

# Attachment 1



## Auditor General's 2021 Annual Report

### Demonstrating the Value of the Auditor General's Office

February 4, 2022

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

**AUDITOR  
GENERAL**  

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**TORONTO**

# Auditor General's Message

2021 was an exciting, but challenging year. Once again, the Toronto Public Service showed incredible strength and resilience delivering programs and services to Torontonians amidst the ongoing COVID-19 pandemic.



In 2021, my Office continuously delivered impactful audits and reviews with recommendations aimed at:

- ensuring the City's IT systems and critical infrastructure are safe,
- improving how the City manages and monitors key contracted services including tree maintenance and winter road maintenance, and
- ensuring there is accountability for providing quality service delivery expected by residents of the Toronto Community Housing Corporation's buildings.

Additionally, our Fraud and Waste Hotline was as busy as ever managing hundreds of complaints and conducting several complex investigations. We also continued important reviews of the Toronto Police Service, the Toronto Transit Commission's IT infrastructure, the Toronto Building Division, and Toronto's shelter system.

2022 is my final year as the Auditor General for the City of Toronto. This Annual Report is an opportunity to look back not only on the previous year, but also on our Office's total impact over the previous seven years. When I started my term, I told City Management and City Council that at the end of my term, I wanted my Office to be evaluated on these key performance measures:

- 1) Did we add value?
- 2) Did we show leadership?
- 3) Did we take a fair and balanced approach that builds relationships and inspires change?

## Adding Value

Every year, we demonstrate the value our Office brings with a quantified return on investment. 2021 was no different — the City achieved savings of \$464.8 million over the last five years by implementing my reports' recommendations. This means for every dollar invested in my Office, there was a return of about \$14.90. However, it's not all about money! Our reports often provide a roadmap for transformational changes that will benefit Torontonians for years to come. As the Chair of the Audit Committee, Councillor Stephen Holyday, once said, "audit is about people". Over my term, audit recommendations have helped people to get into homes because we found vacancies that could be filled, it has helped to keep Toronto's water system safer from cybercriminals, and it has helped to ensure that people live in safer buildings due to changes in the fire protection industry triggered by our Office's reports.

## Showing Leadership

Toronto is one of the most dynamic and exciting cities in the world. My staff takes pride in serving this amazing city and helping to make it even better. We are being recognized for our innovative approach to our work, for the quality of our reports, and for the quantifiable impact of our work. We are often asked to train other auditors nationally and internationally. Our leadership has also been recognized throughout the city. City Council, City officials and staff, industry groups, and citizens come to us to ask for audits or reviews, for a sober second look, and for practical recommendations — all of which lead to better outcomes on important issues that affect peoples' daily lives. I feel confident ours is one of the best audit offices nationally and internationally.

## Being Fair and Balanced

Although living through an audit can be challenging, and the diagnosis of root causes of issues can be difficult to hear, the most important thing about an audit is what comes afterwards: management's implementation of the audit recommendations. We have found that by approaching our work in a fair and balanced way it helps keep management inspired to embrace and implement changes in the best interest of all Torontonians. To be fair and balanced, we maintain independence and objectivity from the very start of every project, and use a 'no surprises' approach that involves regularly communicating issues that may come up. We are also committed to working through difficulties to achieve the best solution. Here are just some of management's acknowledgements on the work we did in 2021:

*The opportunity to work closely with the Auditor General and her team soon after assuming the role of CEO at Toronto Community Housing **provided critical insight** on how we can **drive accountability and strive for continuous improvement** to **deliver excellent tenant service.**"*

Jag Sharma, President and Chief Executive Officer,  
Toronto Community Housing Corporation

*"We've seen a lot of leadership change here at the TTC...we've allowed ourselves to use the audit **information from the AG as a way to knit that in to the transformation** work that's happening....a much more focused approach on continuous improvement..."*

Josie La Vita, Interim Chief Financial Officer, Toronto Transit Commission

*"...thank the Auditor General as well... some very good recommendations and they **identified some issues** that definitely need to be rectified and **we're going to move in that direction.**"*

James Ramer, Chief of Police, Toronto Police Service

*"The Auditor General's recommendations on tree maintenance services have provided a constructive opportunity for Parks, Forestry and Recreation to **improve tree maintenance** crew oversight, enhance contract terms and management measures and increase productivity and operational efficiency. Because of their insight and support, the division has been able to provide continuous improvement, in order to **ensure value for money and better serve the residents of Toronto.**"*

Janie Romoff, General Manager, Parks, Forestry and Recreation

I would like to sincerely thank City staff from all City divisions, the agencies and corporations we've worked with, and City Council for all their efforts in driving the implementation of our recommendations. It takes hundreds of hours of work to bring audits to light, and that much more time and effort by management to make real change happen. Behind this huge effort is a great team that has established independent, yet respectful and trustworthy relationships with City

management. This has, in my view, inspired management to embrace and build on recommendations that will lead to improvements which will positively impact Torontonians.

I would like to sincerely thank my team: the professionals who show up, work hard and meet deadlines to make a difference. I often say it takes a village to prepare a report, and our Office is a little village. I have not produced these results, alone – everyone on the team has helped to craft each report. What is most touching is that in that process of pulling together reports in support of Torontonians, we have shared of ourselves. We celebrated marriages, shared in the happiness when babies were born, supported one another when we were sick, and came together when there were deaths to be mourned. We celebrated family and cultural traditions, and now we have become a family ourselves. I cannot think of a greater group of professionals that I value and admire more.

Finally, I would like to express a sincere debt of gratitude to the real heroes of 2021: the frontline City staff who have been on the ground every day throughout this pandemic delivering essential services as we combat COVID-19. It is both an honour and inspiring to witness the commitment you have to the work you do on behalf of all of us, all Torontonians, and especially those who are the most vulnerable. From the bottom of my heart, thank you.

Sincerely,

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

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# Our Mission, Mandate, and Team

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## Mission

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

## Mandate

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

The Auditor General assists City Council in fulfilling its due diligence responsibilities by independently providing transparent, objective information to City Council to help ensure Torontonians' tax dollars are spent as directed by City Council.

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

## Our Team



**Our diversity strengthens the Office and enriches the work we do.  
We are honoured to serve the City of Toronto.**

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## 2021 Highlights

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

This annual report demonstrates our value to the City, including the quantifiable financial and non-quantifiable benefits resulting from our audits and investigations.

- The total one-time and projected five-year savings realized in 2021 was \$134.0 million. For every dollar invested in our Office, there was a return of approximately \$14.90. This is discussed in more detail in the Impact of Auditor General Recommendations section in this report.
- The non-quantifiable benefits from Auditor General recommendations include enhanced cybersecurity and internal controls, robust data analytics, improved policies and procedures, more effective management and use of City resources, increased operational efficiencies, better customer service and stronger physical security of City assets.

In 2021, the Auditor General presented 14 audit, review and investigation reports, three follow-up reports and seven administrative reports. The findings and recommendations in these reports focused on the following themes:



### 1. Identifying and protecting the City and its agencies and corporations from cybersecurity threats

- **Toronto Fire Service:** cybersecurity assessment of Toronto Fire critical infrastructure system
- Toronto **Water network and systems:** retesting to ensure vulnerabilities identified in our 2020 audit were resolved and to evaluate the Division’s readiness to respond to a cyberattack
- **Toronto Police Service:** vulnerability assessment and penetration testing of IT infrastructure

### 2. Contract Management and Monitoring

- **Winter road maintenance:** assessing whether the City is receiving the **best value for money** by contracting out compared to in-house services
- **Tree maintenance services:** opportunities to **increase productivity and value for money**
- TCHC: improving **oversight, monitoring and management** of service delivery across the Toronto Community Housing Corporation’s housing portfolio



### 3. Investigations of Fraud and Other Wrongdoing

- **Accounts Payable Fraud Investigation** at certain City Business Improvement Areas (BIAs)
- Investigation into **allegations of reprisal**
- **Investigation into contract management** within the Corporate Real Estate Management Division (**CREM**)



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# Major Audits, Investigative, and Cybersecurity Reports in 2021

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## 14 audit, investigative and cyber / IT reports in 2021

In 2021, our Office completed 14 performance audit, investigative and cyber / IT reports. Our performance audit and investigation reports contained 79 public and confidential recommendations. These reports are included in Exhibit 2.

This section summarizes some of the significant audit and cybersecurity / IT reports issued in 2021.

## Cybersecurity and IT Reviews across the City

Cybersecurity threats are real. Large-scale attacks have disrupted public services such as emergency response systems, utility services and law enforcement operations at many jurisdictions across North America.

For example, in October 2021, according to published media reports, the Newfoundland and Labrador healthcare system was hit with a cyberattack that affected thousands of residents who had their appointments cancelled, ranging from blood work to cancer care. Patient and employee information was also stolen from three of the four regional health authorities<sup>1</sup>.

News reports continue to highlight the increasing frequency and intensity of cyberattacks. This includes ransomware attacks, which increased in 2020 and 2021. In late 2021, the Toronto Transit Commission (TTC) reported that they were the victim of a cyberattack that *“resulted in a number of the TTC’s servers being encrypted and locked, resulting in loss of...vehicle arrival information, and online Wheel-Trans booking systems, as well as external network connectivity, including e-mail”*<sup>2</sup>.

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<sup>1</sup> <https://www.cbc.ca/news/canada/newfoundland-labrador/cyber-attack-furey-1.6275764>

<sup>2</sup> <https://www.ttc.ca/riding-the-ttc/Updates/Cybersecurity-incident>

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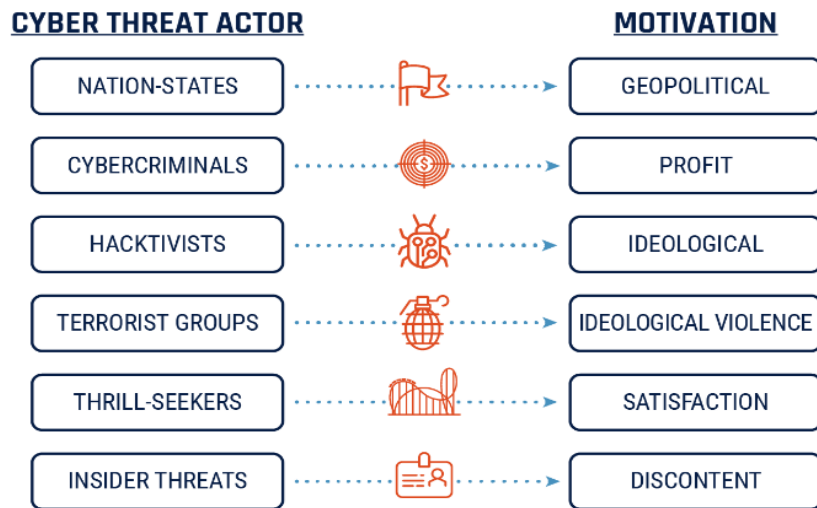
According to the Canadian Centre for Cyber Security's National Cyber Threat Assessment, 2020<sup>3</sup>:

"...cybercrime remains the most common threat faced by Canadian organizations of all sizes... Over the past two years, targeting of industrial processes and ransomware attacks have become regular occurrences resulting in major impacts, including reputational damage, productivity loss, legal repercussions, recovery expenses, and damage to infrastructure and operations. We assess that ransomware directed against Canada in the next two years will almost certainly continue to target large enterprises and critical infrastructure providers."

**Globalized nature of internet allows threat actors to be physically located anywhere and still affect security of systems in Canada**

The Canadian Centre for Cyber Security describes that threat actors can range from individuals to nation states. "The globalized nature of the Internet allows these threat actors to be physically located anywhere in the world and still affect the security of information systems in Canada"<sup>4</sup>. Figure 1 lists various cyber threat actors and potential motivations to attack an organization.

**Figure 1: Cyber Threat Actors (Source: The Canadian Cyber Centre)**



<sup>3</sup> <https://cyber.gc.ca/sites/default/files/publications/ncta-2020-e-web.pdf>

<sup>4</sup> <https://cyber.gc.ca/en/guidance/cyber-threat-and-cyber-threat-actors>

Cybersecurity threats are constantly evolving and becoming more sophisticated. The outcomes of a cyberattack can be devastating to the City and can include:

- inability to fulfil role of service delivery, which can include critical public safety services like water, fire, and emergency services
- disclosure of confidential or sensitive personal information
- intellectual property theft
- financial losses
- risk of legal damages from lawsuits
- reputational damage

**Auditor General’s reviews provide an independent and ongoing assessment of cyber threats**

Since 2016, the Auditor General has proactively performed various cybersecurity assessments at the City and its Agencies and Corporations. The purpose of the Auditor General’s reviews is to provide an independent and ongoing assessment of the threats the City potentially faces and to identify areas where controls can be strengthened.

**Auditor General issued 5 cybersecurity reports in 2021**

Given the remote working environment under the COVID-19 pandemic and cyber threat actors targeting public sector organizations and critical infrastructure, the Auditor General paid special attention to cybersecurity in 2021. She issued five cybersecurity reports in 2021 and made several recommendations to improve cybersecurity controls and governance over critical IT infrastructure and systems.

**Findings communicated through confidential reports to Audit Committee and City Council**

The Auditor General’s cybersecurity reports involve the security of the City’s IT systems, infrastructure and sensitive data. Due to the nature of the findings and the need to protect any sensitive information, our cybersecurity reports are generally confidential.

In addition to these confidential reports, we also provide large, detailed technical reports to management<sup>5</sup>. These reports provide extensive detail and technical information that assists management in taking corrective actions.

The reports are confidential because the results may impact public safety if the information is disclosed and used maliciously by cyber threat actors. However, the sections that follow provide some brief highlights from some of the publicly available reports.

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<sup>5</sup> The technical reports sometimes span over 200 pages in length.

Given that cybersecurity threats are expected to continue to evolve, the Auditor General will continue to perform these independent assessments and make recommendations to address the risks. Council will be updated on management's progress in implementing our recommendations.

**Management advised that they continue to take action to implement cybersecurity report recommendations**

**Action taken since our audit:**

City Council continues to invest in improving cybersecurity, which includes procuring and upgrading tools, resources, licences, and services which support IT security functions. Management reported that they continue to take action to implement our cybersecurity audit recommendations and these are reflected in management's ongoing updates to the Auditor General's follow-up system.

The Auditor General's Office will continue to verify the implementation of these recommendations to ensure that the City's infrastructure and networks are protected and secure.

**Auditor General's Cybersecurity Review: Toronto Fire Service Critical Systems Review**



## Toronto Fire Service Critical Systems Review

Recognizing the ongoing ransomware attacks on critical systems, including 9-1-1<sup>6</sup>, computer-aided dispatch (CAD)<sup>7</sup> and healthcare systems in North America, the Auditor General undertook a cybersecurity review of a **critical system at the Toronto Fire Service (TFS)**.

The Auditor General made eight confidential recommendations and one recommendation in a separate management letter. City Council, acknowledging the importance of the Auditor General's findings, added and adopted several motions complementing the recommendations made by the Auditor General to improve the cybersecurity governance framework, monitor cybersecurity risks, and expedite the implementation of the recommendations at its November 9, 10 and 12, 2021 meeting<sup>8</sup>. They included:

- City Manager to report on the ongoing governance structure to identify, plan for and mitigate cybersecurity risks across the City of Toronto, including all City divisions, agencies and corporations.
- The City Manager, in consultation with the Chief Information Security Officer, develop a periodic confirmation program for addressing cybersecurity risks in City agencies and corporations, starting with the critical systems.

## Implementing recommendations will improve cybersecurity

A detailed technical report was also provided to assist management in taking action to strengthen cybersecurity. Implementing the recommendations made by the Auditor General will improve cybersecurity at the Division and the City as a whole.

The public report for our review of the Toronto Fire Service's critical systems is available at:

<https://www.toronto.ca/legdocs/mmis/2021/au/bgrd/backgroundfile-172402.pdf>

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<sup>6</sup> <https://www.baltimoresun.com/news/crime/bs-md-ci-hack-folo-20180328-story.html>  
For Second Time in a Year, Baltimore Hit With Ransomware (govtech.com)

<sup>7</sup> <https://www.nbcnews.com/news/us-news/baltimore-s-911-emergency-system-hit-cyberattack-n860876>

<sup>7</sup> [Butler County Sheriff's Office discovered malware activity on its emergency communications system a week ago \(journal-news.com\)](#); [Spotlight News - The home of The Spot 518 - Real-Local-News](#)

<sup>8</sup> <http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2021.AU10.4>

## Toronto Police Service IT Infrastructure: Cyber Security Assessment - Phase 1



**Canadian law enforcement organizations also face cybersecurity threats**

Across Canada, law enforcement organizations are facing threats to their IT systems and data. In 2020, data belonging to 38 police agencies across Canada were exposed by cyber threat actors who also appeared to be targeting US police agencies. The RCMP also acknowledged being a target<sup>9</sup>.

The Toronto Police Service (TPS) employs over 5,500 officers and more than 2,200 civilian staff<sup>10</sup>. Its operating budget is over \$1 billion a year. The nature of law enforcement and the justice system, along with the sheer magnitude of this operation, makes it an attractive target for cybercriminals.

**Toronto Police Services Board requested a cybersecurity audit**

In a December 12, 2019 letter to the Auditor General, the Toronto Police Services Board requested that her Office conduct a cybersecurity audit. Given the size and importance of TPS and its highly confidential systems and data, the Auditor General prioritized this request.

The public report<sup>11</sup> with a confidential attachment was tabled at the June 24, 2021 TPS Board meeting. In addition, a detailed technical report was also provided to management for expediting corrective actions. Management agreed to our recommendations. The Auditor General upon request by the Board will follow-up and update City Council on the status of implementing our recommendations.

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<sup>9</sup> <https://www.cbc.ca/news/canada/ottawa/blueleaks-published-thousands-of-documents-from-canadian-police-agencies-1.5734311>

<sup>10</sup> <http://www.torontopolice.on.ca/careers/history.php>

<sup>11</sup> <https://www.toronto.ca/legdocs/mmis/2021/au/bgrd/backgroundfile-168702.pdf>

Following the review, and in relation to the report, TPS Chief James Ramer said to the Board that the Auditor General's team provided *"some very good recommendations and they identified some issues that definitely need to be rectified and we're going to move in that direction."*

### Toronto Water SCADA System Security: Results of Follow-up of Previous Audit Recommendations



**Follow up involved complete re-testing of physical and cybersecurity controls**

The Auditor General's follow-up review of our 2019 cybersecurity audit of Toronto Water's critical infrastructure systems work involved a full re-testing of the physical security and cybersecurity controls. The overall objective was to assess the adequacy of controls that management had implemented to address potential threats we found in Toronto Water's SCADA network, systems and applications.<sup>12</sup>

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<sup>12</sup> <https://www.toronto.ca/legdocs/mmis/2020/au/bgrd/backgroundfile-145342.pdf>

**SCADA system controls critical infrastructure equipment and processes**

**Why does Toronto Water SCADA System Need to be Protected?**

The SCADA system controls water filtration and wastewater treatment critical infrastructure equipment and processes that impact Toronto residents, businesses, industries and the environment. It is essential that this system is protected. A compromised SCADA system could result in:

- disruption of the safe supply of water
- damage to water infrastructure assets and reservoirs which could cause flooding and waste of water, and
- damage to the environment if untreated or inappropriately treated water is discharged into our lakes, rivers or streams.

**Level of awareness and vigilance has increased**

Since the Auditor General's January 2020 report, we have maintained regular communication with Toronto Water on the implementation status of the audit report recommendations and have provided City Council with interim reports describing their actions taken. The Auditor General has noticed a culture shift at Toronto Water, including increased awareness of emerging cybersecurity threats and the implementation of stronger IT and physical security practices.

**Toronto Water has made substantial progress to protect systems**

We found that Toronto Water implemented many recommendations and made substantial progress especially in the following key areas:

- physical security at water facilities and protection of IT equipment
- technical fixes related to cybersecurity
- discontinuation of outdated systems and devices
- strengthened staff training and awareness

As reported in November 2021<sup>13</sup>, our re-testing was completed in 2021 and a final report is being considered at the February 2022 Audit Committee meeting.

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<sup>13</sup> [Agenda Item History - 2021.AU10.5 \(toronto.ca\)](#)





## City Needs to Improve Software Licence Subscription Tracking, Utilization and Compliance



In March 2021, a complaint came to the Auditor General's Office alleging *"the City was fined for using a vendor's proprietary software without a licence"*. The complainant claimed the City settled with the vendor by purchasing additional software, and that *"licences were purchased in September last year and have been sitting on the shelf since"*.

The City has been using this vendor's proprietary software for over 10 years to manage some information technology services on its servers. A key requirement of the end-user agreement was for the City to install and properly configure the vendor's licence reporting tool to track and report application usage on City servers. Non-compliance could lead to unexpected fees or litigation.

The Auditor General reviewed this matter and issued a report on the results, which was considered by Audit Committee. The Auditor General also issued a supplementary report providing additional information and clarifications on the matter when the item was considered by City Council.

**City incurred significant costs by not complying with software licensing agreement**

In this case, we confirmed that the City incurred significant costs by not complying with the software licensing agreement that required the City to install the vendor's reporting tool to track software usage.

**Cost of unused licences was \$775,000**

Management advised that instead of paying additional fees for non-compliance, for which the City would not realize any benefit, it settled by purchasing new software licences earlier than planned. We confirmed that the 12-month subscription period for most of the pre-purchased licences will expire before the subscriptions are used. The cost of the unused licence subscriptions as of May 1, 2021 was approximately \$775,000, which includes a one-time set-up fee, annual subscription and maintenance and support costs that expire between June and August 31, 2021. If all subscriptions were further renewed in 2021 for another year without being needed, the costs for the unused subscriptions will continue to rise.

**More attention needed to ensure compliance with software licence agreements**

The Auditor General's review has shown that more attention is needed to ensure compliance with software licence agreements. The Auditor General made three recommendations to strengthen licence management processes. Implementing the report recommendations will improve the City's compliance with software licence agreements and enhance the due diligence in acquiring software licences and signing these agreements.

The Auditor General's initial and supplementary report is available at: <https://www.torontoauditor.ca/report/city-needs-to-improve-software-license-subscription-tracking-utilization-and-compliance/>

<https://www.toronto.ca/legdocs/mmis/2021/cc/bgrd/backgroundfile-169301.pdf>

**In response to our report recommendations, management advised they will:**

- identify agreements that require licence tracking and reporting and will implement procedures to monitor compliance and address any issues identified in a timely manner.
- improve the process to evaluate software subscriptions prior to purchase to ensure they are acquired in the right quantity and deployed in a timely manner.
- consult with the City Solicitor to standardize procedures to identify the contractual requirements related to licence tracking and, where possible, shift commercial risk to the vendors.

Further, the Chief Procurement Officer, in consultation with the Controller and the City Solicitor, will review situations in which contract disputes have been resolved in the past to determine the appropriate changes required to the Financial Control Bylaw or the Purchasing Bylaw to ensure proper controls are in place with respect to the approval and reporting of resolving contract disputes.

## Getting to the Root of the Issue: A Follow-Up to the 2019 Tree Maintenance Services Audit



### **Large-scale follow-up review**

"Getting to the Root of the Issue" was a report to follow up on prior recommendations. It examined certain aspects of tree maintenance services to assess Parks, Forestry and Recreation's (PFR) progress towards addressing issues and recommendations identified in our April 2019 audit report, "Review of Urban Forestry - Ensuring Value for Money for Tree Maintenance Services".

### **500 hours of direct physical observations of tree maintenance crews**

The report findings were based on over 500 hours of direct physical observation of crews in the field. Our teams documented crew movements and observations in a log and captured video footage, where feasible. We then compared the physical observation logs and video footage to the tree maintenance crews' daily logs and GPS data.

### **More focus needed to ensure City receives value for money for tree maintenance services**

While our review found some improvements since our 2019 audits, it concluded that many concerns from our original audit persisted and a culture shift was needed for how these contracts are monitored. The follow-up review highlighted some key lessons learned for the City to increase productivity and value for money for tree maintenance services. If all crews increased the time they actively worked on trees by an average of 30 minutes daily, we estimated the City would produce around \$1 million more work on trees annually, based on 2019 contracted rates and crews.

The report recommendations were aimed at helping PFR to further strengthen its contract management and contract monitoring mechanisms, and address availability and quality of data and records.

The follow-up review report is available at:  
<https://www.toronto.ca/legdocs/mmis/2021/au/bgrd/backgroundfile-164220.pdf>

**Management taking action to increase productivity and value for money for tree maintenance services**

**Action taken since our follow-up:**

Since our follow-up review report was published, Parks, Forestry and Recreation (PFR) has reported that, amongst other initiatives, it has increased oversight of City and contractor tree maintenance crews including:

- Held meetings and issued a letter of expectation to each tree maintenance vendor to advise that vendors will be held accountable for compliance with all terms of the contract.
- Discreet physical observation of contractor crews by an external surveillance firm
- Eliminated the payment of breaks for the contractor crews in accordance with contract terms
- Doubled the number of GPS reviews as well as efficient use of time reviews for both City and contractor crews
- Improvements related to the issues of parked vehicles and hydro hold-offs
- Centralized the complaints process
- Implemented a second level of invoice verification
- Conducted monthly contract compliance meetings with contractors in relation to the new contracts

PFR also reported the following improvements in the performance of City and contractor tree maintenance crews:

- an 8% improvement<sup>14</sup> in GPS to daily log accuracy rate
- over 30 minutes average (mean) increase in time spent working on trees as reported on daily logs<sup>15</sup>
- a 12% increase in daily logs with greater than 4 hours spent working on trees<sup>16</sup>

These actions and performance improvements are further described in PFR's update report, which was provided to the Audit Committee on February 18, 2022.

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<sup>14</sup> When comparing the period from January-June 2021 and July-November 2021

<sup>15</sup> When comparing average (mean) amount of time spent on trees in June 2021 and October 2021

<sup>16</sup> When comparing June 2021 and October 2021 daily logs

## Winter Road Maintenance Program - Phase 2 Analysis: Deploying Resources



### **22 recommendations made in Phase 1 report**

In the first phase of our audit of winter maintenance services (completed in October 2020), we made 22 recommendations to improve the efficiency and effectiveness of the City's winter road maintenance program. The recommendations in our first report focused on leveraging technology, improving the design and management of contracts, and measuring to ensure council-approved service levels were achieved.

### **Phase 2 looked at whether it was more cost-effective to perform winter services in-house or to outsource and opportunities for improved efficiencies and cost-effectiveness**

Phase two of our review of winter maintenance (completed in July 2021) looked at:

- whether it was more cost-effective to have the City perform the winter maintenance services in-house using City equipment and staff, or to contract out, and
- identifying opportunities for improved efficiency and cost effectiveness in managing the contracted services model.

### **Phase 2 highlighted the need to have the right equipment at the right time**

This phase two report further highlighted opportunities for increased efficiency and effectiveness of operations. Our analysis showed that less than half of the contracted fleet was used during most winter events and that there was unused capacity in the shoulder seasons (October/November and March/April). Our recommendations emphasized the need for Transportation Services to have the right equipment at the right time, and to build flexibility into future contracts to control the fleet size, deployment timing, and type of vehicle.

**Transportation Services  
will be in a stronger  
position going forward**

By building-in flexibility into the new contracts, improving quality control processes, and better using data to measure and monitor contractor performance, Transportation Services will be in a stronger position to manage the winter maintenance program more effectively and efficiently going forward.

The Auditor General's report is available at:

<https://www.toronto.ca/legdocs/mmis/2021/au/bgrd/backgroundfile-168777.pdf>

**Action taken since our review:**

Since our report was published, the Transportation Services Division reported that they have:

- revised and improved contract language to better ensure it is clear and consistent for all service areas
- modified new contracts, including leveraging technology where possible, adding flexibility to modify the contractual winter season where feasible to realize cost savings, and adding metrics to hold suppliers accountable to contract measurements
- developed operational key performance indicators as part of the next contract cycle (begins in fall 2022), and
- developed new operating procedures and training for staff, such as for breakdowns and the use of spare equipment.

## TCHC: Embedding Accountability into Service Delivery: Lessons Learned from the Audit of Contracted Property Management Services



### Long-standing issues

For many years, TCHC has been aware that a key to better performance is through improved monitoring. This is what management committed to each time the contract for property management services was retendered. However, substantive changes in the contract-managed portfolio were not achieved.

### 3 key lessons learned

We highlighted three key lessons learned from this audit to support TCHC's success in managing its buildings:

1. Setting up successful service delivery by providing clear, consistent specifications and embedding accountability into the design of service agreements
2. Monitoring performance to hold service providers accountable for making sure services are getting done correctly
3. Building trust and confidence through accurate and transparent reporting that supports the Board in holding management accountable for improving outcomes

These themes are relevant for service delivery, regardless of whether they are internally delivered directly by TCHC staff or through a contractor (and their subcontractors).



**Recommendations designed to help TCHC attain its goals**

The 10 recommendations in our report highlight that TCHC can set up successful service delivery by defining clear and consistent performance requirements, and by building accountability into its service agreements. Our recommendations also highlight that reliable data is needed to strengthen oversight and monitoring that services are performed well and work is completed with high quality.

Our report was considered by TCHC's Board of Directors on December 9, 2021. The report will be presented at the February 18, 2022 City Audit Committee and is available at:

[Item 4B - TCHC - Embedding Accountability Into Service Delivery w attachments-NEW.pdf \(torontohousing.ca\)](#)

**Fraud and Waste Hotline Program**



**Forensic Unit conducts and provides oversight over investigations**

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

Hotline data also provides a picture of trends and potential risks that have led to audits with significant findings, including the recent audits of cybersecurity, urban forestry and waitlists for housing.

**820 complaints, approximately 1,200 allegations in 2021**

In 2021, the Hotline Program received 820 complaints representing approximately 1,200 allegations. The total number of complaints received is similar to 2020 and approximately 40 per cent higher than 2019 numbers. This shows that the Fraud and Waste Hotline continues to receive a high volume of allegations.

**4 investigation reports in 2021**

We issued the following investigation reports in 2021:

- Toronto Business Improvement Areas (BIAs) **Accounts Payable Fraud Investigation**
- Challenges in **Contract Management** - Auditor General's Review of the Corporate Real Estate Management Division
- Investigation into **Allegations of Reprisal**: Insufficient Evidence to Support Reprisal
- Results of Agreed-Upon Procedures to Assess **Controls over Pay and Display Credit Card Revenues**

Detailed summaries of our investigations can be found in the Auditor General's 2021 Annual Report on the Fraud and Waste Hotline.

**Backlog of high-risk investigations and complaints**

For the City's size and complexity, the Forensic Unit is lean. Conducting investigations can require a significant number of staff resources, time, and in some cases, costs associated with hiring external specialists. In recent years, because of the backlog of high-risk investigations, the Auditor General has also supplemented the Forensic Unit with staff normally assigned to audits. Consequently, the Auditor General has had to delay or defer audits in the Work Plan.

Heading into 2022, there continues to be a growing number of high-risk complaints that have yet to be addressed and a large backlog of cases to be finalized.

**2021 quantifiable financial benefits included one-time cost recovery and prevention of future losses**

Savings arising from complaints identified by divisional management and referred to the Hotline Program are not included in our 2021 savings calculations. This is in keeping with our conservative approach in reporting savings in this report.

**5-year savings of \$647,000 from Fraud and Waste Hotline complaints**

The one-time cost recovery and annual savings as a result of complaints reported to the Hotline Program from sources other than referrals from divisional management is approximately \$202,000 and \$89,000 respectively. Over five years, the City will save approximately \$647,000.

In addition to quantifiable savings, the Forensic Unit also made several non-quantifiable recommendations as a result of investigations conducted during the year, which lead to improved internal controls and strengthened corporate governance.

The 2021 Annual Report on the Fraud and Waste Hotline will be presented at the February 18, 2022 Audit Committee meeting.

## Follow-up on Implementation of Audit General Report Recommendations



In our 2021 consolidated year-end follow-up report on the status of past audit recommendations, we reported that since inception (1999), our Office has verified about 81 per cent of recommendations have been implemented or deemed no longer relevant<sup>17</sup>.

### **Annual audit recommendation follow-up**

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

### **Verifying management's actions to identify savings and efficiencies, and where more action is needed**

This process involves verifying management's actions so that the Auditor General can inform City Council where more action is needed from management in order to fully realize financial and non-financial benefits and address high-priority risks to the City.

Throughout 2021, we conducted work to verify 177 recommendations that management had reported were fully implemented or no longer relevant.

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<sup>17</sup> 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

As at October 1, 2021, there were 209 recommendations (including 86 high-priority) reported by management as fully implemented or no longer relevant. 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.

**Looking ahead**

As resources permit, the Auditor General will continue to focus on verifying the status of high-priority recommendations related to cybersecurity, health and safety, and opportunities for significant savings or efficiencies across the City.

**City staff can provide status updates in real-time**

City divisions, agencies and corporations continue to provide updates on the status of implementing Auditor General recommendations in real-time, through a 24/7 online application portal. This allows us to inform the Audit Committee and City Council, in a timely manner, about the progress being made City-wide to action our recommendations.

We reported the results of our follow-up work in July 2021 and November 2021.

The reports are available here:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2021.AU10.1>

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

# Impact of Auditor General Recommendations

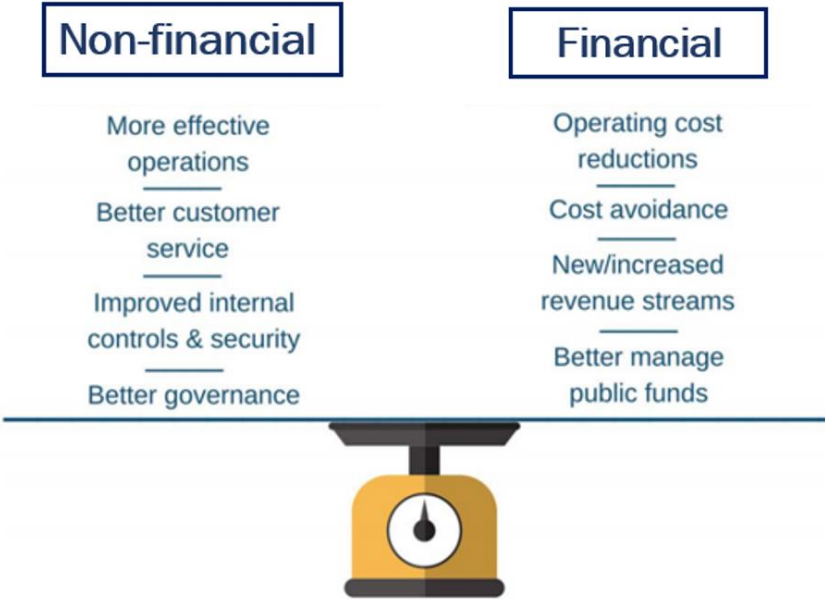
## Background

**We are required to report on savings achieved**

The Toronto Municipal Code requires that we report annually to City Council on the activities of our Office, including the savings achieved. Describing the potential financial impact in our audit reports is useful for highlighting to City Council, City administrators, and members of the public the importance of timely action to implement recommendations

As illustrated in Figure 2, effectively implementing recommendations from our reports can lead to a variety of impacts:

**Figure 2: Financial and non-financial impacts from implementing recommendations**



This section provides a summary of both the financial and non-financial impacts of our audit recommendations that the City realized in 2021.

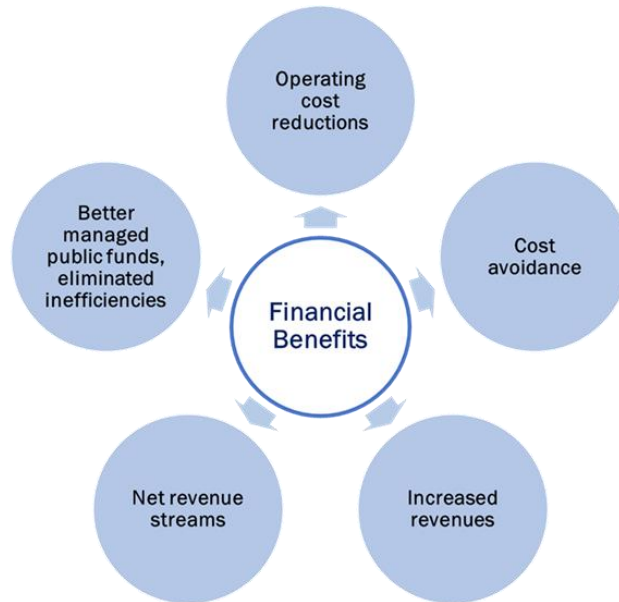
## Financial savings

**Financial impacts from implementing recommendations**

The City realizes various types of financial benefits, referred to as *savings*, through implementing our audit recommendations. This is shown in Figure 3 below:

Figure 3: Types of Financial Benefits, Auditor General's Office

**Types of savings**



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

These *savings* include cost reductions, new or increased revenue streams, or future cost avoidance. Exhibit 3 includes examples of how the City achieved each type of savings through previous audits.

**Our underlying principles in quantifying realized savings**

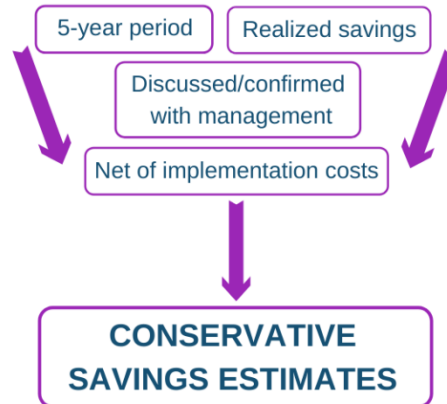
**Calculation methodology**

As illustrated in Figure 4 below, our savings estimates are calculated using the following principles:

- Savings from implemented audit recommendations are included. In some cases, the City starts to realize benefits even before the recommendation is fully implemented. In other cases, savings are quantified many months after recommendations have been implemented when the full impact of changes come to fruition.
- Where savings are expected to recur annually, we calculate five years of projected savings, even though these savings can potentially benefit the City indefinitely.
- We verify or discuss savings figures with management.
- Savings are net of implementation costs.
- Savings estimates are conservative.

**Elements to our savings calculation**

**Figure 4: Auditor General's Office Methodology for Calculating Savings**



**Recommendations take into account implementation costs**

In making audit recommendations, we are mindful of their implementation cost and benefit. Careful consideration is given to ensuring recommendations are relevant, practical and cost-effective. In many cases, our recommendations relate to processes or controls expected in the normal course of the City's operations, and therefore should already be contemplated within the program or service's budget. Where our recommendations require extra resources to implement, such as to acquire new capital assets, this is factored into our calculations.

**Divisions should first consider how to improve processes within existing staff and budget resources**

It is important to note that in some cases, divisions, agencies or corporations will request additional funding in their budgets and link them to our recommendations. Before seeking additional funding, it is our view that program areas should first look at how to improve their processes and approach within the existing budget and staff complement to efficiently deliver their mandated services.

**Working with Financial Planning to improve transparency of efficiencies from AG recommendations**

Our Office continues to work with the City's Financial Planning Division to improve processes to clarify, for budget purposes, which impacts are linked to Auditor General recommendations.

**Savings only included when related recommendation has been implemented**

### When savings are realized

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

**Potential savings not included when determining ROI**

We don't consider potential savings identified in our audit reports as savings achieved for the purposes of determining our return on investment. The Office's return on investment is calculated based on savings that have been realized and can be reasonably quantified after our recommendations have been implemented.

**References to savings in divisional budgets**

### How Financial Benefits are Reflected in City Budgets

The timing of when divisions, agencies and corporations implement the recommendations, and when savings are realized, will impact whether or not they report the savings in their current year Budget Notes. Management has been helpful in providing the information we need to estimate the impact resulting from their implementation of recommendations.

**Savings recorded in prior years, or future avoided costs might not appear in a program budget**

Certain savings may have been realized in prior years but we have not been able to verify them until the current year. Therefore, the savings may not be reflected in current Budget Notes as a revenue or expenditure change in the upcoming year (i.e. they may have been incorporated in a prior year's base budget or as an in-year change). Also worth noting is that in some cases, a program area is able to avoid future costs (operating or capital) as a result of implementing certain audit recommendations. In these instances, the avoided costs also might not be reported in a program area's budget notes.

We continue to work with the Financial Planning Division to improve the transparency of management's actions and the impact on outcomes. We're seeing more program areas including information in their 2022 Budget Notes that describe efficiencies / revenues / savings arising from our recommendations.

**Return on investment compares 5-year audit costs to cumulative 5-year estimated realized savings**

### Return on Investment

Each year, our Office calculates a return on investment based on the most recent five years (2017 to 2021 being the period covered in this report). The five-year cumulative estimated realized savings are then compared to the five-year audit costs.



**\$14.90 return on investment for every \$1 invested in our Office**

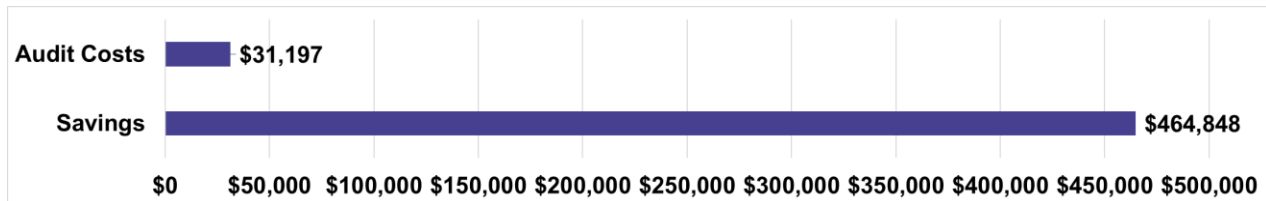
As illustrated below in Table 1, the City has achieved one-time and projected five-year savings totaling approximately \$464.8 million (from 2017 to 2021). Our cumulative Office expenditures were \$31.2 million over the same period. From 2017 to 2021, every \$1 invested in our Office provided a return of approximately \$14.90. It is important to note that the return on investment can vary year over year and is dependent on when our recommendations are implemented.

Figure 5 compares our expenditures to the cumulative one-time and projected five-year savings:

**Table 1: Cumulative One-Time and Projected Five-year Savings (\$000s) 2017 to 2021, Auditor General's Office**

ESTIMATED SAVINGS \$000s						
Year of Savings	Year of Annual Report					
	2017 \$	2018 \$	2019 \$	2020 \$	2021 \$	Total \$
2017	\$11,479					\$11,479
2018	\$13,607	\$14,095				\$27,702
2019	\$14,237	\$21,689	\$26,294			\$62,220
2020	\$14,237	\$23,189	\$2,596	\$34,636		\$74,658
2021	\$14,237	\$24,689	\$2,200	\$11,046	\$90,998	\$143,170
2022	\$13,652	\$24,689	\$516	\$13,135	\$9,882	\$61,874
2023		\$24,689	\$516	\$13,511	\$9,944	\$48,660
2024			\$516	\$5,697	\$9,432	\$15,645
2025				\$5,697	\$9,180	\$14,877
2026					\$4,563	\$4,563
<b>Total</b>	<b>\$81,449</b>	<b>\$133,040</b>	<b>\$32,638</b>	<b>\$83,722</b>	<b>\$133,999</b>	<b>\$464,848</b>

**Figure 5: Five-Year Audit Costs Compared to Estimated Realized Savings (\$000s) 2017 to 2021, Auditor General's Office**



**\$134.0M in one-time and 5-year projected savings**

### **Prior reports with savings realized in 2021**

Recommendations implemented from nine audit reports issued before 2021 resulted in savings and revenue increases realized this year. The combined one-time and five-year projected savings from these reports together with payment recoveries from fraud-related matters total \$134.0 million. Table 2 on page 30 itemizes these savings.

A brief overview of each of the audit reports and their impact is explained following Table 2.

**Table 2: One-time and Recurring Savings (in \$000s) Realized in 2021, Auditor General's Office**

	One-Time / Retro	2022	2023	2024	2025	2026	Total	Annual Report Pg #	Budget Impact See Legend
<b>Savings Realized from Prior Year Reports</b>									
1	Management of the City's Long-Term Disability Benefits, 2015-2016 (3 reports)  (One-time recognition of 5 years' of savings, 2017-2021)	\$72,760	-	-	-	-	\$72,760	32	NP
2	Review of Wheel-Trans Services: Sustaining Level and Quality of Service Requires Changes to the Program, 2012	\$400	\$1,700	\$2,100	\$2,100	\$2,100	\$10,500	35	2020 / 2021
3	Review of TTC Bus Maintenance and Shops Department, Phase One: Bus Maintenance and Warranty Administration, 2014	\$2,036	\$812	\$474	\$469	\$217	\$4,008	37	PY and AC
4	Continuous Controls Monitoring Program – Toronto Transit Commission, Employee Overtime and Absenteeism, 2015	-	\$2,150	\$2,150	\$2,150	\$2,150	\$10,750	39	2022
5	TTC: Managing Telecommunication Contracts and Payments, 2018	-	\$731	\$731	\$224	\$224	\$2,134	41	PY and AC
6	Children's Services Division: Opportunities to Achieve Greater Value for Child Care from Public Funds, 2018	\$4,400	\$4,400	\$4,400	\$4,400	\$4,400	\$22,000	43	2020 / 2021
7	See Confidential Attachment 1	\$11,200	-	-	-	-	\$11,200	-	IY
<b>Investigations of Fraud Related Matters</b>									
	2021 Cost Recovery and Loss Prevention	\$202	\$89	\$89	\$89	\$89	\$647	21	AC
<b>Total One-time and Recurring Savings</b>		<b>\$90,998</b>	<b>\$9,882</b>	<b>\$9,944</b>	<b>\$9,432</b>	<b>\$9,180</b>	<b>\$133,999</b>		

Legend:

- PY One-time and recurring savings were realized pre-2021, but are being reported as achieved for the first time by the Auditor General in this Annual Report based on a Staff Report to City Council or a prior period's Budget Notes.
- IY One-time savings were realized in-year in 2021 and therefore not reflected in the 2022 Budget Notes.
- NP One-time and recurring savings were realized but are not reflected in the 2022 Budget Notes because the financial impact is corporate-wide (rather than to a specific division's budget) or to a non-program account.
- AC One-time and recurring savings relate to avoided costs that would otherwise have been incurred, but for implementation of our recommendation(s). Avoided costs are not reflected in the 2022 Budget Notes because they do not represent a reduction to, or an enhancement of a base budget requirement.



Since the audit, the Pension, Payroll & Employee Benefits Division (PPEB) has taken action to implement many of the Auditor General’s recommendations including:

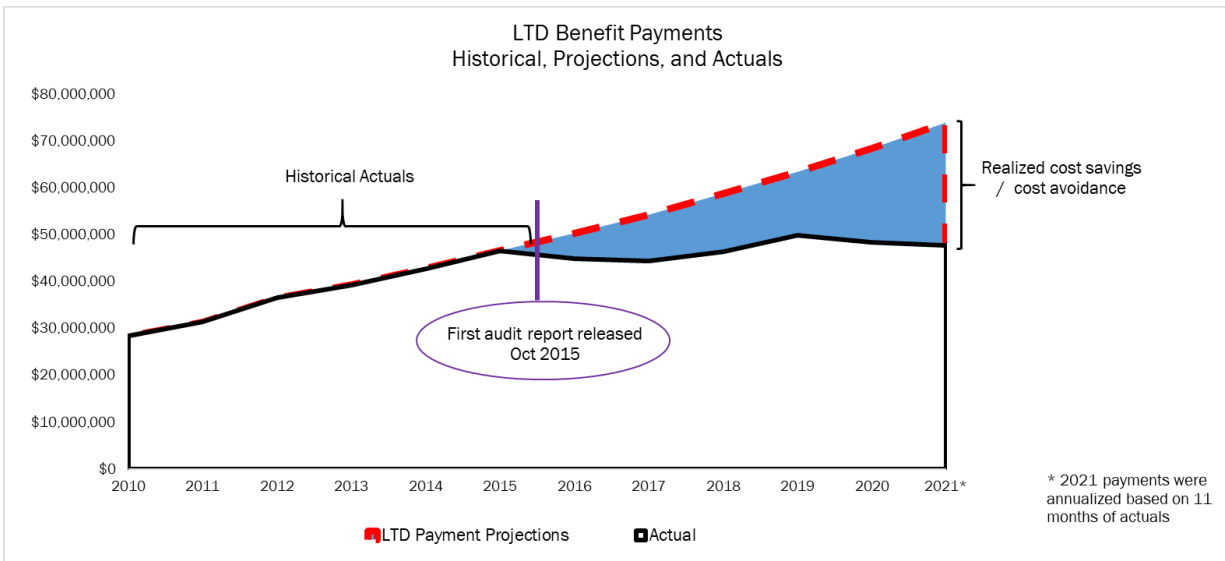
- reducing LTD benefits from 75 to 70 per cent of pre-disability earnings and reducing the salary threshold for employees returning to work from 75 to 66 2/3 per cent of pre-disability salary
- more rigorous control requirements expected from the administrator
- more robust oversight by PPEB staff
- improved education, engagement, and standardization to accommodate employees at an earlier point in time and therefore reduce the number of staff that go on LTD

As a result, in the past five years, annual LTD benefit payments have remained relatively flat at about \$47.3 million rather than increasing at the same rate that it was prior to the audit.

**Since 2017, City has saved over \$82M, and can continue to achieve annual savings**

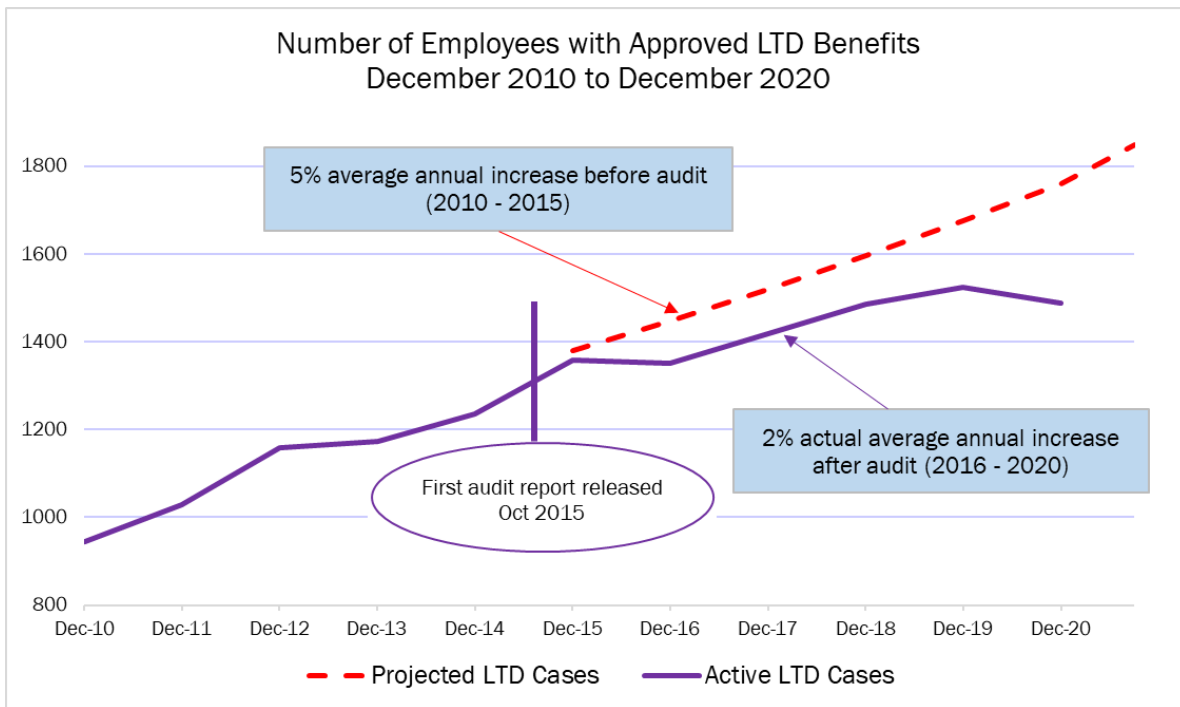
PPEB provided us with the actual LTD benefit costs incurred in the past five years. When comparing the actual costs to projected costs at the time of the original audit, we estimate the City has saved and avoided approximately \$82.2 million (between 2017 and 2021). This is illustrated in Figure 6 and Figure 7.

**Figure 6**



The shaded region represents cost savings and avoidance between 2017 and 2021.

Figure 7



The average annual increase in the number of employees with approved LTD benefits has decreased since the audits.

The Auditor General’s previous Annual Reports already recognized \$9.5 million in five-year savings based on initial conservative estimates of savings in 2016. However, further verification shows much higher actual realized savings.

**\$72.7M incremental savings and cost avoidance in LTD benefit payments**

Our 2021 return on investment calculation now includes the net incremental savings and cost avoidance of \$72.7 million realized in the past five years. While we expect these significant savings to continue going forward, consistent with our methodology for calculating the Auditor General’s Office return on investment, our calculation only considers five years of savings, not the ongoing annual savings that will continue to be realized beyond that time frame.

Although City-wide employee benefit costs are administered by PPEB, these costs are reflected in the impacted division’s budgets. The Office of the Controller’s Budget Notes would not reflect these savings or cost avoidance.

**Potential for more savings as management continues to implement recommendations**

Important to note is that there are still a few outstanding recommendations on the end-to-end process between PPEB, People & Equity, and other City Divisions to proactively manage short-term disability absences to assist with an employee's successful return to work within the LTD qualifying period. When these recommendations are fully implemented, they can continue to strengthen the administration of the City's LTD benefits programs and possibly generate even more savings to the City. Management advised that they continue to work towards implementing these recommendations.

The audit reports are available at:

<https://www.toronto.ca/legdocs/mmis/2015/au/bgrd/backgroundfil e-84556.pdf>

<https://www.toronto.ca/legdocs/mmis/2016/au/bgrd/backgroundfil e-94773.pdf>

<https://www.toronto.ca/legdocs/mmis/2016/au/bgrd/backgroundfil e-97412.pdf>

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



Our 2012 audit recommended a number of changes to improve call center operations, call response capacity, and customer service for Wheel-Trans services. TTC considered these recommendations and determined that outsourcing the call centre would best address our recommendations.



**TTC outsourced the Wheel-Trans Reservations Call Centre overflow in September 2020**

In September 2020, the TTC's Board approved<sup>20</sup> a five-year contract award (beginning in 2021) for outsourcing the Wheel-Trans Reservations Call Centre overflow. This action was taken to increase call handling capacity, improve customer experience, and improve service levels by reducing the average wait time from 15 minutes to two minutes. The related TTC staff report noted that the TTC could avoid costs of approximately \$20.5 million over five years by awarding this contract to a third-party to provide overflow call services to support in-house reservations. Avoided costs would not be reflected in a budget as a reduction.

**\$2.1M in annual recurring savings over the 5-year contract**

TTC management advised that through staff attrition, they were able to shift more capacity to contracted resources and in turn, the TTC reduced their 2021 operating budget by \$400,000<sup>21</sup> and an additional \$1.7 million<sup>22</sup> reduction in the recent 2022 operating budget submission. Over five years, this translates to approximately \$10.5 million in realized savings to be achieved over the five-year contract. We will continue to work with TTC management to determine the full extent of realized savings and include any incremental realized savings in future Annual Reports.

The audit report is available at:  
<https://www.toronto.ca/legdocs/mmis/2013/au/bgrd/backgroundfile-59981.pdf>

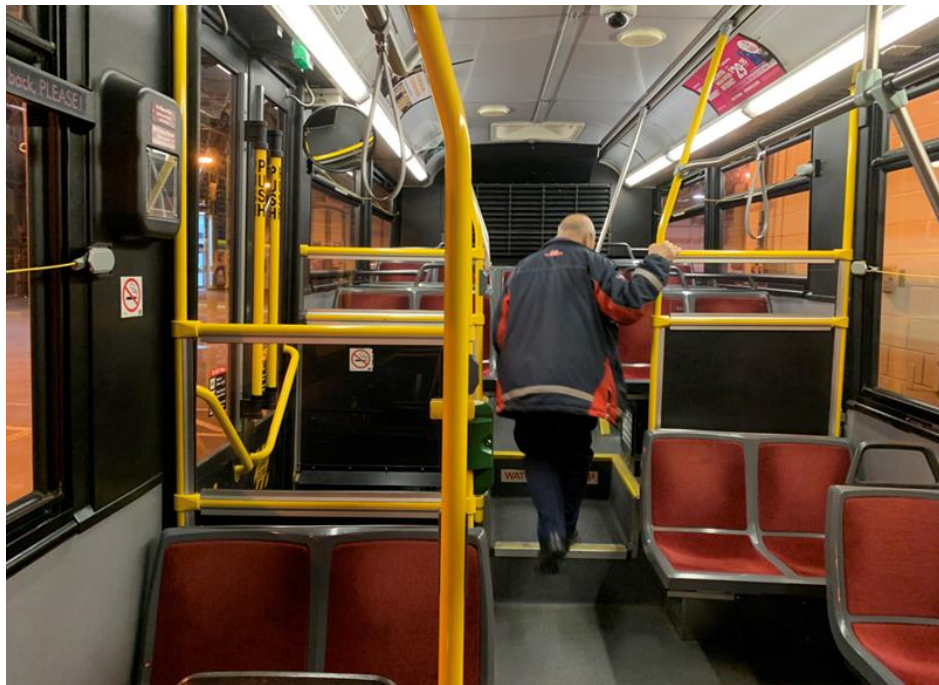
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<sup>20</sup> [Award of Wheel-Trans Reservations Call Centre Overflow Contract \(azureedge.net\)](#)

<sup>21</sup> [2021 Toronto Transit Commission and Wheel-Trans Operating Budgets](#), pg. 40

<sup>22</sup> [2022 TTC Conventional and Wheel-Trans Operating Budgets \(azureedge.net\)](#), pg. 46

Review of Toronto Transit Commission Bus Maintenance and Shops Department,  
Phase One: Bus Maintenance and Warranty Administration, 2014



Our 2014 audit assessed the operating effectiveness and efficiency of bus maintenance.

Recommendation #8 was for the Toronto Transit Commission (TTC) to “*establish standard repair times for common bus repairs, develop procedures to monitor efficiency of bus repair activities, and incorporate the standard repair times into part of technician performance evaluation*”.

**Reducing repair time by two hours saved TTC over \$1M since 2016**

During our 2021 recommendation follow-up process, management advised that they reduced the repair time for one of its common bus repairs (brake reline) from 12 hours to 10 hours. Management calculated that the reduced repair time resulted in \$1.7 million in efficiency savings between 2014 and 2020. This figure was based on the number of repairs, and savings in hourly pay and allocated overhead costs.

For the purposes of this Annual Report, the Auditor General’s calculation of a return on investment only includes \$1.08 million of the efficiency savings, representing the savings realized over five years (2016 through 2020).

**\$2.9M in 5-year savings expected from outsourcing bus transmission repairs**

In addition, Recommendations #10 and #11 raised opportunities to save costs by outsourcing internal bus rebuilds. TTC management advised that among the various parts that were outsourced, significant savings were achieved by outsourcing bus transmission parts. TTC staff estimated savings of approximately \$949,000 in 2021 and projected additional total savings of \$1.97 million over the next five years.

In addition to the dollar savings, the TTC advised of efficiencies by redistributing 50 staff positions from the internal rebuild function to other needed job functions.

**\$4.0M in 5 year-savings from more efficient and economical bus maintenance activities**

In total, these initiatives will result in approximately \$4 million in savings and efficiencies over five years.

The audit report is available at:

<https://www.toronto.ca/legdocs/mmis/2014/au/bgrd/backgroundfile-67395.pdf>

Continuous Controls Monitoring Program – Toronto Transit Commission, Employee Overtime and Absenteeism, 2015



**CCM program provides management with periodic reports to assist management with proactive monitoring**

The Auditor General's Continuous Controls Monitoring (CCM) Program was initiated in 2011 for overtime and other payroll-related expenses incurred by the City. The Auditor General's CCM Program provided periodic reports to assist in proactively monitoring financial transactions, detecting unusual expenses and identifying areas where internal controls could be strengthened.

In 2014, the Auditor General's CCM Program was extended to include an analysis of TTC employee absenteeism relating to sick time, occupational injury and bereavement leave. The Auditor General's CCM reports provided an impetus for the TTC to focus on improving the management of overtime.

Through her report, the Auditor General noted the following:

- overtime and staff absenteeism numbers generated for the organization as a whole did not reconcile with individual department reports
- some staff had both a high amount of overtime and high absenteeism
- reports generated from the system required several revisions
- monitoring of staff overtime and absenteeism required strengthening. Opportunities existed to reduce these costs.

Our 2016 CCM report recommended that the TTC undertake a review of the reporting process and monitoring of its overtime and absenteeism costs at the departmental and organizational levels. The report is available at:

<https://www.toronto.ca/legdocs/mmis/2016/au/bgrd/backgroundfile-97616.pdf>

**Significant decrease in overtime costs**

During the 2021 follow-up review, we noted that due to TTC's CEO making the reduction of overtime costs a key priority, together with implementation of Wave 1 of the new SAP system, this has helped TTC staff to reduce overall overtime costs by more closely monitoring staff overtime and absenteeism on a continuous basis.

TTC reported that overtime costs were reduced to \$58.4 million in 2020 from \$79.7 million in 2015. TTC management advised that a portion of the overtime savings have been reinvested in the hiring of additional operators and other selected positions as a means to sustain the overtime reduction. However, the TTC estimates that the savings / cost avoidance attributable to improved monitoring, management focus and proactive filling of vacancies amounts to approximately \$5.1 million annual net savings. This overtime reduction strategy is being applied again for 2022 and is included in the TTC's 2022 Operating Budget<sup>23</sup>. Management advised that future cost avoidance is expected to be over and above the \$5.1 million in savings reflected in the 2022 budget.

**\$2.1M in annual recurring savings by implementing Auditor General's recommendations**

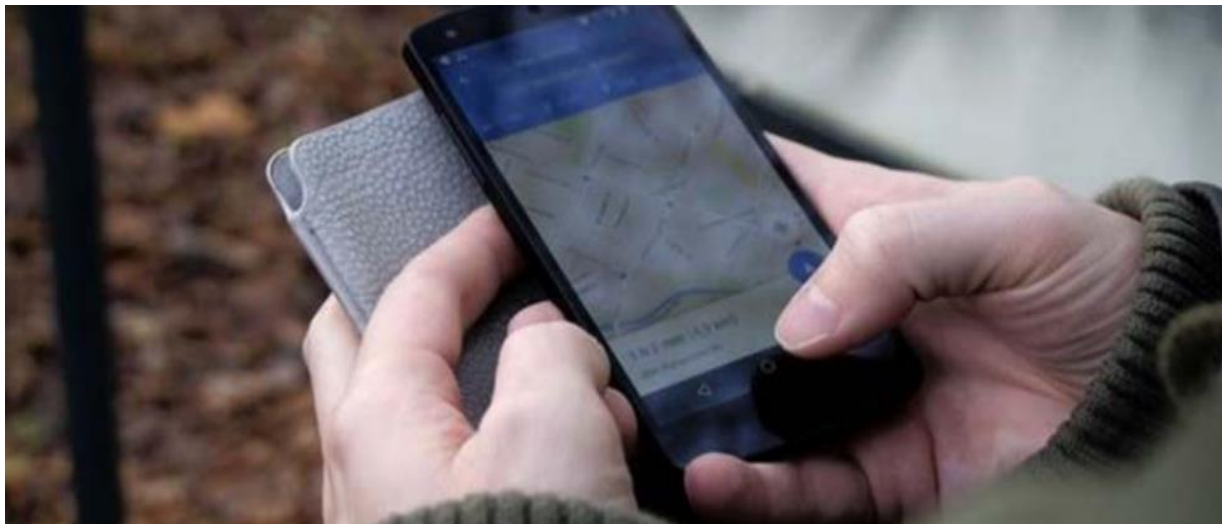
Historically, the Auditor General takes a more conservative approach when realizing savings attributable to continuous monitoring projects. While the Auditor General's analysis is often the catalyst to commence more detailed review and monitoring, the result often involves a lot of further additional work by management. Thus, in the case of continuous control monitoring, we usually recognize only half (50 per cent) of the savings for the purpose of calculating the Office's return on investment. This year, the Auditor General will recognize annual savings of \$2.15 million<sup>24</sup> due to the TTC implementing these report recommendations, or \$10.75 million over five years.

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<sup>23</sup> [2022 TTC Conventional and Wheel-Trans Operating Budgets \(azureedge.net\)](#), pg. 24

<sup>24</sup> \$800K in savings related to Wheel-trans overtime reduction was previously realized in the Auditor General's 2015 Annual Report, and therefore only the new and incremental figure is being used for purposes of calculating the return on investment.

## Managing Telecommunication Contracts and Payments – Toronto Transit Commission, 2018



### **Auditor General issued several reports to save on telecommunications costs**

Over the years, the Auditor General has conducted a series of telecommunications audits (covering wireless contracts and unused services). We completed telecommunications audits at the City and Toronto Transit Commission in 2018.

### **Recommendations to save telecommunications costs**

These audits included recommendations to further improve monitoring and highlighted ways to save telecommunication costs by:

- re-negotiating cellular plans or using vendors offering lower prices
- leveraging inter-governmental contracts to achieve lower rates
- implementing Voice Over Internet Protocol (VoIP) to reduce ongoing landline and teleconferencing costs

### **TTC leveraged City's agreement and achieved savings by using more economical wireless plans**

#### **Leveraging More Economical Wireless Contracts**

During our 2021 recommendation follow-up, we verified that the recommendation to convert all wireless phone lines to the more economical provider had been fully implemented. The TTC implemented the recommendation by working with the City and leveraging its wireless agreement. Management confirmed that all lines would be moved to the new provider by the end of 2021.

**\$1M in additional avoided costs by converting to more economical wireless plans**

Using information provided by management, we determined actual avoided costs from converting to a lower cost phone plan to be approximately \$532,000 each year. This translates to \$2.66 million over five years. In the 2020 Annual Report<sup>25</sup>, the Auditor General previously recognized \$1.65 million of these savings based on partial implementation of the converted lines. This Annual Report includes the additional \$1.0 million in costs avoided from the conversion of all existing lines that are incremental to what has been previously reported and included in the return on investment calculation.

**TTC converted 60% of its land lines to VoIP**

#### **Savings from Converting to Voice Over Internet Protocol (VoIP)**

Recommendation 2 from our audit report recommended that the TTC expedite the implementation of VoIP in order to reduce land line costs. Where there are already data lines in place for the internet, VoIP leverages these to allow assigned phone numbers to be portable to any location. Management advised that they converted 4,600 of the 7,000 lines as of 2021; the remaining lines will not be converted due to safety reasons and /or lack of network presence on site, such as subway lines, stations, and utilities.

**Implementing VoIP will achieve \$1.1M in savings and avoid future costs**

Based on information provided by TTC management, TTC will achieve savings of approximately \$1.1 million over the next five years by converting over 60 per cent of its 7,000 landlines to VoIP. The incremental savings were calculated net of the cost to purchase the related hardware. Although our return on investment calculation only includes five years of savings and cost avoidance, it is important to note that the benefits of using VoIP technology far exceed this five-year horizon.

**\$2.1M savings and future cost avoidance over next 5 years**

The combined value of these savings is \$2.1 million over the next five years.

**Previous TTC budgets have reflected cost savings and avoidance**

TTC Management advised that the combined savings from wireless phone lines and VoIP conversion have been reflected in prior year budgets through netting them against the cost of purchasing additional lines needed for operational reasons.

The audit report is available at:  
<https://www.toronto.ca/legdocs/mmis/2018/au/bgrd/backgroundfile-117559.pdf>

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<sup>25</sup> [Auditor General's 2020 Annual Report - Demonstrating the Value of the Auditor General's Office \(toronto.ca\)](#), pg. 29

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



Our 2018 audit noted that fees parents paid at the City-run child care centres were among the most expensive in the City. The audit identified a number of opportunities to achieve greater value from government funding for the child care sector.



The audit highlighted that there were significant long-term financial benefits in transferring some operations at City child care centres to the non-profit sector. Since the audit, the Children’s Services Division has transferred responsibility for over 500 child care spaces to the local school boards. The Division quantified the savings and reduced their 2020 and 2021 operating budgets as follows:

	2020 <sup>26</sup>	2021 <sup>27</sup>
Net budget impact	\$3.3 million <sup>28</sup>	\$1.1 million

The City was able to reduce its operating costs while maintaining the number of both subsidies for families and child care spaces across the sector.

**Approximately \$22M in savings for the City**

Children’s Services has achieved \$4.4 million in annual savings and service efficiencies. Over a five-year period, this translates into a benefit of approximately \$22 million in savings.

Children’s Services continues to work with the school board to transition additional directly operated child care spaces as the demand for a program makes it viable. The Auditor General will review the impact of any additional savings and reinvestments in the sector in a future recommendation follow-up.

The audit report is available at:  
<https://www.toronto.ca/legdocs/mmis/2018/au/bgrd/backgroundfile-114760.pdf>

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<sup>26</sup> 2020 Children’s Services Budget Notes, pg. 10:  
<https://www.toronto.ca/wp-content/uploads/2020/04/8f8c-CS-2020-PUBLIC-BOOK-BN.pdf>

<sup>27</sup> 2021 Children’s Services Budget Notes, pg. 10:  
<https://www.toronto.ca/legdocs/mmis/2021/bu/bgrd/backgroundfile-159660.pdf>

<sup>28</sup> Management confirmed that the reported \$1.29 million net budget reduction included a \$1.99 million decrease of provincial funding not directly related to the child care spaces that were transferred to the Board. Management agreed that the unrelated provincial funding decrease shouldn’t be included in quantifying the impact of addressing the AG audit finding.

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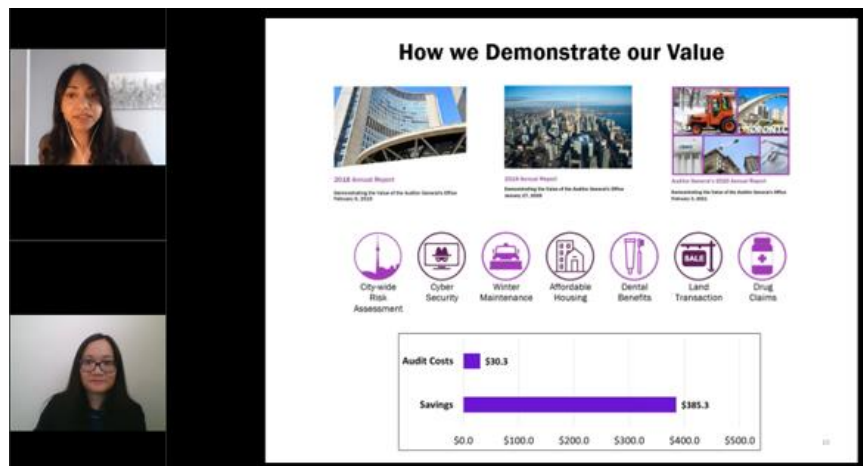
## Leaders in our Profession

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### Sharing expertise and learning from mutual experiences

We pride ourselves on being at the forefront of our industry. We regularly engage with our counterparts from other jurisdictions in Canada and around the world and make valuable contributions to foster the growth of the profession.

In April 2021, we were invited by the Canadian Audit and Accountability Foundation (CAAF) to share our perspectives on demonstrating value by reporting on the financial impacts of performance audits. The presentation was well-received with attendees from North America, Switzerland, Guyana, Bahamas, New Zealand, Australia, and more.



In May 2021, we were invited by the Association of Local Government Auditors (ALGA) to present at the virtual Annual Conference in a joint presentation with the City of Chicago entitled: *“The People Behind the Numbers: Promoting Equity by Auditing Affordable Housing.”* We presented findings included in two of our recent audit reports:

- Opening Doors to Stable Housing: An Effective Waiting List and Reduced Vacancy Rates Will Help More People Access Housing
- Safeguarding Rent-Geared-to-Income Assistance: Ensuring Only Eligible People Benefit



**Using videos to communicate our findings**

The Office was also recognized for its use of videos to effectively communicate audit results. In the fall of 2021, ALGA featured an article written by one of our staff members on using videos to tell your audit’s story.

The article is available at:

[https://algaonline.org/page/2021\\_fall\\_Wright](https://algaonline.org/page/2021_fall_Wright)

Local Government Auditing Quarterly

The Journal of  
Local Government Auditing  
**Fall 2021**  
Interactive Reporting

**Audits in Motion: Using Videos to Tell Your Audit's Story**

Laura Wright

**Serving on industry committees and boards**

Staff from our Office also serve as active members on various local government audit industry committees and boards that foster the growth of the profession, including:

- ALGA committees, including the Professional Issues and Peer Review Committees, as well as conducting independent peer reviews of other audit offices.
- Municipal Internal Auditors Association Executive Board which facilitates training and information-sharing events for its members from approximately 40 audit groups and more than 200 auditors from municipalities, school boards and police services across Canada.

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## 2022 and Beyond

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### **Bringing value through our independent and objective lens**

Over the past seven years, we have built an outstanding, professional team that will continue to deliver audits and investigations while balancing new requests from City Council, high priorities like cybersecurity audits, and investigations into allegations that, if not addressed, may present high risks to the City. The audits and investigations we completed in 2021 are listed in Exhibit 2. The Auditor General will continue to bring value to City Council through our independent and objective lens – and by delivering on projects that can result in impactful findings and recommendations to the City.

### **Extensive risk assessment to identify areas that warrant an audit or review**

To identify audit priorities, our Office performs an extensive risk and opportunities assessment of City operations and its major agencies and corporations every five years. This helps ensure all significant areas of the City are evaluated using a consistent, risk-based approach. When setting annual audit priorities, the Auditor General also considers trends in allegations made to the Fraud & Waste Hotline, as well as the views and experiences of City Councillors and City management.

The City Audit Committee and City Council adopted our 2022 Audit Work Plan in November 2021.

Planned projects in [the 2022 Work Plan](#) and those on our horizon are listed below:

## Current and Upcoming (2022)

### Agencies and Corporations

- Toronto **Police** Service – **Assessing Policing Responsibilities & Service Areas**
- Toronto **Police** Service – **911** operational audit
- **TTC** - **Cybersecurity** assessment of IT infrastructure (Phase 1)
- **TTC** – **Streetcars** Operational Audit
- **TCHC** - Contracted Property Management

### City Divisions

- IT - **Cyber Security assessment** of Toronto Fire Computer Aided Dispatch (Phase 2)
- Toronto **Building** – **Inspections**
- Toronto **Building** – **Plan Review & Customer Service**
- Shelter, Support and Housing Administration – **Emergency Shelters**
- City Planning – **Affordable Rental Replacement Units**
- Housing Secretariat – **Modular Housing**
- Non-competitive contract – **Category Management and Strategic Sourcing**

## Audit Horizon (2022-2023)

### Agencies and Corporations

- Toronto **Police** Service – Performance Audit per Work Plan
- Toronto Public **Library** – **Cybersecurity** Assessment
- **TTC** – **Cybersecurity** Assessment (Phase 2)
- **TTC** – **Workforce** Planning
- **TCHC** - Contract Management

### City Divisions

- Parks, Forestry and Recreation - **Parks Development & Capital Projects** Branch
- Housing Secretariat - **Affordable Rental Housing**
- **City Planning** - Operational Review
- Toronto **Fire** Services - Mechanical (**Fleet**) Maintenance
- **Street Construction** and Utility Work
- Transportation Services – **Utility Cuts**
- **IT** – City **Major IT Projects**
- Toronto Water and Engineering & Construction Services - **Basement Flooding** Protection Program
- Toronto **Office of Partnerships** – **Unsolicited Proposals**

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# Conclusion

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**Pandemic has placed enormous strain on City**

COVID-19 has placed enormous financial and operational strain on the City. This makes the Auditor General's work even more critical as the Office supports the City in having efficient and effective systems as it recovers.

**Auditor General's Office's work is trusted**

The Auditor General's Office is made up of a team that is trusted by stakeholders. As a result, we are seeing increased requests to conduct independent assessments from a variety of stakeholders, including from citizens, contractors, management and City Council, sometimes relating to the same issue. We have also seen a culture shift in many areas across the City to more readily embrace change – change that will lead to lasting improvements as the City continues to build confidence and trust in the public service.

**Positive return on investment**

By continuing to strive for efficiencies, and taking action to address our findings, the City can take steps to alleviate some of its financial burden. The estimated cumulative savings from implementing our audit recommendations for the last five years are approximately \$464.8 million. The total audit cost for the same period is approximately \$31.2 million. This means that for every \$1 invested in our Office, the return on this investment was approximately \$14.90.

We will continue to add value, demonstrate leadership, and report in a fair and balanced manner.

As always, we express our gratitude to City staff and management for their cooperation, input, and willingness to take action on the Auditor General's recommendations. We look forward to working together to help the City recover from COVID-19's significant impact.

## Exhibit 1: Mandated Responsibilities of the Auditor General

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

Her provincially legislated mandate complements her responsibilities set out in Chapter 3 of the *Toronto Municipal Code*, including:

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

They also align with the Toronto Public Service By-law adopted by City Council in June 2014 which supports a Disclosure of Wrongdoing and Reprisal Protection framework. The framework reinforces the Auditor General's provincially mandated independent oversight role related to the safeguarding of public funds and ensuring value for money by requiring the investigation of reported wrongdoing. Chapter 192 of the Toronto Municipal Code contains the By-law which came into effect on December 31, 2015.

The Auditor General also has an independent oversight role in the investigation of reported wrongdoing. This responsibility is part of her mandate under Section 178 of the *City of Toronto Act, 2006*, and her responsibilities for investigating complaints and alleged wrongdoing are set out in Chapter 192 of the Toronto Municipal Code. Her work includes:

- Operating the Fraud and Waste Hotline Program, including referring issues to divisional management
- Conducting investigations into allegations of fraud and other wrongdoing, as well as reprisals against employees under the City's disclosure of wrongdoing and reprisal protection rules

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

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



## Exhibit 2: Reports Issued in 2021

### 2021 Audit, Investigation and IT / Cybersecurity Reports:

- Getting to the Root of the Issues: A Follow-Up to the 2019 **Tree Maintenance Services** Audit\*
- Toronto Business Improvement Areas (BIAs) **Accounts Payable Fraud** Investigation
- Information Technology Projects Implementation: **Information Privacy and Cybersecurity Review of Human Resource System**
- **Cybersecurity Incidents at the City and its Agencies and Corporations:** Integrated Incident Response Plan is Needed
- **Winter Road Maintenance Program** - Phase 2 Analysis: Deploying Resources
- **Toronto Police Service** Information Technology (IT) Infrastructure: **Cyber Security Assessment** Phase 1
- City Needs to Improve **Software License** Subscription Tracking, Utilization and Compliance
- **Supplementary Report:** City Needs to Improve **Software License** Subscription Tracking, Utilization and Compliance
- Challenges in **Contract Management** - Auditor General's Review of the Corporate Real Estate Management Division
- Investigation into **Allegations of Reprisal:** Insufficient Evidence to Support Reprisal
- Results of Agreed-Upon Procedures to Assess Controls over **Pay and Display Credit Card Revenues**
- Auditor General's **Cybersecurity** Review: **Toronto Fire Services Critical Systems** Review
- Toronto **Water SCADA System Security** – Results of 2021 Follow-up of Previous Audit Recommendations\*\*
- **Toronto Community Housing Corporation** – Embedding Accountability into Service Delivery: Lessons Learned from the Audit of **Contracted Property Management Services**\*\*\*

### Other Reports:

- Auditor General's Office 2022 Work Plan
- Auditor General's Office 2022 Operating Budget
- Auditor General's 2020 Annual Report on the Fraud and Waste Hotline
- Auditor General's 2021 Annual Report - Demonstrating the Value of the Auditor General's Office
- Implementation of Cybersecurity High-Risk Recommendations Needs to be Expedited and Completed
- Audit of Winter Road Maintenance Program – Update on Contract Terms
- Response to City Council's Request for an Audit of Affordable Replacement Rental Units

### 2021 Recommendation Follow-up Reports:

- Auditor General's 2021 Consolidated Status Report on Outstanding Recommendations, October 2021
- Auditor General's Status Report on Outstanding Recommendations, June 2021
- Auditor General's Follow-up of the Outstanding Recommendations - Status Update, February 2021

*\*Due to the need to perform additional audit fieldwork to support the audit findings, this audit report was not issued in 2020, as reported in our 2021 budget report, but was issued in February 2021.*

*\*\*This follow up was an extensive review to ensure the Auditor General's recommendations were effectively implemented by management*

*\*\*\*Although work was completed in 2021, the report will be issued at the February 18, 2022 Audit Committee.*

### Exhibit 3: Examples of How Audit Recommendations Benefit the City

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

<b>Increase City revenues, develop new revenue streams, reduce or avoid costs</b>		
<b>Increase City revenues</b>	2018 Enhance Focus on Lease Administration of City-owned Properties	By addressing our recommendations to ensure expired leases were renewed on time, market rent rates were adjusted when needed, and operating costs were billed and recovered, the City has realized approximately \$3.7 million in combined one-time and new annual rent revenue.
	2016 Water Supply Contract for the Region of York	This audit recommended that certain clauses in an existing contract be renegotiated to reflect current economic and environmental factors. By implementing our recommendations, the City will receive an additional estimated \$33 million over five years. We calculated these incremental revenues by applying the renegotiated higher water rate to historic water consumption.
	2018 Court Services Review	This audit recommended using improved data analytics processes to match debtors with defaulted Provincial Offences Act fines to properties information. The City was able to add \$926,000 in fines to debtors' property tax rolls. By implementing our audit recommendations, the City also collected an additional \$1.98 million in increased annual revenues.
<b>Reduce operating costs</b>	2018 Review of the Green Lane Landfill Operations	Our audit recommended that the City could take advantage of better pricing by moving the volume of waste landfilled from a third-party site to a City-contracted site. This resulted in annual savings of approximately \$970,000. We determined these savings by identifying the opportunity to optimize the tonnage limits to achieve lower-tiered pricing as outlined in the contract, and by minimizing the use of third-party commercial landfill sites that charge higher rates.
	2016 City Cleaning Costs	Our two audit reports identified that applying industry and corporate cleaning standards and making changes to how cleaning contracts are procured could reduce cleaning costs. By implementing our recommendations, the City achieved annual savings of \$850,000 beginning in 2017, an additional \$740,000 annually beginning in 2018, and an additional \$800,000 annually beginning in 2021.

	2017 and 2016 Audit of Employee Health Benefits	When our audit findings on unusual claims reimbursement costs were made public, it changed employees' health benefits claim behaviour. Coupled with our recommendation to procure a benefits administrator with processes and controls to identify unusual trends and patterns, and to detect and prevent fraud and abuse at both the provider and individual plan member level, the City saved an average of \$5.45 million in annual health benefits costs. The Toronto Police Service also participated in the City's procurement process and saved an average of \$1.6 million in annual health benefit costs.
	2018 Children's Services	The audit highlighted that there were significant long-term financial benefits in transferring some operations at City child care centres to the non-profit sector. Since the audit, the Children's Services Division transferred responsibility for over 500 child care spaces to the school board. The Division quantified the annual savings and reduced their operating budgets by \$4.4 million.
<b>Avoid capital / operating costs</b>	2018 Children's Services	Based on our audit recommendation, management was able to expand existing purchase of service agreements to make an additional 266 licensed spaces available for families receiving fee subsidies. These additional spaces were made available without needing to build or retrofit child care centres. The system was able to avoid capital costs of about \$11 million.
	2017 Union Station East Wing	By taking action to address our audit recommendation on optimizing vacant space in Union Station's East Wing, the City will avoid an estimated \$20 million in swing space leasing costs it would otherwise have incurred if swing space was rented from a third party.
	2015 and 2016 Management of Long-term disability benefits	The City has avoided long-term disability (LTD) costs of approximately \$82.2 million between 2017 and 2021. Since the audit, management took action to implement recommendations, including reducing the salary threshold on which LTD payments are calculated, more rigorous control requirements expected from the new administrator, and more robust oversight by City staff administering the LTD program.

<b>Eliminate inefficiencies (more effective City operations and services)</b>		
<b>More effective operations and services</b>	2019 Social Housing Audit	Our audit provided recommendations which have contributed to the City improving the effectiveness of the centralized waiting list, reducing vacancies, and making better use of space in social housing buildings. For example, through its Rapid Rehousing initiative, the Shelter, Support and Housing Administration Division reported housing over 400 people from the shelter system into permanent RGI housing, along with the supports necessary to transition effectively to their new communities.
	2014 TTC Bus Maintenance	By implementing the audit recommendation, management advised that they reduced the repair time for one of its common bus repairs (brake reline) from 12 hours to 10 hours. Management calculated that the reduced repair time resulted in \$1.7 million in efficiency savings between 2014 and 2020.

**AUDITOR  
GENERAL**  

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**TORONTO**