

Attachment 1



Auditor General's Office 2022 Operating Budget

October 19, 2021

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Auditor General

**AUDITOR
GENERAL**

TORONTO

Table of Contents

2022 Budget Highlights.....	1
A. Mandated Responsibilities of the Auditor General	5
B. Auditor General's 2022 Budget Request.....	7
B.1 Breakdown of the 2022 Budget Request	7
B.2. Key Challenges and Actions for 2022 and Beyond	9
C. Demonstrating our Value.....	14
C.1. Return on Investment.....	14
C.2. Budget Reasonable When Benchmarked to Other Municipalities	18
D. Annual Work Plan	21
Conclusion	23
Exhibit 1: Audit, Investigation and IT / Cybersecurity Reports Issued from 2017 to 2021	24
Exhibit 2: Composition of Auditor General's 2022 Base Budget	27
Exhibit 3: Financial and Non-Quantifiable Benefits of Audits and Investigations	29

2022 Budget Highlights

What We Do

Under Section 178(1) of the *City of Toronto Act, 2006*, the Auditor General is “responsible for assisting City Council in holding itself and City administrators accountable for the quality of stewardship over public funds and for achievement of value for money in city operations.”

The Auditor General’s Office provides City Council with an independent assessment of the quality of stewardship over public funds and whether value for money is being achieved in operations by conducting performance, cybersecurity, financial, operational and compliance audits, reviews, and forensic investigations of City divisions and certain City agencies and corporations. The independent and objective lens the Auditor General brings has resulted in both financial and non-financial benefits to the City.

Why Our Work is Important

In addition to bringing critical information to City Council, the Auditor General has demonstrated that her work has been a catalyst for change across the City.

Prior Auditor General recommendations have contributed to the City:

- making its IT information systems and critical infrastructure safer
- holding contractors accountable in clearing City streets in the winter
- identifying opportunities to offer more childcare spaces to families who need them, and
- getting more people into housing.

As reported in her past Annual Reports, the Auditor General continues to demonstrate the value of the work performed by her Office to City Council through the net positive return on quantifiable and non-quantifiable benefits to the City.

In some cases, we’re seeing a culture shift in many areas across the City to more readily embrace change. This will lead to lasting improvements as the City continues to build confidence and trust in the public service.

2022 Budget Request

The Auditor General is requesting a return to her 2020 budget level by adding back \$675,000 to her budget. In light of funding issues brought on by the pandemic, she worked on delivering a larger mandate within a reduced 2021 budget. While she and her dedicated staff accomplished important work on this expanded mandate in 2021, some of that work carries on and more issues are being identified, so support is needed to meet critical emerging issues, in addition to working on projects in this expanded mandate.

The Auditor General is requesting \$7.658 million which includes the previously funded \$675,000 to help address critical emerging issues and an expanded mandate. Her 2022 operating budget request is 0.054% of the City’s 2021 Approved Operating Budget.

We are also considering an audit that stems from a special request by the City Manager, the Fire Chief & General Manager of Emergency Management & COVID-19 Incident Commander, and the Medical Officer of Health. They have requested an audit of how the City performed during the pandemic, with a goal of also identifying how to be better prepared in the future. Should City Council support this request, the Auditor General will require additional temporary funding of \$325,000 to conduct this work. This amount is already included in the budget request.

The Auditor General's budget request reflects funding needed to help address some of the following:

1. responding to an **expanded mandate** and inflow of **requests for audits**
2. providing valuable independent oversight of critical systems to ensure the City is well-positioned to detect, mitigate, and respond to **IT and cybersecurity risks**
3. conducting **investigations on serious, time-sensitive issues**
4. undertaking the City-wide **COVID-19 Continuous Improvement Audit**.

It is the Auditor General's view that the Office budget is lean relative to the size and complexity of Toronto's government.

1. Impact of Expanding the Auditor General's Mandate¹

Additional requests to conduct audit work were made by City Council and the Toronto Police Service (TPS) and Toronto Public Library (TPL) Boards. Potential projects were presented and adopted by the two Boards, and some of those audits were included in the Auditor General's 2021 Work Plan.

These organizations have not been audited by the Auditor General for over 10 years. The Office is moving forward on these projects, but they take significant resources. For example, the Auditor General's 2021 Work Plan included three separate projects related to TPS. Throughout 2021, 20 per cent of the Auditor General's staff were assigned to TPS audit projects. Because the TPS Board falls outside the powers and duties granted to the Auditor General under the *City of Toronto Act, 2006*, this added work presented extra challenges; it took time to work through the legislative and privacy challenges in order to obtain access to the data required for these audits. Although TPS is being fully cooperative and one project was completed in 2021, because of the information challenges the two other performance audits are taking longer than our traditional performance audits, and will be completed in 2022.

In 2021, the Auditor General absorbed the cost of an expanded mandate within her base budget and even decreased her 2021 Operating Budget by \$724,000² in recognition of the City's financial constraints during the pandemic.

2. Cybersecurity Audit Support

Cybersecurity risks are among the greatest risks facing organisations around the world, including Toronto which is the fourth-largest City in North America. Critical cybersecurity system audits by the

¹ By saying 'expanded mandate,' we mean that the mandate was expanded beyond the Auditor General's provincial COTA mandate, and even though the Toronto Municipal Code allows the Auditor General to conduct audits of these boards upon request, it is only recently that those requests materialized and are being included in the Audit Work Plans.

² This is the difference between the 2020 Approved Adjusted Budget and the Auditor General's 2021 Recommended Operating Budget. The Auditor General returned \$675,000 in temporary funding while the remainder of the decrease was attributable to salary and benefit adjustments.

Auditor General are necessary for her to provide City Council with independent assurance regarding how the City is dealing with emerging threats.

As the City continues to invest significant dollars towards implementing new systems, independent assessments by the Auditor General are needed to ensure that processes are in place to help address privacy and cybersecurity risks, and that systems have adequate controls, are cost effective, and are achieving their intended outcomes. In 2021, approximately 10 per cent of the Office's staff complement and a significant portion of the budgeted contracted professional services cost was allocated toward auditing cybersecurity and IT risks. The Auditor General's staff have been working extremely hard to provide information to City Council on IT risks as quickly as possible.

Council's ongoing support for additional funding is needed to continue and expand upon the work the Auditor General's Office has been delivering in this critical area and to provide timely information and assurance to City Council.

3. More resources are needed to conduct major fraud investigations

Research by the Association of Certified Fraud Examiners has shown that 51 per cent of organizations have discovered more fraud since the onset of the pandemic³. The Fraud & Waste Hotline continues to receive a high volume of allegations.

For the City's size and complexity, the Forensic Unit is lean. Approximately 20 per cent of the Auditor General's staff resources are assigned to the Forensic Unit who operate the Fraud & Waste Hotline and conduct major investigations. 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 included in the Work Plan.

Heading into 2022, there continues to be a growing number of high-risk complaints that have yet to be addressed. Without Council's support to restore the Office's budget to pre-pandemic levels, the Auditor General may need to continue assigning audit staff to investigations, which means that other audit projects on the Work Plan may have to be delayed.

4. City-wide COVID-19 Continuous Improvement Audit

We received a special request from the City Manager, the Fire Chief & General Manager of Emergency Management & COVID-19 Incident Commander, and the Medical Officer of Health. They have requested the Auditor General complete an independent and objective City-wide audit assessment examining how the City performed during the pandemic, including what went well and lessons learned on how to be better prepared in the future.

Impact of Enhancement Request on Work Plan

The Auditor General's 2022 Work Plan is being presented to Audit Committee at the same meeting as this 2022 Budget Request. It is important to restore the Auditor General's budget to pre-pandemic levels to help address critical emerging issues and an expanded mandate. Additional funding will help us address some critical projects on the Work Plan.

³ <https://www.acfe.com/covidreport.aspx>

The Auditor General's 2022 Work Plan contains 11 in-progress and ongoing projects that will be completed in 2022, and five new projects to commence in late 2021 or 2022. City Council's support to restore the Auditor General's budget to pre-pandemic (2020) levels and additional temporary funding for an audit of the City's COVID-19 response can help address the 2022 Work Plan, including the requested audit of the City's COVID-19 response, as well as commence projects in the following areas:

- Cyber security critical infrastructure assessment, possible the assessment of the 911 system
- Information Technology - Enterprise Work Management System
- Additional Investigations related to allegations of fraud or other wrongdoing

Finally, there is a growing list of projects that we still need to give attention to. Although we cannot reasonably get to all of our planned horizon projects, especially those in our backlog, support from City Council will help us initiate more projects.

The audits completed by the Auditor General result in significant savings, improved controls and operational efficiencies. Historically, every dollar invested in the Auditor General's Office has provided savings of over \$12. This return is updated every year and reported to Council through the Auditor General's Annual Report⁴.

⁴ The Auditor General's 2020 Annual Report is available at:
<https://www.toronto.ca/legdocs/mmis/2021/au/bgrd/backgroundfile-163351.pdf>

A. Mandated Responsibilities of the Auditor General

City Council's role

Under the *City of Toronto Act, 2006*, the role of City Council is to:

- a) represent the public and to consider the well-being and interests of the City;
- b) develop and **evaluate the policies and programs** of the City;
- c) determine which services the City provides;
- d) **ensure** that administrative policies, practices and procedures and controllership policies, **practices and procedures are in place to implement the decisions** of council;
- e) **ensure the accountability and transparency of the operations** of the City, including the activities of the senior management of the City;
- f) **maintain the financial integrity** of the City; and
- g) carry out the duties of council under this or any other Act.

[emphasis added]

Auditor General provides assurance to City Council regarding quality of stewardship over public funds

The Auditor General's mandate is also outlined in the *City of Toronto Act, 2006*. Under Section 178(1), the Auditor General is:

“responsible for assisting city council in holding itself and city administrators accountable for the quality of stewardship over public funds and for achievement of value for money in city operations.”

The Auditor General conducts value-for-money audits and forensic reviews to fulfill the above provincial mandate and to help provide the information that City Council relies on to fulfill its role.

Auditor General undertakes audits and follows up on previous audit recommendations until they are fully implemented

Actions include:

- Undertaking performance, cyber, financial and compliance audits and investigations of City divisions, local boards⁵, and City-controlled corporations. The Auditor General can also conduct audits, upon request, by the Toronto Police Services Board, the Toronto Public Library Board and the Toronto Board of Health
- Following up on recommendations from previous audit reports
- Reporting to City Council on annual Office activities, including savings achieved

⁵ In accordance with the *City of Toronto Act, 2006*, the Auditor General's powers and duties are with respect to the City's local boards (restricted definition).

The specific responsibilities of the Auditor General are set out in Chapter 3 of the Toronto Municipal Code.

Auditor General investigates allegations of fraud and other wrongdoing, as well as alleged reprisals against employees

In addition to undertaking forensic reviews to assess the quality of stewardship over public assets as part of her provincial mandate, she also conducts the same work as part of her responsibilities under Chapter 192 of the Municipal Code which include:

- Operating the Fraud & Waste Hotline Program, including the referral of 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

Breadth and depth of coverage by audits and investigations

In recent years, the Auditor General has completed a number of comprehensive and complex audits and investigations that covered a broad range of programs and services across the City and its agencies and corporations. The audits and investigations completed between 2017 and 2021 are summarized in Exhibit 1.

City-wide risk and opportunities assessment will set a roadmap for future Audit Work Plans

In order to identify audit projects to be included in her annual work plans, the Auditor General carries out a City-wide risk assessment every five years. This exercise helps ensure all significant areas of the City are evaluated from an audit risk perspective by using uniform criteria to identify areas that may warrant audit attention. Determining which areas to audit and the appropriate allocation of audit resources is essential in maximizing the value of an effective audit process.

Restore investment in the Office to continue supporting timely and impactful audits and investigations

City Council's commitment to restoring the Auditor General's Office budget to pre-pandemic (2020) levels will help to ensure that audits of priority areas and emerging risks, as well as investigations of high-risk complaints are addressed in a timely manner.

B. Auditor General’s 2022 Budget Request

B.1 Breakdown of the 2022 Budget Request

2022 Operating Budget request including enhancements is \$7,657,700

The Auditor General’s 2022 Operating Budget is \$7.658 million. (\$7.7 million). This is a \$1 million (or 15 per cent) increase from the Approved Adjusted 2021 Operating Budget. Table 1 compares the 2022 Operating Base Budget and enhancement request to the 2021 and 2020 (pre-pandemic) Approved Adjusted Budgets.

The Auditor General's budget request reflects funding needed to help address:

- responding to an **expanded mandate** and inflow of **requests for audits**
- providing valuable independent oversight of critical systems to ensure the City is positioned well to detect, mitigate, and respond to **IT and cybersecurity risks**
- conducting more **investigations that are serious, important**, and time-sensitive, and
- auditing the **City’s COVID-19 response**.

Table 1: 2022 Base Budget and Enhancement Request Relative to 2021 Approved Adjusted Budget

2020 Approved Adjusted Budget	2021 Approved Adjusted Budget*	2022 Budget Request		
		Base Budget Request	Enhancement Request	Total
\$7,375,800	\$6,640,600	\$6,657,700	\$1,000,000	\$ 7,657,700

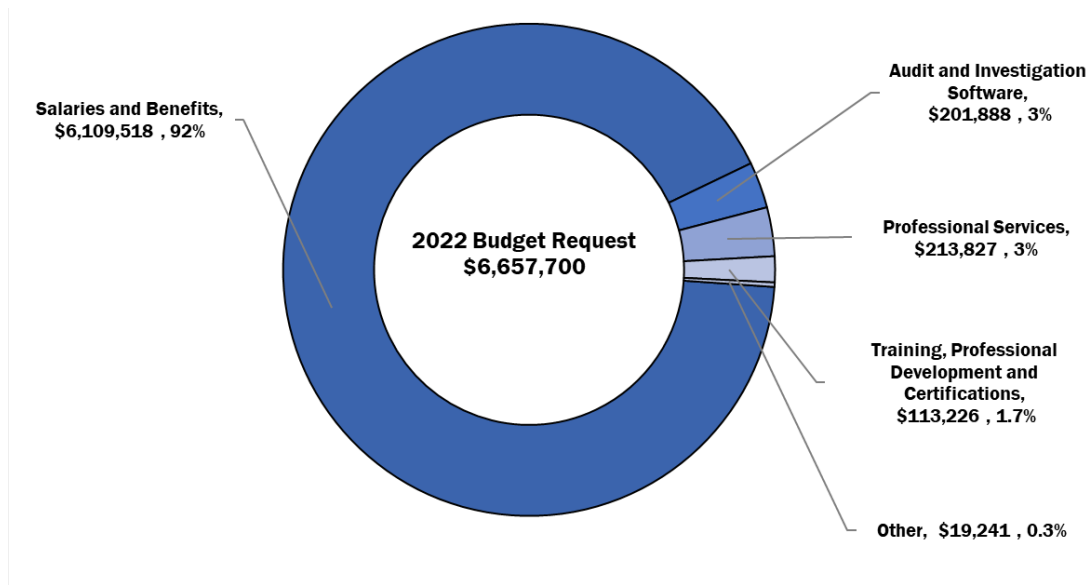
* Spending to date is lower than expected due to staffing challenges and contract delays resulting from COVID-19 impacts, but these funds will be needed next year as projects are completed and new ones are initiated

Base Budget

Base budget increase of 0.26% from 2021

The Auditor General’s 2022 Operating Base Budget reflects a \$17,100 (or 0.26 per cent) increase over 2021 primarily to reflect inflationary pressures on non-payroll items. The categories of expenses included in the base budget, as summarized in Figure 1, are further described in Exhibit 2.

Figure 1: Base Budget by Expenditure Category



Enhancement Request

\$1.0M enhancement request to help address key priorities and risks to the City

The Auditor General's 2022 Operating Budget request includes an enhancement request of \$1.0 million:

- \$675,000 to restore the Auditor General's budget to pre-pandemic (2020) levels which includes funding for three new positions, and
- an additional \$325,000 in temporary funding for an audit requested by City Management.

The components and allocation of this enhancement request are provided in Table 2.

Table 2: Components of the 2022 Enhancement Request

Restoring funding to pre-pandemic levels		
<ul style="list-style-type: none"> • Emerging risks and expanded mandate • IT & Cybersecurity projects • Investigations 	}	
		\$675,000* 67.5%
Temporary Funding Request to fund City Management's request for audit		
<ul style="list-style-type: none"> • City's Response to COVID-19 		325,000 32.5%
2022 Enhancement Request		\$1,000,000 100.0%

*Includes three permanent positions and funding for contracted specialists

Auditor General presented a reduced budget in 2021 based on City's financial situation

The Auditor General's Office recognizes the City's ongoing financial pressures and focus on identifying savings and / or efficiencies. In recognition of this, the Auditor General reduced her 2021 budget by nearly 10 per cent (when compared to the 2020 pre-pandemic budget).

Auditor General's 2022 budget request is to restore investment in the Office to 2020 levels

City Council's commitment to restoring the Auditor General's Office budget to pre-pandemic (2020) levels will help provide resources to better address audits of priority areas and emerging risks, high priority cybersecurity audits, as well as investigations of high-risk complaints in a timely manner.

Past audit reports have realized millions of dollars in cost savings, avoided costs, and found new or increased revenues

It is our view that the financial and non-financial benefits of the Auditor General's audits and investigations continue to bring value to the City and its agencies and corporations. As highlighted in the Auditor General's Annual Reports, past audit findings and recommendations have resulted in millions of dollars in cost savings, efficiencies, avoided costs, and revenue increases.

B.2. Key Challenges and Actions for 2022 and Beyond

Absorbing an expanded mandate, emerging risks, and unanticipated audit requests

Additional funding needed to address expanded mandate and influx of audit requests

Up to this point, the Auditor General has absorbed the cost of an expanded mandate within her base budget and even decreased her Operating Budget by \$724,000⁶ in 2021 in response to the City's fiscal pressures during the pandemic. With the addition of two significant City Boards requesting audits (Toronto Police Services and Toronto Public Library), the Auditor General broadened her coverage of audits and reviews of operations governed by these Boards in her 2021 Audit Work Plan. The Auditor General prioritized audits of the Toronto Police Service by allocating 20 per cent of the Office's staff resources to these projects. This meant that projects at the Toronto Public Library as well as some other audits across City divisions, agencies, and corporations in the Auditor General's 2021 Work Plan had to be delayed.

⁶ This is the difference between the 2020 Approved Adjusted Budget and the Auditor General's 2021 Recommended Operating Budget. The Auditor General returned \$675,000 in temporary funding while the remainder of the decrease was attributable to salary and benefit adjustments.

Researching and responding to requests requires time and resources

When Council requests an audit, the Auditor General considers these requests in light of the potential risks facing the City before deciding whether it can be prioritized over another project on her Work Plan. The Auditor General also receives requests for investigations, information, and other reports which are not projects contemplated in her annual Work Plan. Researching and responding to these requests takes time and resources. Recent examples of reports that are underway and/or completed in response to recent City Council requests, include several audits of Toronto Police Service, cyber security critical system reviews and affordable rental replacement audits.

The Auditor General proactively tracks risks and evaluates new project requests

In order to effectively deliver her mandate, the Auditor General will continue to respond to key priorities and emerging risk areas in a timely manner. Her 2022 Audit Work Plan, also being tabled at the same Audit Committee as the 2022 Operating Budget, has evaluated potential audit projects based on balancing available audit resources and the risks to the City. Any new audit requests will continue to be evaluated.

Annual Recommendation Follow-up motivates management to action our recommendations

Annual follow-up of recommendations informs City Council on management's actions towards implementing recommendations

With staff being reallocated to other high-risk and competing projects (including an expanded mandate), the Office's annual recommendation follow-up was also affected. The Auditor General follows up on recommendations from previous audit and investigative reports until they are fully implemented. 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.

The Auditor General continue to focus on verifying high-priority recommendations

As reported in our Consolidated Follow-up Status report, there are 86 high-priority recommendations that need to be verified by our Office. The related recommendations are considered high priorities because of the potential for significant savings, health and safety risks, or potential risks to the City's reputation. In addition, there are another 123 regular priority recommendations that we also need to verify. Within our existing budget, we are not able to promptly verify management's assertions on implementation of these recommendations.

This being the last year of the Auditor General's extended term, the Auditor General will ensure that she solidifies a strong, stable, and highly trained workforce; one needed to continue to carry out impactful audits and investigations across the City, and to follow up on implementation of the recommendations.

Completing audits to mitigate and address cybersecurity threats and IT risks

Cybersecurity threat environment still presents a risk to the City

COVID-19 has prompted the City and many other organizations to expedite the selection and implementation of new IT systems and digital initiatives. These necessary expedited timelines, combined with increased remote access by employees and the public and more sophisticated cybersecurity threats, increases the IT risk as the City continues to modernize its information technology infrastructure.

Auditor General provides an independent lens of IT and cybersecurity risks

While the City's Office of the Chief Information Security Officer leads the City's cybersecurity program, the Auditor General's independent lens through her recent IT and cybersecurity audits have identified a number of areas where improvements are still needed. The Auditor General has submitted confidential reports to Council through Audit Committee describing areas that warrant immediate attention to improve the City's cybersecurity position.

Also, as the City continues to invest significant dollars towards implementing new systems, independent assessments by the Auditor General are needed to ensure that processes are in place to address privacy and cybersecurity risks, and that systems have adequate controls, are cost effective, and are achieving their intended outcomes.

Council's ongoing support is needed to continue and expand on the work the Auditor General has done

In 2021, approximately 10 per cent of the Office's staff complement and a significant portion of the budgeted contracted professional services cost was allocated toward auditing cybersecurity and IT risks. The Auditor General's staff have been working extremely hard to provide information to City Council on IT risks as quickly as possible. Council's ongoing support is needed to continue and expand upon the work the Auditor General's Office has been delivering in this area and to provide timely information and assurance to City Council.

The Auditor General continues to provide valuable independent oversight in the areas of IT and cybersecurity

As per her 2022 Audit Work Plan, the Auditor General will undertake two audits of cybersecurity within her existing budget. Cybersecurity audits generally require the expertise of external specialists to support our audits. Depending on additional budget funding, the Auditor General will commence two additional audits of critical IT infrastructure and cybersecurity.

Investigating Alleged Fraud, Wrongdoing, or Reprisals

More high-risk investigations waiting to be addressed

Research by the Association of Certified Fraud Examiners has shown that 51 per cent of organizations have discovered more fraud since the onset of the pandemic. Our Office currently has several active investigations underway, but there are still a number of investigations waiting to be addressed which are delayed due to limited resources. As at September 30, 2021, the Hotline program received 595 complaints representing more than 870 allegations and continues to work through a significant backlog due to the increased volume of complaints since 2020.

Audits were delayed because staff resources were needed for high-risk investigations

Conducting investigations can require significant staff resources, time, and in some cases, costs associated with hiring external specialists. In recent years, because of the backlog in high-risk investigations, the Auditor General has also supplemented the Forensic Unit with staff normally assigned to audits. As a result, the Auditor General has had to delay or defer audits included in the Work Plan.

Council's support needed to help address growing number of high-risk investigations without delaying audit projects

Heading into 2022, there continues to be a growing number of high-risk complaints waiting to be addressed. Without Council's support to restore the Office's budget to pre-pandemic levels, the Auditor General may need to continue assigning audit staff to investigations, meaning other audit projects on the Work Plan may have to be delayed.

Providing oversight over investigations conducted by City agencies and corporations

Currently, the Auditor General's Office is not actively reviewing complaints received by Agencies/Corporations. This could give the Auditor General a City-wide view of potential fraud risks. Some oversight of their process and investigation outcomes would further support accountability and transparency in the Toronto Public Service. Additional resources would assist with commencing this work.

The Auditor General continues to perform investigations and hire specialists when needed

The Auditor General will continue to operate the Fraud & Waste Hotline and respond to fraud risks as they emerge. Having the flexibility to leverage experts and specialized investigative tools to supplement our investigations have in some cases been helpful in identifying and investigating matters that needed to be referred to the police.

Management's request to evaluate the City's response to COVID-19

Auditor General's audit of the City's COVID-19 response would provide an independent and objective perspective

The Auditor General is independent of the City's administration. For this reason, the City Manager's Office requested the Auditor General to complete an objective evaluation of the City's Emergency Response Plan, which was activated more than a year ago in response to the COVID-19 pandemic. An audit of this area would likely include governance structures, decision-making processes, reliability of information, analysis of alternatives, lessons learned, and operational elements. The purpose of the audit would be to identify areas for improvement in preparing for the next emergency. This would not be an audit of decisions made and implemented by Toronto Public Health, which falls outside the authority and mandate of Toronto's Auditor General.

\$325,000 for COVID-19 emergency response audit

The Auditor General's 2022 budget includes a request for \$325,000 in temporary funding for a team of two to three auditors and specialists needed to carry out this specific project.

C. Demonstrating our Value

C.1. Return on Investment

Auditor General conducts independent, objective audits

The City is obtaining considerable value from investing resources into the Auditor General's Office.

The Auditor General conducts independent, objective audits designed to add value and improve the effectiveness and efficiency of governance and operations across the City. Exhibit 1 of this report includes a list of the audit reports issued from 2018 through 2021.

Investing in the Auditor General produces benefits and savings

As noted by Denis Desautels, former Auditor General of Canada, in his 2002 report titled "*Serving Council and Citizens: Strengthening the Audit Function at the City of Toronto*",

*"...While the work of an Auditor General can lead to **greater efficiency and savings in city operations**, it can also help **improve the quality and effectiveness of services** to citizens..."*

*"...The **benefits (better information to Council, greater accountability, improved services to citizens, better management systems) and the savings** that stem from an effective auditing structure with the right resources are usually quite demonstrable even if they cannot always be quantified..."*

*"...**any additional spending** would be based on the premise that it **would produce benefits** in excess of the incremental spending..."*

Each Annual Report by the Auditor General over the last 15 years has reinforced this position.

Effective audit process results in significant payback to the City

An effective audit process can also achieve the following:

- increased revenues
- reduced costs
- strengthened risk management
- improved internal controls
- enhanced protection of City assets

⁷ <https://www.toronto.ca/legdocs/2002/agendas/council/cc020521/pof7rpt/cl001.pdf>

**Annual Report –
Demonstrating the Value
of the Auditor General’s
Office**

City Council has required the Auditor General to report on the value of the Office and track savings to the City of Toronto since 2004. In response to this requirement, the Auditor General submits an Annual Report to City Council, entitled *Demonstrating the Value of the Auditor General’s Office*, which summarizes the activities and the quantifiable financial and non-financial benefits of the Office.

**Council recommendation
to continue reporting on
savings achieved City-wide**

City Council reaffirmed the importance of this Annual Report in its March 2019 recommendation:

"City Council request the Auditor General to include in future Auditor General's Annual Report, beginning in 2020, savings achieved by City Divisions and Agencies resulting from the implementation of the Auditor General's reports and recommendations." (EX2.5, Recommendation #113)

The Auditor General will present the 2021 Annual Report to Audit Committee in early 2022.

The 2020 Annual Report is available at:

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

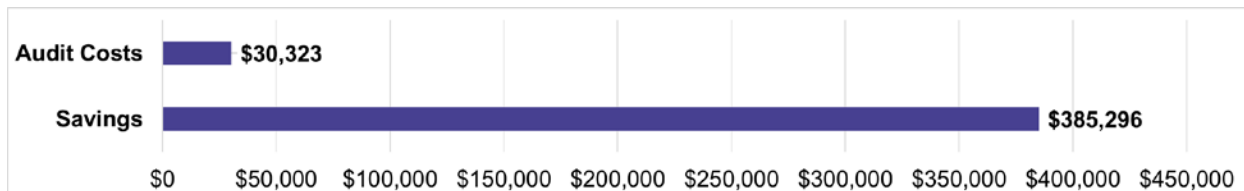
**Potential savings are not
included in return on
investment calculation**

In conducting our audits, we always quantify the potential financial benefits of implementing audit recommendations, whenever possible. These financial benefits, referred to as "savings", can include cost reductions, new or increased revenue streams, or future cost avoidance. These savings are only included in the Auditor General’s annual reports when our Office, in consultation with management, have verified that they have been realized.⁸

**Realized savings are
reported in the Auditor
General’s Annual Report**

The 2020 Annual Report highlighted that the total **one-time and projected five-year savings** realized in 2020 was **\$83.7 million**. The estimated one-time and projected five-year savings (cost reductions and revenue increases) **for the years 2016 to 2020** were approximately **\$385.3 million**. Our cumulative Office expenditures over the same period were \$30.3 million.

Figure 2: Five-Year Audit Costs Compared to Estimated Realized Savings (\$000's), 2016 to 2020, Auditor General's Office



Source: Auditor General's 2020 Annual Report – Demonstrating the Value of the Auditor General's Office

⁸ The approach used to calculate savings is discussed on p.14 of the 2020 Annual Report, "*Demonstrating the Value of the Auditor General's Office*".

Every \$1 invested in the Office resulted in \$12 in savings

Savings identified through the Auditor General’s audits and investigations far outweigh the costs to operate the Office. Most of the savings generated represent ongoing annual savings. The **return on every dollar invested in the Auditor General’s Office from 2016-2020 is \$12.70.**

Additional savings can be realized as audit recommendations are implemented

We have not yet updated the return on investment for 2017-2021⁹. We do note that a number of audit recommendations have the potential to realize savings when they are fully implemented. Potential savings are however, not included in our return-on-investment calculation

Recommendations related to improving controls are important but benefits may not be quantifiable

Equally important are the non-financial benefits from Auditor General recommendations. These include strengthened internal controls, cybersecurity controls, improved policies and procedures, better management and use of City resources, increased operational efficiency, better customer service, and increased detection and prevention of serious safety and security issues.

Table 3 includes examples of the reports the Office completed in 2021 where the benefits were either non-financial in nature, or could not be conservatively quantified at the time the reports were issued.

Table 3: Examples of Non-Quantifiable Benefits from Auditor General’s Reports Issued in 2021

Report	Non-quantifiable benefit
<i>Cybersecurity Incidents at the City and its Agencies and Corporations: Integrated Incident Response Plan is Needed</i>	The importance and urgency of a standard incident management process to enable the City to analyze cybersecurity attacks and develop a coordinated response to any potential cybersecurity attacks
<i>Winter Road Maintenance Program – Phase 2 Analysis: Deploying Resources</i>	Improving the reliability of data entered into the system to help the division measure and monitor contractor performance, analyze operational trends, and inform decision-making
<i>Getting to the Root of the Issues: A Follow-Up to the 2019 Tree Maintenance Services Audit</i>	Strengthening contract management and contract monitoring mechanisms to achieve better outcomes and value for money for tree maintenance services.
<i>Toronto Business Improvement Areas (BIAs) Accounts Payable Fraud Investigation</i>	Strengthening internal controls to lessen the vulnerability of fraud at Business Improvement Areas (BIAs) and City organizations

⁹ The Auditor General will report an updated return on investment as part of her 2021 Annual Report which will be presented at the first Audit Committee meeting of 2022.

Report	Non-quantifiable benefit
<i>Challenges in Contract Management- Auditor General's Review of the Corporate Real Estate Management Division</i>	Transforming invoice payment, procurement, contract management, and vendor management processes to help ensure the City is receiving value for money

Benefits of the Fraud & Waste Hotline Program

In addition to conducting in-depth audits and investigations, the Auditor General's Fraud & Waste Hotline Program has helped to reduce losses and has resulted in the protection of City assets. Without the Hotline Program, certain losses from incidents of fraud and waste might not have been identified or recovered.

595 complaints representing over 870 allegations to the Hotline

As at September 30, 2021, the Hotline Program received 595 complaints representing over 870 allegations. We project that at the end of 2021, the Fraud & Waste Hotline will receive about 800 complaints representing approximately 1,100 allegations.

Evaluating trends in allegations to the Hotline have led to important audits

Hotline data also provides a picture of trends and potential risks that have led to audits with significant findings, including the recent audits of long-term disability, employee extended health benefits, and road maintenance.

Other benefits from the Hotline Program that are not quantifiable include:

- The deterrence of fraud or wrongdoing
- Strengthened internal controls
- Improvements in policies and procedures
- Increased operational efficiencies
- The ability to use complaint data to identify trends and make action-oriented recommendations to management.

Ultimately, the effectiveness of the Fraud & Waste Hotline does not depend on the number of complaints reported in any given year, but on the action taken to investigate, manage and reduce the risk of fraud and other wrongdoing and the deterrence created by having such a tool.

Forensic Unit is also responsible for overseeing and conducting investigations

In addition to operating the Fraud & Waste Hotline, the Auditor General's Forensic Unit is responsible for providing independent oversight of management-led investigations, and conducting investigations, including allegations of reprisal.

Where independence is not an issue, the Auditor General may ask management to do the first-line investigation. The Auditor General's Office provides independent oversight to review the adequacy of work conducted, including steps taken to reduce losses, protect City assets and deter future wrongdoing.

Due to limited staff resources, the Forensic Unit uses a risk-based approach and focuses its investigative work on high-risk areas.

C.2. Budget Reasonable When Benchmarked to Other Municipalities

Auditor General's Office is lean

Multiple studies and sources have remarked on how lean the Auditor General's Office is:

- **Mayor's Fiscal Review Panel (2008):** *"The City should increase the budget of the Auditor General's Office to enable it to complete more efficiency audits and drive more savings".*
- **Former Auditor General (since 2009):** *"The level of staff in the Auditor General's Office in relation to the audit work required is inadequate."*
- **KPMG study for the City Manager (2013):** *"It is the view of the City Manager that the City's Audit Resources, including the Auditor General's Office, are lean relative to the size and complexity of Toronto's Government."*
- **City Manager's Review of Accountability Offices conducted by Lorne Sossin, Dean of Osgoode Law School (2015):** *"Based on the volume and complexity of these Offices and in light of their counterparts in other Canadian jurisdictions, Toronto's Accountability Offices are lean by any perspective ... Investments in Accountability Office functions give rise to the highest possible levels of service."*

The Auditor General's 2022 Operating Budget request is 0.054 per cent of the City's 2021 Approved Adjusted Operating Budget. The Office is lean relative to the size and complexity of Toronto's government. The Office budget is also among the lowest of major municipalities across Canada, as well as those of a number of municipalities in the United States, as summarized below in Figure 3.

Budget based on fixed percentage of operating budget supports the Office's independence and allows work to proceed without yearly budget pressures

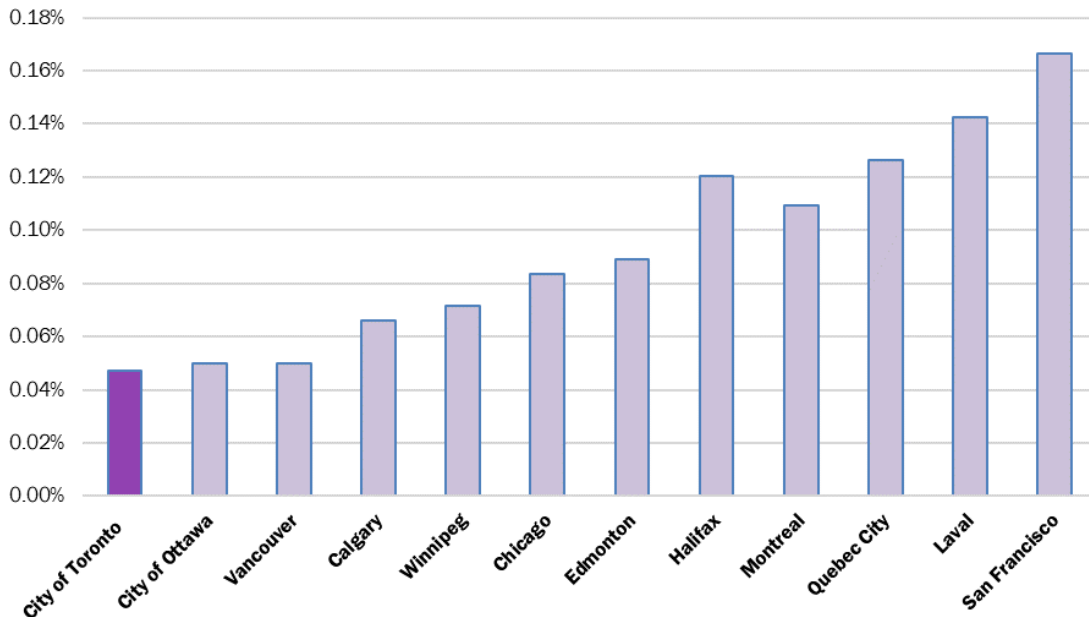
It is worth noting that some municipalities have adopted legislatively prescribed methods for funding their oversight bodies in proportion to their overall budgets. For example, the *Quebec Cities and Towns Act* in Section 107.5 requires that, *"The budget of the municipality shall include an appropriation to provide for payment of a sum to the chief auditor to cover the expenses relating to the exercise of the chief auditor's duties."*

The City Manager's 2013 report¹⁰ to City Council included jurisdictional research on funding models for accountability functions. The report noted that [emphasis added]:

*“If the Province of Quebec’s percentage formula of 0.11% is applied the Auditor General’s budget would be \$10.3M. While if the City of San Francisco’s percentage formula of 0.2% is applied, it would be \$18.8M. As previously noted, it is the view of the City Manager that **the City’s audit resources, including the Auditor General’s Office, are lean relative to the size and complexity of Toronto’s government.**”*

*“Should City Council wish to consider changes to this funding model or levels of resourcing for the Auditor General or Toronto’s other accountability functions, including **consideration of moving to a fixed percent funding model,** further direction should be provided to Executive Committee who has carriage over the establishment and governance of Toronto’s accountability functions. If City Council determines to move to a fixed percent funding model to fund some or all of its accountability functions, further analysis and research will be required in order to determine the appropriate per cent.”*

Figure 3: Audit Costs as a Per Cent of Municipal Operating Budget



Source: 2021 Publicly Available Municipal Operating Budgets

¹⁰ The April 2013 report from the City Manager entitled "Results Arising from the Shared Services Study Related to Internal Audit and Jurisdictional Research Respecting Funding Models for Accountability Functions" is available on the City's website at: <http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2013.AU10.12>

Funding models for the Accountability Offices were to be examined – but were delayed by pandemic

In January 2020, the Office of the City Manager issued a briefing note¹¹ where it was reported that *"Funding models for the Accountability Offices will be examined, including research on percentage-based Operating Budgets, in consultation with the Accountability Officers, during 2020 for a report to Budget Committee as part the 2021 Budget process."*

A subsequent briefing note was issued in January 2021 and reported that *"this work was delayed due to pandemic response requirements.... The City Manager's Office will explore the possibility of an external researcher for this work."*

The 2021 briefing note is available at:

<https://www.toronto.ca/legdocs/mmis/2021/bu/bgrd/backgroundfile-160339.pdf>

¹¹ <https://www.toronto.ca/legdocs/mmis/2020/bu/bgrd/backgroundfile-141885.pdf>

D. Annual Work Plan

Breadth and depth of coverage by audits and investigations

In recent years, the Auditor General completed a number of comprehensive and complex audits and investigations that covered a broad range of programs and services across the City and its agencies and corporations. The audits and investigations completed between 2017 and 2021 are summarized in Exhibit 1.

Independent and objective lens through audits of Toronto Police Services

In 2021, the Auditor General prioritized audits of the Toronto Police Service. Recognizing the importance of providing an independent and objective lens by carrying out these audits, the Auditor General absorbed the cost of this expanded mandate within her base budget. This meant that other important projects including audits of the Toronto Public Library, Toronto Transit Commission, and other needed projects on the backlog could not be initiated.

Trade-off between what audits can be done now, versus those that will be delayed

Looking ahead to 2022, with an increasing backlog of audit projects and investigations, a net-zero increase to the 2021 Operating Budget will require a trade-off between which audits and investigations can be completed within the existing base budget versus those that need to be delayed due to budget constraints.

The Auditor General's 2022 Work Plan is being presented to Audit Committee at its meeting on November 2, 2021.

Restoring Office budget would result in more audits across the City

The 2022 budget request supports 11 in-progress or ongoing projects that will be completed in 2022 and five new projects to commence in late 2021 or 2022. With City Council's support to restore the Auditor General's budget to pre-pandemic (2020) levels and additional temporary funding for an audit of the City's COVID-19 response, the Auditor General can address the 2022 Work Plan, include the requested audit of the City's COVID-19 response, as well as commence projects in the following areas:

- Cyber security assessment of 911 Emergency Response Communication System - Toronto Paramedic Services
- Information Technology - Enterprise Work Management System
- Additional Investigations related to allegations of fraud or other wrongdoing.

Flexibility needed to respond to emerging risks and high-risk allegations of fraud, wrongdoing or reprisal

The Auditor General has also found it necessary to have a flexible work plan in order to conduct ad-hoc audit and investigative work to address emerging risks that arise throughout the year. It is not possible to predict the amount and complexity of as-needed work related to emerging risks and complaints received by the Fraud & Waste Hotline.

Conclusion

The Auditor General is committed to:

- providing assurance to City Council regarding the quality of stewardship over public funds in order to assist Councillors in fulfilling their oversight duties under the *City of Toronto Act*, and
- delivering value for the resources Council has invested in her Office.

Auditor General's Office adds value to City operations

The Auditor General's 2022 Operating Budget request of \$7.658 million will allow the Office to initiate more audits and investigations across the City and its agencies and corporations. The Auditor General has requested a \$1 million budget enhancement which includes \$675,000 to restore the Auditor General's budget to pre-pandemic (2020) levels and an additional \$325,000 in temporary funding for an audit requested by City Management.

Restoring Council's investment in the Office will continue to support timely and impactful audits and investigations

The Auditor General's budget request reflects funding needed to help address:

- responding to an **expanded mandate** and inflow of **requests for audits**, including key City Council requests
- providing valuable independent oversight of critical systems to ensure the City is positioned well to detect, mitigate, and respond to **IT and cybersecurity risks**
- conducting more **investigations that are serious, important, and time-sensitive**, and
- auditing the **City's COVID-19 response**.

The independent and objective lens we bring through our audits and investigations has resulted in both financial and non-financial benefits to the City. Looking ahead to 2022 and beyond, we are committed to assisting City Council and the Toronto Public Service achieve their goals of providing the best possible service to our world-class city.

Exhibit 1: Audit, Investigation and IT / Cybersecurity Reports Issued from 2017 to 2021

2021

1. Getting to the Root of the Issues: A Follow-Up to the 2019 **Tree Maintenance Services Audit****
2. Toronto Business Improvement Areas (BIAs) **Accounts Payable Fraud** Investigation
3. Information Technology Projects Implementation: **Information Privacy and Cybersecurity Review of Human Resource System**
4. **Cybersecurity Incidents at the City and its Agencies and Corporations:** Integrated Incident Response Plan is Needed
5. **Winter Road Maintenance** Program - Phase 2 Analysis: **Deploying Resources**
6. **Toronto Police Service** Information Technology (IT) Infrastructure: **Cyber Security Assessment Phase 1**
7. City Needs to Improve **Software License** Subscription Tracking, Utilization and Compliance
8. **Supplementary Report:** City Needs to Improve **Software License** Subscription Tracking, Utilization and Compliance
9. Challenges in **Contract Management** - Auditor General's Review of the Corporate Real Estate Management Division
10. Investigation into **Allegations of Reprisal:** Insufficient Evidence to Support Reprisal
11. Results of Agreed-Upon Procedures to Assess Controls over **Pay and Display Credit Card Revenues**
12. Toronto **Fire Services Cybersecurity Assessment** – Vulnerability Assessment and Penetration Testing of Computer-Aided Dispatch System

2020*

1. **Cyber Safety – Critical** Infrastructure Systems: **Toronto Water SCADA System**
2. Audit of **Winter Road Maintenance** Program - Phase One: **Leveraging Technology** and Improving Design and **Management of Contracts to Achieve Service Level Outcomes**
3. Employee **Health Benefits Fraud** Involving a Medical Spa
4. Strengthening Accountability and **Outcomes for Affordable Housing:** Understanding the Impact of the Affordable Home Ownership Program
5. Continuous Controls Monitoring Program: Opportunities to **Reduce Cost of Dental Benefits**
6. Review of 260 Eighth Street **Land Transaction:** No Wrongdoing Identified
7. Getting at the Root of the Issues - A Follow-Up to 2019 **Tree Maintenance Services** Audit**

* The COVID-19 pandemic delayed some audits temporarily and other audits were deferred given the impact on operations and City staff time. This impacted the typical annual volume of audit and investigation reports for 2020. Given the delays and the audits in progress and near completion, we expect to have a higher volume of reports than typical for the first Audit Committee meeting in 2021.

We conducted our 2020 City-Wide Risk and Opportunities assessment to set out the audit priorities for the next five years, and this is a significant undertaking completed by our Office every five years.

We also leveraged this time to implement a new electronic audit management system and continue the roll out of a newly implemented complaint management system. These modernization initiatives set the Auditor General's Office up well, not only for remote work during the current period with COVID-19, but also for the longer term.

*** 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.*

2019

1. Review of Toronto Transit Commission's Revenue Operations: Phase One – **Fare Evasion** and Fare Inspection
2. Review of Urban Forestry: Ensuring Value for Money for **Tree Maintenance** Services
3. Moving Forward Together: Opportunities to Address Broader City Priorities in **TCHC Revitalizations**
4. Opening Doors to **Stable Housing**: An Effective **Waiting List** and Reduced **Vacancy** Rates Will Help More People Access Housing
5. Audit of Interface Invoice Payments - Improving **Contract Management and Payment Processes**
6. Engineering and Construction Services – Phase Two: Construction **Contract Change Management** Controls Should Be Strengthened
7. **Fleet Services** Phase 1: Lengthy **Downtime** Requires Immediate Attention
8. Fleet Services Phase 1: Stronger Corporate Oversight Needed for **Underutilized Vehicles**
9. Review of **Toronto Transit Commission's Revenue Operations**: Phase Two – **PRESTO/TTC** Fare Equipment and PRESTO Revenue
10. **Fleet** Services Operational Review: Phase Two – Stronger **Asset Management** Needed
11. Safeguarding **Rent-Geared-to-Income Assistance**: Ensuring Only Eligible People Benefit
12. Cyber Safety: A Robust **Cybersecurity** Program Needed to Mitigate Current and Emerging Threats
13. **Investigation Into Allegations of Reprisal**: Reprisal Not Found, But Lessons Learned
14. Toronto **Building** Division: **Conditional Permits** – Follow-up Investigation¹²

2018

1. **Raising the Alarm**: Fraud Investigation of a Vendor Providing Life Safety Inspection Services to the City of Toronto
2. Review of **Urban Forestry** – Permit Issuance and Tree By-law Enforcement Require Significant Improvement
3. Enhance Focus on **Lease Administration** of City-owned Properties
4. Review of the **Green Lane Landfill Operations** – Management of Contracts Needs Improvement
5. IT Infrastructure and IT Asset Management Review: Phase 1: Establishing an **Information Technology Roadmap** to Guide the Way Forward for Infrastructure and Asset Management
6. **Information Technology Infrastructure** and **Asset Management** Review: Phase 2: Establishing Processes for improved Due Diligence, Monitoring and Reporting for Effective IT Projects and Asset Management
7. Improvement Needed in Managing the **City's Wireless Telecommunication Contracts**

¹² Although work was completed in 2019, due to a technical update, the report was issued at the February 10, 2020 Audit Committee

8. Engineering and Construction Services, Phase One: Controls Over Substantial Performance and **Warranty Inspection** Processes Should be Strengthened
9. Review of **Toronto Transit Commission Employee Expenses** and Reward and Recognition Programs: Opportunities to Improve Policies and Controls and Save Costs
10. **Toronto Transit Commission: Managing Telecommunication Contracts** and Payments
11. Children's Services Division: Opportunities to Achieve Greater Value for **Child Care** From Public Funds
12. Toronto **Court Services: Collection** of Provincial Offence Default Fines
13. Review of Toronto Transit Commission Procurement Policies and Practices: A Case Study to Improve Future **Wheel-Trans Accessible Taxi Services Procurement**

2017

1. A Review of Municipal Licensing and Standards Division's Management of Business Licences - Part One: **Licence Issuance, Inspection and Complaint Investigation** Functions
2. A Review of Municipal Licensing and Standards Division's Management of Business Licences - Part Two: **Licensed Holistic Centres**
3. A Review of Municipal Licensing and Standards Division's Management of Business Licences - Part Three: **Eating Establishments and Nightclubs**
4. Auditor General's Observations on the Quantity of Product Realized from the **City's Single Stream Recyclable Material (Blue Bin) Program**
5. Improving the Effectiveness of the **Basement Flooding Protection Subsidy Program**
6. Toronto Building Division: **Conditional Permits**
7. Obtaining Best Value Through the Use of **Vendor Rosters**
8. Review of Toronto **Transit Commission Accounts Payable** Functions: Improving Invoice Verification and Vendor Account Management
9. Auditor General's Office – Review of **Complaint regarding the June 29, 2016, Toronto Transit Commission Briefing Note**
10. Auditor General's Observations of a **Land Acquisition** at Finch Avenue West and Arrow Road by the **Toronto Parking Authority** - Part 2
11. Real Estate Services Division – Restore Focus on **Union Station Leasing**
12. Supplementary report to the Auditor General's Phase One Report "The City Needs to Ensure Adequate Detection and Review of Potentially Excessive and Unusual **Drug Claims**"
13. Review of **Toronto Transit Commission Procurement** Policies and Practices: Improving Materials Management and Purchasing Policies Can Potentially Result in Significant Savings
14. Management of the City's Employee Extended **Health and Dental Benefits**, Phase Two: Ineffective Controls and Plan Design Leaving the City Vulnerable to Potential Benefit Abuse
15. Detection of **Warning Signs for Potential Bid Rigging** Should be Strengthened
16. **Toronto Building** Division – Strengthening System Controls to Safeguard **Cash Receipts**
17. **Information Technology Vulnerability** Assessment and Penetration Testing – Wrap-up Phase I and Phase II
18. Audit of **Water Billing and Collections** – Phase II: **Water Billing** and **Water Meter** Management Controls Require Improvement

Exhibit 2: Composition of Auditor General's 2022 Base Budget

Salaries and benefits make up 92% of base budget

The Auditor General's 2022 Operating Base Budget request is \$6.658 million. Salaries and benefits make up 92 per cent of the base budget. The Auditor General is requesting a \$675,000 enhancement, plus a one-time funding of \$325,000 for the COVID-19 audit – special request, bringing her 2022 Operating Budget request (including enhancement) to \$7.658 million.

1.7% of base budget is used to ensure staff maintain professional proficiency and certifications

The Auditor General is also required to ensure that staff maintain professional proficiency through continuing professional education. The costs associated with maintaining required levels of professional proficiency and professional certifications make up approximately 1.7 per cent of the Auditor General's budget.

Maintaining compliance with Government Auditing Standards

We are required to comply with Government Auditing Standards. Under those standards each auditor must complete 80 hours of continuing professional education every two years with at least 24 hours directly related to government auditing, the government environment, or the specific or unique environment in which the audit entity operates.

In addition, all audit and forensic unit staff hold professional certifications or membership with professional organizations including: Chartered Professional Accountants of Ontario, the Information Systems Audit and Control Association, the Association of Certified Fraud Examiners, and the Institute of Internal Auditors. These designations require additional continuing professional education requirements for specific professional certifications. In addition, as part of the audit standards, we also need to retain experts and specialists as required for certain audits.

External quality assurance review is on the horizon

Audit organizations that perform audits in accordance with the standards are also required to undergo an external quality assurance review every three years. The review provides independent assurance that the Office's internal quality control system is operating effectively. Our next external quality assurance review was to be scheduled in 2021, but due to the challenges with the COVID-19 pandemic, will be delayed to 2022. The costs of the external quality assurance review will be absorbed into our budget.

3% of budget is used for specialists engaged to support audits and investigations

On occasion, the Auditor General needs specific skill sets or subject matter experts to support her audits and investigations. The cost of professional services for experts, specialists and contracted audit professionals make up three per cent of the budget.

**3% of budget is for
licences for Audit,
Complaint and
Investigation
Management software**

To modernize to meet industry best practices, the Auditor General's Office acquired software to replace the outdated, decommissioned Fraud & Waste Hotline database and to automate audit working papers and risk management processes. The Office also has licences for specialized software to conduct data analysis for audits and investigations. The annual licensing and support costs of software necessary to support audit and investigative work makes up approximately three per cent of the Auditor General's budget.

Exhibit 3: Financial and Non-Quantifiable Benefits of Audits and Investigations

Additional savings will be realized as audit recommendations are implemented

As the City continues to implement audit recommendations, additional savings can be realized. These savings will only be included in future Auditor General’s annual reports when they are realized.

Table 1 includes examples of potential savings opportunities that may be achieved as management takes action to implement recommendations made in Auditor General reports. Actual savings will be evaluated when the Auditor General completes her regular follow-up process of recommendations that management has reported as implemented.

Table 1: Examples of Potential Savings Opportunities in Auditor General’s Reports

Report	Potential Savings Opportunities from Past Audit Recommendations
<p><i>Winter Road Maintenance Program – Phase 2 Analysis: Deploying Resources (2021)</i></p> <p><i>Audit of Winter Road Maintenance Program - Phase One: Leveraging Technology and Improving Design and Management of Contracts to Achieve Service Level Outcomes (2020)</i></p>	<p>The 2021 audit considered whether the City was receiving the best value for money by contracting out winter maintenance services and highlighted opportunities for improved efficiency and cost-effectiveness in the contract services model going forward. Any financial impact from implementing recommendations from the audit will depend on contract negotiations which are expected to conclude in 2021.</p> <p>From the issues identified during our Phase One audit, we estimate that the City overpaid approximately \$7.1 million over a five-year period due to non-compliance by contractors.</p>
<p><i>A Follow-Up to the 2019 Tree Maintenance Services Audit (2021)</i></p> <p><i>Review of Urban Forestry: Ensuring Value for Money for Tree Maintenance Services</i></p> <p><i>Review of Urban Forestry – Permit Issuance and Tree By-law Enforcement Require Significant Improvement (2018)</i></p>	<p>The audit recommended developing a process to identify and follow-up on old deposits. When the report was issued, there was a balance of \$29.3 million in refundable Tree Planting Security and Tree Protection Guarantee deposits collected between 1994 and 2017. Management indicate that they continue to investigate sites with unclaimed deposits.</p> <p>The audits and follow-up also highlighted the need to strengthen monitoring and contract management practices over tree maintenance, and to ensure payment for services were consistent with the express terms of the contract. The audit noted that if all crews increase the time they actively work on trees by an average of 30 minutes daily, we estimate the City would produce around \$1 million more work on trees annually, based on 2019 contracted rates and crews. Fully implementing these recommendations may lead to improved service levels outputs and outcomes without increasing costs to deliver those levels.</p>

Report	Potential Savings Opportunities from Past Audit Recommendations
<p><i>Continuous Controls Monitoring Program: Opportunities to Reduce Cost of Dental Benefits (2020)</i></p> <p><i>Management of the City's Employee Extended Health and Dental Benefits (multiple reports issued in 2016 and 2017)</i></p>	<p>Management has worked towards addressing recommendations in the areas of extended health benefits and the City has already realized savings from implementing recommendations from the related reports. The following areas have potential to achieve more cost savings / cost avoidance:</p> <ul style="list-style-type: none"> • Considering co-insurance (which is used in other levels of government) for dental, drug, and health benefits; the audit estimated potential savings ranging from \$27.5 million - \$80.5 million over 5 years • Ensuring the City only pays for life sustaining over-the-counter drug and minimize associated dispensing fees • Reviewing industry standards to assess where the City's drug benefit plan could be more cost effective
<p><i>Review of Toronto Transit Commission's Revenue Operations:</i></p> <p><i>Phase One – Fare Evasion and Fare Inspection (2019)</i></p> <p><i>Phase Two – PRESTO/TTC Fare Equipment and PRESTO Revenue (2019)</i></p>	<p>The Phase One audit estimated that the TTC lost at least \$64 million in passenger revenue in 2018 due to fare evasion, and highlighted that a 1 per cent reduction in fare evasion would provide approximately \$11 million in additional passenger revenue. Although COVID-19 has reduced ridership and delayed the TTC in being able to fully implement the recommendations and realize the cost savings, important controls have been put in place by the TTC to help prevent misuse of child PRESTO cards and to display customer balances on PRESTO cards. We expect that over time, increased revenues will be realized by the TTC once ridership levels resume.</p> <p>The Phase Two audit noted that TTC had invoiced Metrolinx \$7.5 million for the three years ended December 31, 2018 for estimated revenue loss from functionality issues with PRESTO fare equipment. As stated in TTC's 2021 Operating Budget Notes, "...Detailed negotiations with Metrolinx continue...expected to be concluded by the end of the year." Once the amount is received, we will verify the amount related to our audit recommendation and report it in our next Annual Report.</p>

Report	Potential Savings Opportunities from Past Audit Recommendations
<p><i>Opening Doors to Stable Housing: An Effective Waiting List and Reduced Vacancy Rates Will Help More People Access Housing (2019)</i></p> <p><i>Human Services Integration (multiple audits since 2012)</i></p>	<p>While management has made progress towards implementing some of the recommendations from the report, there are opportunities to transition more residents from shelters to stable housing units and vacant TCHC units. This can help the City avoid more shelter capital and operating costs. There are still potential gains from more efficiently and effectively filling vacancies through the RGI Waitlist (where improved data could contribute to reducing the time and effort needed to fill a vacant unit).</p> <p>Multiple audits since 2012 highlighted overlaps within City business units that verify eligibility for income-based benefit and subsidy programs. The first phase of the Human Services Integration office was launched in December 2019 with a new Client Relationship Management system. Once fully implemented these new systems will enhance access to services by transforming the customer experience into more efficient ways of doing business. Management reported that net annual service efficiencies of \$2.39 million are anticipated in 2022.</p> <p>Further integrating the following areas can create efficiencies, optimize resources, improve information-sharing and ensure cost effectiveness:</p> <ul style="list-style-type: none"> • central collection of client documents for income verification and eligibility assessment • common income-based program fraud investigation function • centralized overpayment recovery
<p><i>Safeguarding Rent-Geared-to-Income Assistance: Ensuring Only Eligible People Benefit (2019)</i></p>	<p>The audit highlighted that all rent-geared-to-income households having potential eligibility issues identified by during the audit, be appropriately reviewed for opportunities to recover funds and reallocate them as subsidies to other eligible households.</p> <p>To date, investigative efforts have resulted in the identification of multiple ineligible households that have vacated RGI units and over \$300,000 in Ontario Works assistance overpayments, some of which have been referred to law enforcement for further investigation. Management's continued efforts in this area could identify more instances of ineligibility.</p>
<p><i>Fleet Services Operational Review - Phase One: Lengthy Downtime Requires Immediate Attention (2019)</i></p> <p><i>Fleet Services Phase 1: Stronger Corporate Oversight Needed for Underutilized Vehicles, April 2019</i></p> <p><i>Fleet Services Operational Review - Phase Two: Stronger Asset Management Needed (2019)</i></p>	<p>The audits highlighted the following opportunities to achieve savings and avoid future costs:</p> <ul style="list-style-type: none"> • City-wide perspective - when asset management decisions are made by user groups without the benefit of a City-wide perspective, it may result in higher overall costs to the City • addressing underutilized vehicles - vehicles that are underutilized create a cost burden and take up maintenance resources that could be better used on other vehicles (the audit noted 18 per cent of the fleet's light duty vehicles were underutilized; City paid \$10 million to purchase these vehicles) • strengthening warranty administration to maximize savings

Report	Potential Savings Opportunities from Past Audit Recommendations
<p><i>Audit of Interface Invoice Payments – Improving Contract Management and Payment Processes (2019)</i></p>	<p>Multiple audit recommendations to achieve savings and efficiencies where the City could improve its contract management, strategic procurement and payment processes related to interface billing. These include:</p> <ul style="list-style-type: none"> • taking advantage of all available discounts – the audit reported that the City lost over \$300,000 in early payment discounts and volume rebates for selected vendors during 2015 to 2018 • aligning the goods included in the Request for Quotation (RFQ) process to the goods actually being consumed • centralizing contract monitoring • using a combination of data analytics and risk-based sampling of invoices to validate expenditures
<p><i>Children’s Services Division: Opportunities to Achieve Greater Value for Child Care From Public Funds (2018)</i></p>	<p>Management continues its efforts to address audit recommendations. There are still opportunities, as identified in the audit, where the City can achieve more savings / efficiencies / cost avoidance / better use of existing funds to serve more families. These include:</p> <ul style="list-style-type: none"> • expanding the maximum number of spaces that can be purchased from contracted non-profit licensed child care centres • minimizing the vacancy rate in the City-run child care centres • exploring ways to access existing spaces in the non-profit licensed child care centres which do not currently have a service agreement with the Division
<p><i>Toronto Court Services: Collection of Provincial Offence Default Fines (2018)</i></p> <p><i>Review of the Management of the City’s Divisional Accounts Receivable (2012)</i></p>	<p>Multiple audits since 2012 highlighted the benefits in the City consolidating, centralizing management of receivables and transforming the collection of overdue accounts. City-wide leadership and centralized oversight will assist the City in managing receivables and collecting its debts in a cost-effective manner.</p> <p>The overall goals of transforming collections should be:</p> <ul style="list-style-type: none"> • maximizing revenue collection • minimizing the cost per dollar collected, and • enabling effective reporting and performance measurement.
<p><i>IT Infrastructure and IT Asset Management Review (2018 – multiple reports)</i></p>	<p>The audits highlighted opportunities for harmonizing lifecycle management and standardizing technologies in IT infrastructure to achieve operational efficiencies, reduce costs, and source assets strategically.</p>

Report	Potential Savings Opportunities from Past Audit Recommendations
<p><i>Enhance Focus on Lease Administration of City-owned Properties (2018)</i></p>	<p>Management has made progress in implementing some of the recommendations but there are opportunities to achieve more financial benefits through the following:</p> <ul style="list-style-type: none"> • processes to timely bill and collect rents and operating costs from all tenants occupying City-owned properties • processes to ensure all market rent reviews / escalations happen in a timely manner • renew expired lease agreements (in overhold) where tenants are still occupying the space • review any potentially vacant but leasable sites • consider including an administrative fee in lease agreements to help recover the cost of lease administration
<p><i>Review of Toronto Transit Commission Employee Expenses and Reward and Recognition Programs: Opportunities to Improve Policies and Controls and Save Costs (2018)</i></p>	<p>This audit identified a need to review the criteria and current process for issuing free annual passes to non-TTC staff to ensure valid justification and adequate controls, and to minimize lost revenue opportunities. The annual cost in 2017 for these non-TTC staff passes was approximately \$2 million; however, we are not able to determine how much of that annual cost could be saved at this time.</p>
<p><i>Review of the Green Lane Landfill Operations – Management of Contracts Needs Improvement (2018)</i></p>	<p>Although management has already achieved savings by implementing certain audit recommendations, there are still potential savings opportunities in the following areas:</p> <ul style="list-style-type: none"> • savings from allowing contractors to purchase fuel from the City • reviewing past change orders to identify any instances where overpayments were made
<p><i>Managing Telecommunication Contracts and Payments – Toronto Transit Commission (2018)</i></p>	<p>The audit recommended TTC to work collaboratively with the City's Chief Technology Officer and evaluate the existing wireless service contracts to acquire services from vendors that provide best value. In addition, through a City report, we recommended that the City consider intergovernmental procurement to achieve economies of scale for the City and its agencies and corporations, including TTC.</p> <p>Since the audit, TTC management made progress to implement the recommendations. Starting in 2022, full implementation of this recommendation would translate to just over \$532,000 of annual costs avoided by reducing cell phone charges on new and existing lines. We will report the realized incremental savings in our next Annual Report.</p> <p>TTC also achieved benefits by completing the conversion of all of its planned Voice Over Internet Protocol (VOIP) lines. The audit recommended that the TTC could reduce land line costs. As of April 2021, TTC has completed all the planned 4,600 lines conversion of its 7,000 lines from traditional landlines to VOIP. We continue to work with TTC management to quantify the realized benefit through this conversion to VOIP.</p>

Report	Potential Savings Opportunities from Past Audit Recommendations
<p><i>TTC Procurement, Materials Management, and Cores Management:</i></p> <p><i>Review of Toronto Transit Commission Procurement Policies and Practices: Improving Materials Management and Purchasing Policies Can Potentially Result in Significant Savings (2017)</i></p> <p><i>Management Letter: Toronto Transit Commission – More Effective Management of Core Components (2018)</i></p>	<p>The audit highlighted opportunities for significant potential savings by:</p> <ul style="list-style-type: none"> • pursuing aftermarket parts warranty and maximizing warranty claim rate • expanding alternate sourcing for replacement parts • improving retrieval and tracking cores • expanding blanket contracts <p>TTC has undertaken significant work to develop these programs. Although both the aftermarket parts warranty and alternate sourced parts programs are at their early stage, TTC advised that in 2020, they realized net savings of over \$2 million from both aftermarket parts warranty and alternate sourced parts in 2020. TTC advised that by the end of 2021, there will be \$2.5 million net annual savings from these programs as compared with before they were implemented.</p> <p>TTC continues to make substantial progress in improving the process, procedures and the system to track, retrieve and use the core parts. TTC estimates savings in the range of \$1.6 to \$2.1 million from 2017 to 2020 (\$0.4 – \$0.5 million annually). We will continue to verify the realized savings and report and new or incremental savings in our next Annual Report.</p>
<p><i>Continuous Controls Monitoring Program – Toronto Transit Commission, Employee Overtime and Absenteeism (2015 and 2016)</i></p>	<p>The Auditor General's Continuous Controls Monitoring Program was first initiated in 2011 for overtime and other payroll-related expenses incurred by the City. Our 2016 continuous controls monitoring 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.</p> <p>TTC management advised that they reduced overtime spending by \$2.1 million (3 per cent) from 2015 (\$79.7 million) to 2019 (\$77.6 million), with TTC estimated savings of \$2.4 million inclusive of related pension and Employer Health Tax (EHT) contributions. Management's calculations also show that improved monitoring and management avoided approximately \$17 million in additional overtime costs had 2015 trends continued through to 2019. We will continue to work with management to verify the portion of net overtime savings that can be reasonably attributed to recommendations from the Auditor General's report.</p>
<p><i>Real Estate Services Division – Restore Focus on Union Station Leasing (2017)</i></p>	<p>The audit recommended that management ensure all rents and operating costs were accurately recorded, billed, and collected from occupants at Union Station in a timely manner. While management has made efforts to collect past due amounts, there are opportunities for additional recoveries when the division fully addresses the recommendations towards:</p> <ul style="list-style-type: none"> • ensuring accurate measurements are used • developing of a cost allocation model

Report	Potential Savings Opportunities from Past Audit Recommendations
<p>Review of Toronto Transit Commission Bus Maintenance and Shops Department:</p> <p>Phase Two: Non-Revenue Fleet and Equipment Management and Maintenance (2015)</p> <p>Phase One: Bus Maintenance and Warranty Administration (2014)</p>	<p>The audit highlighted the opportunity to accurately assess failure rates of major internal bus rebuilds and to reduce internal rebuild of parts. TTC Management advised that they were able to realize some benefits by implementing this recommendation. TTC management advised that by procuring externally, it also helped to free up vehicle bays for emergency repairs and general repairs for vehicles. We will work together with management to quantify the extent of the realized benefits achieved in our next Annual Report.</p>
<p>Review of Wheel-Trans Services – Sustaining Level and Quality of Service Requires Changes to the Program (2012)</p>	<p>The audit recommended the TTC to develop and implement a comprehensive plan for integrating Wheel-Trans customers into the accessible conventional transit system. TTC staff have undertaken significant work to develop a 10-year Strategy to transform the delivery of Wheel-Trans services. According to the September 2016 TTC staff report, the implementation of the Wheel-Trans 10-year Strategy will potentially result in approximately \$310.8 million cost avoidance (net of total \$47.6 million additional operating and capital costs) over 10 years.</p> <p>Due to the COVID-19 pandemic, there is reduced ridership, and the full benefits have not yet been realized by TTC. We will follow-up with TTC at a future date to quantify the value of the cost avoidance realized from implementing this recommendation.</p>
<p>City Stores: Maximize Operating Capacity to Be More Efficient (2012)</p>	<p>The audit recommended that the City examine opportunities to further rationalize operations in both City and divisional stores in order to achieve corporate operating efficiencies. Since the audit, all corporate stores have been consolidated into the Islington location. Management continues to make progress in this area and is in the process of working with Fire Services, Paramedic Services and Toronto Water.</p>
<p>Toronto Building Division - Building Permit Fees, Improving Controls and Reporting (2012)</p>	<p>Recommendations made to outstanding recommendations relate to permit fee rate determination, Service Level Agreements with key divisions and building permit fee reporting requirements. Implementation of the remaining recommendations may result in additional cost savings and improved management controls. We will reassess potential savings as part of the ongoing Operational Review of Toronto Building (which was included in our 2021 Annual Work Plan).</p>

**AUDITOR
GENERAL**

TORONTO