:

- (i) Auditor General's Status Report on Outstanding Recommendations, June 2021

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2021.AU9.6>

- (ii) Auditor General's Follow-up of the Outstanding Recommendations - Status Update, February 2021

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2021.AU8.5>

The Auditor General's follow-up system allows management to update the implementation status of open recommendations any time throughout the year. We can continuously track and report out on management's assessment of implementation progress and target completion date and provide information to Council on the current status of any recommendation.

Our follow-up process, as summarized in Figure 1, requires divisional management to review the outstanding recommendations and provide information on their implementation status. Where management is continuing to take action to address recommendations and has reported the recommendation as not yet fully implemented, we do not conduct further work.

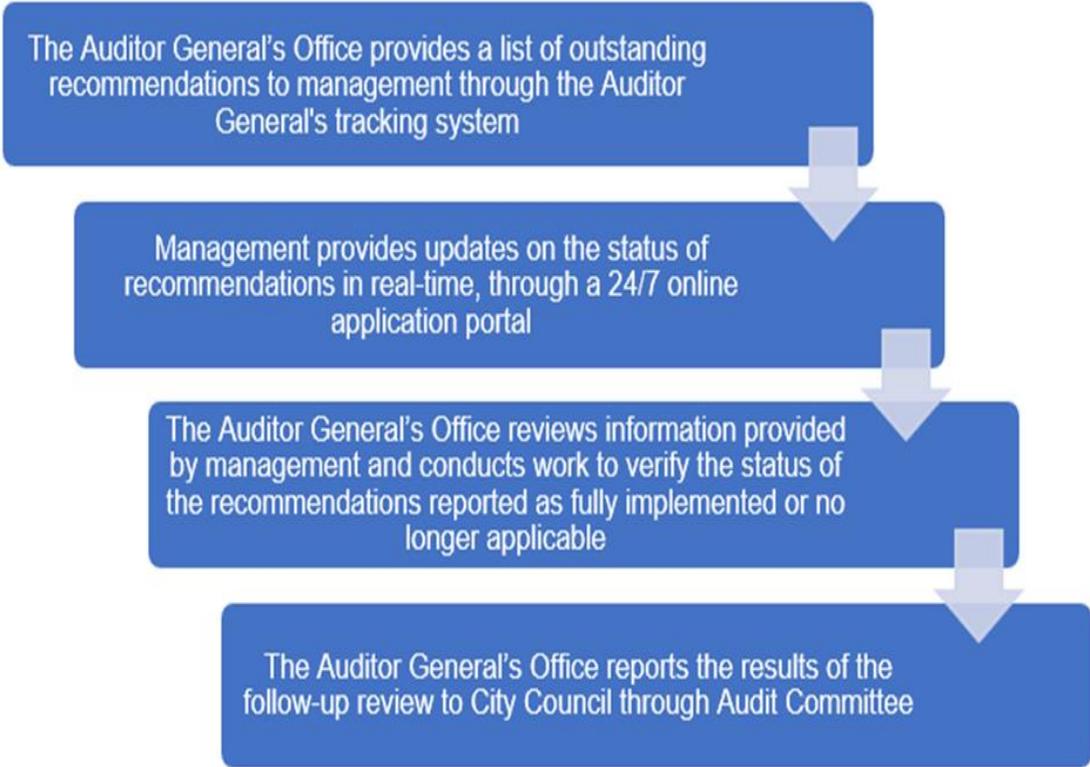
For recommendations management has reported as fully implemented or no longer applicable, management is required to explain why the recommendation is considered fully implemented or explain why the recommendation is no longer applicable and provide sufficient and relevant supporting documentation. The Auditor General's Office conducts work to verify the status of these recommendations. With staff being reallocated to other high-risk and competing projects, this year's follow-up focused on verifying high priority recommendations.

We classify recommendations as high priority where there is significant potential for savings, or health and safety risks, or risks to the City's reputation are involved. In addition, recommendations that have remained outstanding for over five years are also considered high priority. Within our existing budget, we were not able to promptly verify all of management's assertions.

It is important that management adequately review actions taken to implement a recommendation before asserting a recommendation has been fully implemented. If actions taken are not sufficient to address the intent of recommendations, or there is insufficient evidence to confirm the recommendation has been implemented, reporting a recommendation as fully implemented may be providing false assurance that identified risks have been appropriately addressed and the Auditor General's limited resources are wasted when the implementation of the recommendation needs to be re-audited a second time.

The Auditor General's Office is unable to validate management's assertions that recommendations are fully implemented if divisions do not provide sufficient evidence of actions taken.

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



COMMENTS

Results of Recommendations Verified at Major Agencies & Corporations

Our follow-up review results are first reported to the respective Boards of City agencies and corporations and then to City Council through the Audit Committee.

Toronto Transit Commission (TTC)

Detailed results of our follow-up review of the TTC recommendations were presented to the TTC Board at its meeting on September 15, 2021 (Attachment 5).

Our follow-up review included verification of the recommendations management reported were fully implemented as of March 2021. Although our focus for this round of follow-up was mainly to verify that the high-priority recommendations were implemented, we were also able to verify the status of some other recommendations.

Of the 46 audit recommendations where we performed follow-up work (40 high priority and 6 other) and reported by management as fully implemented, we verified that 39 (33 high priority and 6 other, 85 per cent) were fully implemented and two (high priority, 4 per cent) were no longer relevant and five (11 per cent) were not yet fully implemented,

however substantial progress had been made on many of these. The results of our review are summarized in Table 2 below.

Table 2: Results of the Auditor General’s Review of the Recommendations Management has Reported as Fully Implemented as of March 2021

Description	Management Assertions				Validation by Auditor General's Office In Progress	Status of Recommendations based on Auditor General's Follow-Up				
	FI High Priority	FI Other	No Longer Relevant	Total		High Priority			Other FI	Total
						FI	No Longer Relevant	NFI		
TTC Audit Reports	45	27	2	74	33	28	2	5	6	41
TTC Management Letter	5	0	0	5	0	5	0	0	0	5
Total	50	27	2	79	33	33	2	5	6	46

TTC has undertaken significant work to fully implement many recommendations, and, in many cases, achieved related significant cost savings, cost avoidance, improved controls, or other non-monetary benefits. In particular, TTC has made significant progress in the following areas noted during this follow-up review:

- A. Procurement, Materials Management, and Cores Management** – TTC realized over \$2 million in net savings in 2020 from aftermarket parts warranty and alternate sourced parts, and TTC estimates \$2.5 million annual savings by the end of 2021. TTC also made significant progress to improve the retrieval and tracking of cores.
- B. Bus Maintenance** – TTC made significant progress in reducing the standard repair time by two hours for one of its common bus repairs (brake reline) and will likely identify more parts with reduced repair time and increased productivity. TTC has also significantly reduced its internal rebuild of parts and started sourcing the parts from external vendors as it is less expensive.
- C. Telecommunication** – TTC achieved cost avoidance by leveraging the City's agreement with its wireless vendor and achieved benefits in completing the conversion of its planned VOIP lines.
- D. Wheel-Trans** – TTC undertook significant work and integrated Wheel-Trans customers into the accessible conventional transit system and is expecting cost avoidance once ridership levels increase post the COVID-19 pandemic.
- E. Continuous Monitoring of Employee Overtime and Absenteeism** – the prioritization of this area by TTC's CEO and the completion of Wave 1 of the new

system by TTC has helped staff to more closely monitor overtime and absenteeism on a continuous basis.

F. TTC Revenue Operations (Fare Evasion and PRESTO Equipment) – TTC is expecting some recovery of its revenue loss from PRESTO once negotiations conclude.

The results of the 2021 follow-up of the TTC audit recommendations were reported to the TTC Audit and Risk Management Committee on September 9, 2021 and forwarded to the September 15, 2021 TTC Board meeting where it was received.

Toronto Community Housing Corporation (TCHC)

Our report on the status of recommendations for TCHC will be tabled at the November 3, 2021 meeting of the Building Investment, Finance and Audit Committee (BIFAC) meeting, and then the next TCHC Board Meeting. Upon adoption of the report by TCHC's Board, we will table the report to the City's Audit Committee in early 2022.

Our follow-up review included 23 audit recommendations issued to TCHC. We verified that TCHC together with the City has fully implemented 11 recommendations. One recommendation was determined to be no longer relevant. We are encouraged to see how TCHC is moving forward.

Subsequent to the completion of our follow-up work, management advised that three more recommendations have been fully implemented. We have not verified management's assertions. There are eight remaining recommendations where implementation is in progress. These recommendations will be included in a subsequent follow-up review.

Separate Follow-up of Recommendations – Toronto Water

Given the nature of recommendations from the report entitled: *“Cyber Safety – Critical Infrastructure Systems: Toronto Water SCADA System”* we also dedicated resources to verify implementation of the recommendations in that report. The results of that follow-up are being separately reported to the November 2, 2021 Audit Committee.

Year at a Glance: Recommendations Verified in 2021

During the year, we verified 177 recommendations across City divisions, agencies and corporations. As illustrated in Figure 2, of the 117 recommendations for City divisions reviewed in 2021, 76 (65 per cent) were determined to be fully implemented, one (1 per cent) was determined to be no longer relevant, and 40 (34 per cent) were not yet fully implemented.

Figure 2: Auditor General’s Validation of Recommendations Implemented by City Divisions

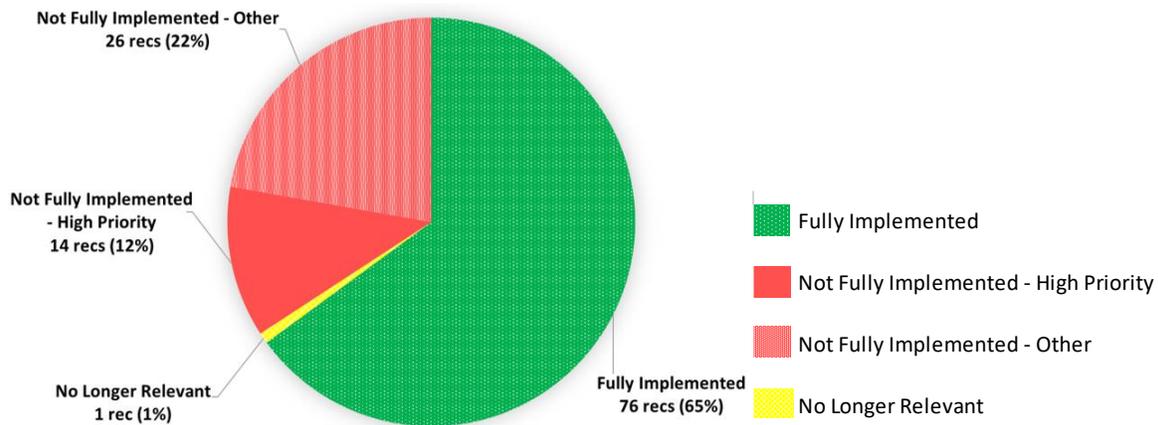
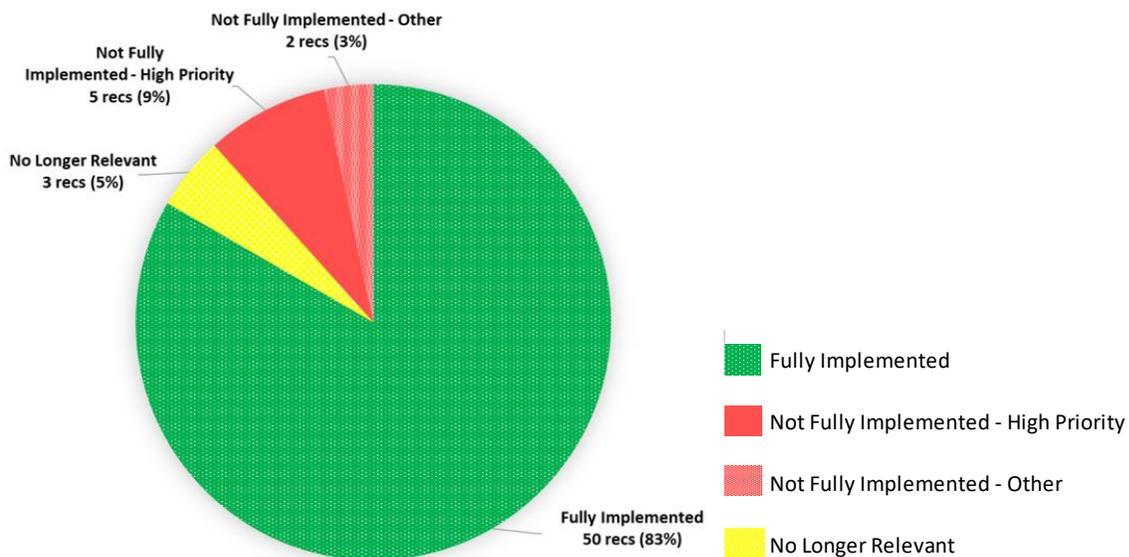


Figure 3 illustrates the results of our review of recommendations for the City’s agencies and corporations. Of the 60 recommendations for agencies and corporations reviewed in 2021, 50 (83 per cent) were determined to be fully implemented, three (5 per cent) were determined to be no longer relevant, and seven (12 per cent) were not yet fully implemented.

Figure 3: Auditor General’s Validation of Recommendations Implemented by Agencies and Corporations



Auditor General Recommendations Verified Since Inception

Table 3 summarizes the implementation status of recommendations issued by the Auditor General's Office to City divisions, the City Manager's Office, and agencies and corporations from inception (January 1999) to February 2021. Since inception, the Auditor General has verified 81 per cent of recommendations as fully implemented or no longer relevant. In our last recommendation consolidated status report issued in 2019², we reported 89 per cent of recommendations had been verified as implemented or no longer relevant. The verified recommendation implementation rate has decreased when compared to previous years because of limited staff resources available to verify management's actions. That rate was based on reports issued up until December 31, 2017. The inception rate calculated in Table 3 below includes 533 more recommendations issued through Auditor General reports.

There are another six per cent of recommendations that management has reported implemented or no longer relevant, and if verified to be the case, could bring up the implementation rate to 87 per cent.

The Auditor General continues to prioritize addressing emerging risks, investigations of high risk areas, and delivering impactful audits, investigations and cybersecurity / information technology reports and recommendations. While management continues to make progress in implementing recommendations, with existing staff resources, the Auditor General has not been able to verify all implemented recommendations. The Auditor General continues to focus on verifying the status of high priority recommendations as resources permit.

Recommendations implementation status is also illustrated in Figure 4.

² <https://www.toronto.ca/legdocs/mmis/2019/au/bgrd/backgroundfile-138831.pdf>

Table 3: Recommendations Implementation Status from Inception to Reports Issued to February 2021

City Service Groups and Agencies and Corporations	FI	N/A	NFI ³	FI as Reported by Management as of Oct 1, 2021 (not verified by AGO)	N/A as Reported by Management as of Oct 1, 2021 (not verified by AGO)	Total ⁴
Community and Social Services	280	34	102	20	0	436
Infrastructure and Development	467	18	66	42	0	593
Corporate Services	406	35	121	62	3	627
Finance and Treasury Services	397	38	66	38	0	539
City Manager's Office	232	35	4	4	0	275
Agencies and Corporations	631	157	92	39	1	920
Total Recommendations	2413 (71%)	317 (10%)	451 (13%)	209 (6%)		3390

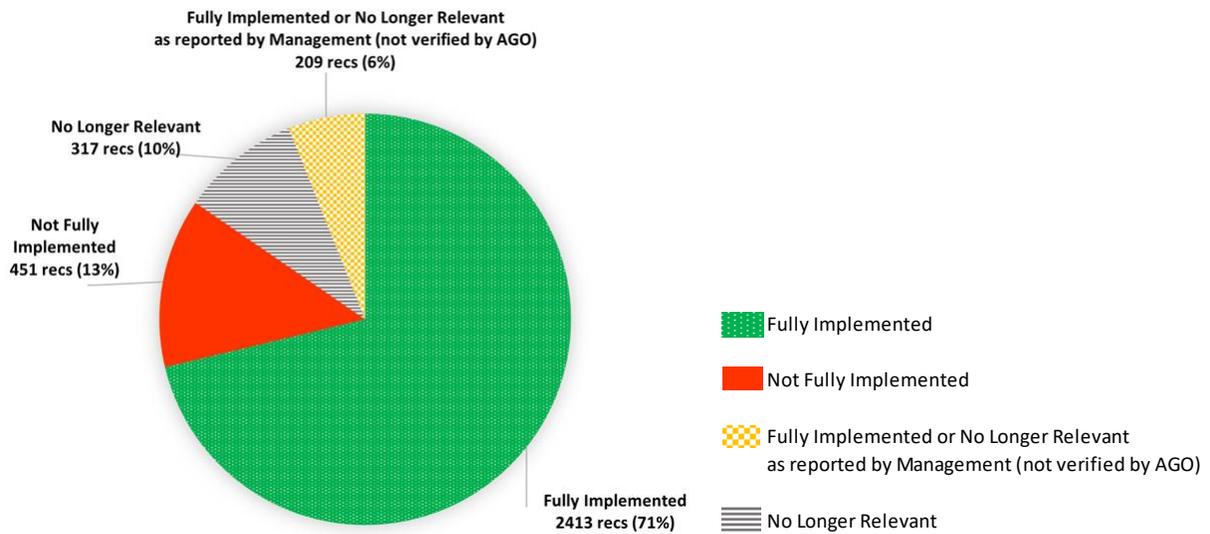


81%

³ The Auditor General's system is updated on a continuous basis by management. Recommendations management reported as fully implemented after October 1, 2021 are still included in this column.

⁴ Recommendation adopted by City Council on July 14-16, 2021 are not included in the total but will be reported in future follow-up reports.

Figure 4: Recommendations Implementation Status from Inception to February 2021



Status of Open Recommendations as of October 1, 2021 (need to be verified)

As at October 1, 2021, there were 209 recommendations reported by management as fully implemented or no longer relevant⁵. These recommendations still need to be verified by the Auditor General.

Out of 209 total recommendations management reported as implemented or no longer relevant, 86 recommendations are high priority recommendations (Table 4). These recommendations can be found in Attachment 3, Attachment 5 or Confidential Attachment 1. Management’s actions to address fraud and waste investigation recommendations are included in Attachment 4 or Confidential Attachment 1.

Audit Committee Request – Children's Services, Technology Services and Urban Forestry

The Audit Committee requested at its meeting on July 7, 2021 for “*the Auditor General to report to the November 2, 2021 meeting of the Audit Committee on any concerns about recommendations for Children's Services, Technology Services and Urban Forestry that are identified as completed which may not be completed.*”

We verified that the two recommendations reported as fully implemented by Urban Forestry were fully implemented (Attachment 1). The verification of the recommendations for Children’s Services and Technology Services reported by management as fully implemented is currently underway. The results of our review will be submitted in our next follow-up report.

⁵ Conclusions from verifying recommendations from the Toronto Water SCADA System report are not reflected in these figures. The status of those recommendations is being separately reported to Audit Committee.

High Priority Recommendations that Management Needs to Implement, as of October 1, 2021

Of the 451 not fully implemented recommendations issued to City divisions and agencies and corporations, 202 are considered high priority recommendations where there is significant potential for savings, or health and safety risks, or risks to the City's reputation are involved. In addition, recommendations that have remained outstanding for over five years are also considered high priority. The status of high priority recommendations are summarized in Table 4 below.

The high priority not fully implemented recommendations⁶, together with management comments, action plans and implementation due dates are included in Attachment 2, Attachment 4, Attachment 5, or Confidential Attachment 1.

Table 4: Status of Open High Priority Recommendations by Service Area, as Reported by Management (not verified by AGO) as of October 1, 2021

Service Area	FI	N/A	NFI*	Total
City Manager's Office	3	0	4	7
Community and Social Services	9	0	32	41
Corporate Services	35	3	74	112
Finance and Treasury Services	15	0	31	46
Infrastructure and Development	9	0	24	33
Agencies and Corporations	12	0	37	49
Total	83	3	202	288

* The Auditor General's system is updated on a continuous basis by management. Recommendations management reported as fully implemented after October 1, 2021 are still included in this column.

Recommendations that have been outstanding for a very long time include recommendations related to disaster recovery of IT systems and physical security at City facilities. The completion of these recommendations should be a future focus by staff to protect City interests.

⁶ Recommendations from the Toronto Water SCADA System report are not included in Confidential Attachment 1. The status of those recommendations is being separately reported to Audit Committee.

Conclusion

We will continue to verify recommendations reported by management as fully implemented and report our results in our next follow-up report.

We express our appreciation for the co-operation and assistance we received throughout the year from management and staff of City divisions, agencies and corporations.

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SIGNATURE

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ATTACHMENTS

Confidential Attachment 1: City Divisions – Fully Implemented, Not Fully Implemented Recommendations (Not Verified by the Auditor General)

Attachment 1: City Divisions Public Recommendations – Fully Implemented (Verified by the Auditor General)

Attachment 2: City Divisions Public High Priority Recommendations – Not Fully Implemented (Status Not Verified by the Auditor General)

Attachment 3: City Divisions, Agencies and Corporations – Fully Implemented or No Longer Relevant Recommendations (Status Not Verified by the Auditor General)

Attachment 4: Fraud and Waste Investigation Recommendations Status as Reported by Management (Fully Implemented or No Longer Relevant not verified by the Auditor General, and Not Fully Implemented High Priority)

Attachment 5: Toronto Transit Commission – Results of 2021 Follow-up of Previous Audit Recommendations