

City of Toronto

REPORT No. 3 OF THE AUDIT COMMITTEE

*(from its meeting on March 1, 1999,
submitted by Councillor Doug Mahood, Chair)*

**As Considered by
The Council of the City of Toronto
on April 13, 14 and 15, 1999**

1

Review of Staff, Councillors' and Mayor's Office Expenses

(City Council on April 13, 14 and 15, 1999, referred this Clause, together with the following motions, to the Budget Committee for further consideration, with a request that all Members of Council be advised when the Budget Committee will be dealing with this matter:

Moved by Councillor Duguid:

"That the Clause be amended by:

(1) adding to Recommendation No. (3) of the Audit Committee the words 'and the City Clerk consider the procedures followed by Members of Parliament and Members of Provincial Parliament when considering this recommendation', so that such recommendation shall now read as follows:

'(3) the City Clerk, in the outline of the purpose of the global office budget requested in Recommendation No. 3(d) of the report (January 15, 1999) from the City Auditor, clarify in a detailed manner what is permitted and what is not, particularly, whether a Councillor paying for City pins and T-Shirts for community groups promoting the City, or a Councillor paying for the costs of advertising activities done by local groups, would be permitted, and the City Clerk

consider the procedures followed by Members of Parliament and Members of Provincial Parliament when considering this recommendation;'; and

- (2) *adding to Recommendation No. (7) of the Audit Committee the words 'provided that those Members of Council who require office space in the former Civic Centres due to the geographical location of their Wards are not unfairly discriminated against with regard to any cost allocations for that space', so that such recommendation shall now read as follows:*

'(7) the Commissioner of Corporate Services, in her expected report on charge-back for all office space, base the report on a policy of full-cost accounting for such space for all Members of Council, provided that those Members of Council who require office space in the former Civic Centres due to the geographical location of their Wards are not unfairly discriminated against with regard to any cost allocations for that space.' "

Moved by Councillor Mahood:

"That Recommendations Nos. (5) and (7) of the Audit Committee be referred to the appropriate Standing Committees for consideration.")

(City Council on March 2, 3 and 4, 1999, deferred consideration of this Clause to the next regular meeting of City Council to be held on April 13, 1999.)

(Clause No. 2 of Report No. 2 of the Audit Committee)

The Audit Committee recommends that:

- (1) the following report (January 15, 1999) from the City Auditor be adopted;**
- (2) staff, Members of Council and the Mayor's Office be requested to refund all monies which they have received for expense claims for which proper supporting documentation was not submitted, or for matters which do not comply with Council's policy and accepted business practices;**
- (3) the City Clerk, in the outline of the purpose of the global office budget requested in Recommendation No. 3(d) of the report (January 15, 1999) from the City Auditor, clarify in a detailed manner what is permitted and what is not, particularly, whether**

- a Councillor paying for City pins and T-Shirts for community groups promoting the City, or a Councillor paying for the costs of advertising activities done by local groups, would be permitted;**
- (4) the City Auditor, in consultation with the Chief Administrative Officer and the City Solicitor, report to the Audit Committee on a policy on the receipt of donations of cash, goods, services and other benefits by Members of Council; and**
- (5) a charge-back fee be established immediately for the City's limousine service;**
- (6) Council request that the City of Toronto Act, 1997 be amended to delete the provision that Members of Toronto City Council receive a third of their salary tax-free;**
- (7) the Commissioner of Corporate Services, in her expected report on charge-back for all office space, base the report on a policy of full-cost accounting for such space for all Members of Council.**

The Audit Committee reports, for the information of Council, having:

- (1) requested the City Auditor to:
- (a) report to the Audit Committee on whether the cost of design, lay-out and printing of Councillors' newsletters being done by the City Clerk is on a full cost recovery charge-back basis;
 - (b) report to the Audit Committee on the establishment of a charge-back policy for those Councillors who use civic space for second offices;
 - (c) clarify that senior staff cannot receive a car allowance and a full mileage allowance, and report thereon to the Audit Committee, at its meeting to be held on April 7, 1999;
- (2) directed that the Audit Committee receive:
- (a) a detailed breakdown of each individual Councillor's office expenses, including the Mayor's office and staff;
 - (b) a list of remuneration and expenses received by each individual Councillor for activities in their duties as a Member of a local Agency, Board or Commission; and

- (3) referred the following motion by Councillor Lindsay-Luby to the Budget Committee for consideration:

"That the global office budget for Councillors be \$40,000, such monies to include the charge-back of all office expenses."

The Audit Committee submits the following report (January 15, 1999) from the City Auditor:

Background:

On March 17, 1998, the Chief Administrative Officer issued an expense claim policy for staff. This policy pertains to all City departments and covers the requirements with respect to attendance at conferences/seminars, business trips, meterage claims for use of personal auto, meal allowances, business meetings, etc.

A separate policy, entitled "Office Administration and Expenses for Members of Council", adopted by City Council on June 3, 1998, established the requirements with respect to the office, travel and other expenses of Members of Council.

Comments:

As part of our on-going evaluation of internal controls across the Corporation, a review of staff expense claims, as well as expenditures relating to Members of Council and the Office of the Mayor was completed.

The objective of this review was to ensure awareness of and compliance with the expense policies, and to identify any areas where clarification or corrective action was required.

The review included an examination of records and documents for the period January to October 1998, interviews with applicable staff and the testing of transactions on a sample basis.

Recommendations:

It is recommended that:

- (1) To increase awareness of and ensure compliance with the expense claim policy, the Chief Administrative Officer:
 - (i) ensure all staff and Councillors are aware of the new City's expense claim and related policies;

- (ii) in consultation with the Chief Financial Officer and Treasurer and the City Auditor, formalize policies and procedures governing expenditures in the Office of the Mayor, specifically the administrative and approval requirements with respect to the purchase of goods and services, business meetings, travel, etc., as well as appropriate expenditure control procedures;
 - (iii) advise all staff, Members of Council and the Mayor's Office that business meeting expense claims must be supported by original restaurant receipts, with the names of the attendees and the purpose of the meeting documented, and that payment will be withheld if the required supporting documentation is not provided;
 - (iv) advise all staff that business lunch and dinner meetings involving City staff should be kept to a minimum and should only occur when time schedules do not permit such a meeting during normal working hours;
 - (v) reiterate to department heads that all staff travel outside of Canada requires the Chief Administrative Officer's written pre-approval;
 - (vi) advise all staff, Councillors and the Mayor's Office that it is their responsibility to abide by all parking and traffic regulations, even when on City business, and that fines and penalties relating to violations of such regulations will not be reimbursed; and
 - (vii) advise staff that meal allowances should not be claimed when visiting another Civic Centre, and request the Executive Director of Human Resources to formulate a mileage reimbursement policy for staff who have been re-located to a new location. Costs related to travel to and from permanent work places is considered a taxable benefit by Revenue Canada;
- (2) To ensure that costs are encumbered against Councillors' global budgets and that management reports are accurate, complete and provide a proper audit trail:
- (a) the City Clerk advise Councillors that all their expenses, including any requests for services (ie. printing, postage, distribution) be processed directly through Council Services, Clerks Division, and all payments be made directly to suppliers;
 - (b) Finance Department ensure that all Councillors' expenses, which have been processed through their former municipalities, are allocated to the proper accounts on a timely basis. In order to improve controls, Councillors' expenses should not be processed through their former municipalities;

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- (c) Clerks Division staff review with Finance Department staff, system deficiencies with respect to the timely reporting of Councillors' staff salary costs, for appropriate corrective action; and
 - (d) Finance staff advise all departments/divisions that all business meeting expenses, cellular phone charges and kilometres reimbursements be charged to specific accounts, established for these types of expenses;
- (3) With respect to the "Office Administration and Expenses for Members of Council" policy, the City Clerk:
- (a) advise Councillors that any additional work performed by Councillors' staff be remunerated in the form of lieu time or paid overtime and not through the Accounts Payable system as payment for consulting services or an honorarium;
 - (b) reiterate to Councillors the policy requirements with respect to consulting services, and advise that payment will be withheld if proper supporting documentation (i.e., nature of services provided, per diem or hourly rate) is not provided;
 - (c) prepare a policy with respect to expenditures incurred by Members of Council in their capacities as members of local boards, including whether such expenditures should be charged to the Councillors global office budget; and
 - (d) clearly outline to Councillors and their staff the purpose of the global office budget and that payments to community organizations, including sports teams, in the form of sponsorships, donations, etc. are not permitted;
- (4) To ensure the necessary supporting documentation is provided for expense approval and reimbursement and to promote consistency across the Corporation, the Chief Financial Officer and Treasurer:
- (a) advise all staff, Councillors and the Mayor's office that travel expense reimbursements must be accompanied by a properly completed and approved Request for Travel form;
 - (b) develop a standard kilometres claim form for the Corporation and advise all staff, Councillors and the Mayor's office that when submitting kilometres claims, appropriate supporting detail must be provided for each trip, specifically, the destination and purpose of the trip and the number of kilometres travelled; and
 - (c) advise all staff, Councillors and the Mayor's Office that reimbursement of expenses, whether processed through petty cash, payroll or accounts payable, must be supported by original receipts indicating what was purchased and be approved by the

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individual's immediate supervisor, in accordance with the department's delegation of financial signing authority;

- (5) Due to the delay in settling travel claims, and the fact that many expenses (i.e., air fare, registration fees) relating to travel can be paid directly by the Corporation:
- (a) the Chief Financial Officer and Treasurer consider eliminating travel advances; and
 - (b) Accounting staff follow up on all advances currently outstanding for more than 30 days, to either recover any unspent funds or to settle the advance, and that any travel advance still outstanding after follow up by Accounting, be escalated to the respective department head for appropriate action;
- (6) With respect to cellular telephones:
- (a) the Telecommunications Division, Corporate Services, in consultation with Departments, Agencies and Commissions, develop a policy covering the criteria and authorization for purchase and issuance of cellular telephones, guidelines for business and personal use, and procedures for the reassignment and return of these telephones;
 - (b) a complete inventory of all cellular telephones be undertaken by each department, and a listing indicating the staff member assigned each telephone be forwarded to the Telecommunications Division, Corporate Services;
 - (c) all future purchases of cellular telephones be made through the Telecommunications Division, Corporate Services, which will also maintain an inventory of cellular telephones for the Corporation; and
 - (d) cellular telephone bills be reviewed and approved by the appropriate departmental staff and any personal calls reimbursed to the City;
- (7) To ensure that travel arrangements are made at the lowest possible cost, more than one quote be obtained and documented for all travel by Councillors and the Mayor's Office, including a quote from the corporate travel agent; and
- (8) In view of the fact the majority of Councillors' expenses will be well below the \$70,000.00 allocated to each Councillor for office expenses in 1998, the Councillors' global office budget should be reviewed.

Conclusions:

The new City is comprised of staff and Councillors from former municipalities, each of whom had its own culture, policies and practices with respect to general expense claims. Consequently, what may have been an appropriate expenditure in one municipality may have not been permitted in another. The level of supporting documentation and approvals also differed, to a certain extent, from municipality to municipality. The policies approved by City Council in 1998, for both staff and Councillors, have helped to standardize the administrative requirements (approval and supporting documentation) for various types of expenditures as well as defining, to the extent possible, what are considered to be permitted expenditures. It is difficult, however, to have a policy that covers every situation and consequently, good judgement must be exercised in terms of the types of expenditures incurred. In this regard, all expenses incurred by staff and elected officials in the City must be able to withstand scrutiny by an outside third party.

Our review noted a general lack of awareness of the current policies, as well as instances of non-compliance on the part of some staff, Councillors and the Mayor's office with respect to proper approval and adequacy of supporting documentation for business meeting expenses, meal allowances, consultants, travel advances and other general expenses. The City's purchasing policy was also not followed by some Councillors with respect to general purchases made for their respective offices. These problems were especially prevalent prior to the introduction of the policies, although in some situations, they continued to persist even after the policies were established. While the dollar value of each individual transaction is not significant, many of these items are of a sensitive nature. It is therefore essential that all staff and elected officials comply with the policies.

Considering we are in the first year of the amalgamated City and the fact that standard policies were not developed until mid 1998, this report focuses on the corrective action required to remedy the problems identified during our review. My office will be performing a follow-up review in the third quarter of this year and will report any continuing or new problems to the Audit Committee and Council.

Finally, it should be noted that our review also included an analysis of the Councillors' \$70,000.00 global office budget. Preliminary year end expenditures indicate that approximately 65 percent of all Councillors will spend less than \$50,000.00 in 1998, with an average and median spending of approximately \$40,000.00. With the benefit of one years spending experience, a lower global office budget in the range of \$40,000.00 to \$50,000.00 would result in a savings of between \$1.1 and \$1.7 million for the Corporation.

Contact Name and Telephone Number:

Tony Veneziano, Senior Audit Manager, 392-8353

(The following Members of Council, at the meeting of City Council on April 13, 14 and 15, 1999, declared their interest in those portions of the foregoing Clause pertaining to staff of Members of Council, in that a member of their family is an employee in their office:

- Councillor Cho;

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- Councillor Fotinos;
- Councillor Gardner;
- Councillor Kelly;
- Councillor Mahood; and
- Councillor Shiner.)

2

Consolidation of City Audit Activities

(City Council on April 13, 14 and 15, 1999, adopted this Clause, without amendment.)

(City Council on March 2, 3 and 4, 1999, deferred consideration of this Clause to the next regular meeting of City Council to be held on April 13, 1999.)

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(Clause No. 7 of Report No. 2 of the Audit Committee)

The Audit Committee recommends the adoption of the following report (February 17, 1999) from the City Auditor:

Recommendations:

It is recommended that:

- (1) The Chief Administrative Officer request the firm of Ernst & Young, the City's External Auditors to evaluate the efficiency and effectiveness of the City Auditor's Office, the Internal Audit and Program Review Unit of the Police Services Board, and the Internal Audit Unit of the Toronto Transit Commission and report to the Audit Committee by May 31, 1999. This evaluation should be done as part of the 1998 financial audit. Such evaluation to include, but not be limited to:
 - (i) Potential for Consolidation and Streamlining;
 - (ii) Reporting Relationships;
 - (iii) Staff Requirements;
 - (iv) Staff Qualifications;
 - (v) Audit Workload;
 - (vi) Efficiency and Effectiveness Measures; and
 - (vii) Potential Cost Savings.
- (2) Additional external audit costs, if any, in relation to this review be shared equally by the City Auditor's Department, the Police Services and the Toronto Transit Commission;
- (3) The Chief Administrative Officer request the firm of Ernst & Young to evaluate the merits of establishing a separate internal audit unit at the Toronto Housing Company. Additional external audit costs, if any, be borne by the Toronto Housing Company;

- (4) The City Auditor be requested to follow up his review of the efficiency and effectiveness of the Quality Control and Assurance Group of the Social Services Division, and
- (5) The hiring of audit staff by any of these Units be discontinued until such study is complete.

Background:

The City Audit Committee, in correspondence dated February 3, 1999, addressed to the City Auditor, requested the City Auditor "to report to the next Audit Committee on the possibility of consolidating all audit related activities currently in existence at all Agencies, Boards and Commissions into the City Audit Department. Your report should include, but not be limited to, the audit functions of the Police Services Board, the Toronto Transit Commission, the Toronto Housing Company and Toronto Hydro Commission."

Comments:

During 1998 the City hired the firm of Ernst & Young to conduct the statutory audit of the City's financial statements. An important component in the planning of the audit by Ernst & Young is an evaluation of the work conducted by the various internal audit groups in the City. This evaluation includes the following:

(a) Organizational Status:

The organizational status of the internal audit function indicates the extent to which the function is independent of the matters subject to audit. Ernst & Young would consider whether the results of internal audit work are reported to senior management and the Audit Committee, and whether internal audit recommendations are acted upon. Ernst & Young would also consider whether the internal audit function has any operating responsibilities and whether the head of the internal audit function is free to communicate directly with the Audit Committee and Council.

(b) Scope of the Function:

The scope of the internal audit function affects the ability of internal audit to act independently in performing its work and in reporting. Ernst & Young would consider whether there are constraints placed on the internal audit function's ability to gain access to important systems, units or activities of the entity, or to the information or key personnel relevant to specific internal audit work.

(c) Knowledge and Competence:

The knowledge and competence of internal audit staff assigned to specific internal audits affect the quality of those audits. Ernst & Young would consider whether internal audit work is performed by persons who collectively possess adequate technical training and competence as internal auditors, and knowledge of the matters subject to audit. Ernst & Young would also consider the policies for

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hiring, training and assigning internal audit staff to specific internal audits, the experience of the internal audit staff and their professional qualifications.

(d) Due Care:

Due care exercised by internal audit staff in carrying out the audits affects the quality of the work. Ernst & Young would consider the existence and content of internal audit manuals, working papers and reports for evidence of adequate planning, supervision, performance and documentation of internal audit work.

Ernst & Young is therefore in an ideal and unique position to assess the internal audit functions at the City and determine whether or not there are efficiencies available in relation to the consolidation of such activities. In this regard it is suggested that the CAO request Ernst & Young to review this matter and report to the Audit Committee appropriately.

This review could be conducted by any major public accounting firm although as this process is a part of the financial audit, a significant portion of the work has already been completed by Ernst & Young. In these circumstances it would not be appropriate to contract with a professional accounting firm other than Ernst & Young to do this work.

In performing this review, Ernst & Young should address all audit functions within the City.

The estimated 1999 budget, number of staff and reporting responsibilities of each of these audit divisions is as follows:

Entity	1999 Budget	Staff	Report to
City Auditor	1,836,100	21	Audit Committee/Council
Toronto Police Services Board	1,580,200	22	Deputy Chief of Police
Toronto Transit Commission	1,172,000	17	Chief General Manager
Community and Neighbourhood Services	1,818,000	31	Commissioner
Parking Authority	172,000	4	Director, Finance
Toronto Housing Company	<u>194,000</u>	<u>3</u>	Chief Executive Officer
Totals	<u>\$6,772,300</u>	<u>98</u>	

We are not aware of any other audit related function in the City.

The roles and responsibilities of each of these are as follows:

City Auditor:

The mandate of the City Auditor approved by Council in 1998 is as follows:

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The City Auditor shall have authority to conduct financial, operational and other special reviews of all Departments, Agencies, Offices, Boards and Commissions. Such authority empowers the City Auditor:

- (a) to conduct or cause to be conducted operational audits, defined as evaluating the management of public funds and resources from a standpoint of economy, efficiency and effectiveness, and making recommendations on operating improvements;
- (b) to examine and evaluate the adequacy of the City's systems of internal control, both financial and operational;
- (c) to evaluate the procedures used by management to measure and report on program effectiveness. A review of the results of such programs or activities will include an evaluation relating to the results or benefits achieved, and whether the programs or activities are meeting established objectives;
- (d) to examine problem areas brought to the attention of the City Auditor by Council and senior management. To act as an ongoing resource to senior management;
- (e) to carry out special assignments ranging from consulting work to investigating suspected fraud or wrongdoing;
- (f) to determine whether or not applicable sections of by-laws, regulations and management directives, etc., have been complied with, as well as applicable federal and provincial legislation;
- (g) to co-ordinate the financial internal audit activities with the External Auditors of the City to ensure the efficient and economical use of audit resources, and
- (h) to conduct attest financial audits as appropriate.

The City Auditor has a staff complement of 21 (19 professional staff and 2 administrative support) and reports to Council through an Audit Committee. Audit projects are selected by the City Auditor based on his assessment of audit risks and issues identified on a corporate-wide basis. The assessment of audit risk is based on a risk ranking exercise and includes the following factors:

- (i) Total Expenditure;
- (ii) Total Revenues;
- (iii) Value of Assets;
- (iv) Extent of Liabilities;
- (v) Complexity of Operations;
- (vi) Management and Internal Controls;
- (vii) Legislative Requirements;
- (viii) Previous Audit History;
- (ix) Extent and Complexity of Computerization;
- (x) Changes to Operations and Organizational Structure;

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- (xi) Political Sensitivity; and
- (xii) Public Sensitivity.

In addition, included in the listing of audit projects identified are additional projects relating to requests made by City Council, the Audit Committee and in some cases Senior Management. There may also be external factors which influence the selection of audit projects, e.g. fraud related issues identified by an outside third party.

During 1999 it is anticipated that in excess of 55 different audits will be conducted as well as financial audits of 37 Business Improvement Areas and 17 Community Centres and Arenas.

The City Auditor is also committed to providing 1,000 hours of audit assistance to the external auditors.

In terms of management controls of these audits, each project is the subject of a detailed planning process and is assigned a specific time budget. Time budgets are monitored through a bi-weekly time reporting process and staff are accountable for complying with budgets.

The Department evolved from the amalgamation of the former Audit Departments of the Metropolitan Corporation, the City of Toronto and the City of Scarborough. The amalgamation of the audit process also involved the consolidation of the activities of the Internal Control Unit of the former Metropolitan Corporation into the current structure. Of the 19 professional staff, 17 (89 percent) have professional accounting and auditing qualifications including the following designations:

- (i) Chartered Accountant;
- (ii) Certified General Accountant;
- (iii) Certified Management Accountant;
- (iv) Certified Internal Auditor;
- (v) Certified Fraud Examiner; and
- (vi) Certified Information Systems Auditor.

Toronto Police Services Board:

The purpose of the Internal Audit and Program Review Unit is to provide an independent evaluation of the activities and operations of the Police Service and to assist the Board, the Chief of Police and all levels of management in the discharge of their responsibilities. The Unit ensures that all risks have been identified and are controlled to an acceptable level as set out by management and that compliance exists with respect to predetermined policies, procedures and directives through operational audits and reviews.

The Internal Audit and Program Review Unit consists of 22 staff. The Unit is segregated into two separate and distinct audit components, each of which reports to the same Deputy Chief. One of the Units consists of 16 police officers, while the other Unit consists of 8 civilians.

Based on discussions with the Unit, audit priorities are determined by the Executive Review Committee which consist of the Chief and the Deputies. Audit work consists of "mandatory reviews" and "general reviews". Mandatory reviews are those audits identified by the Executive Review Committee required to be conducted on an ongoing cyclical basis (e.g. audits of the Drug Repository, the Firearms Unit, etc.). These audits are generally conducted by the police officer complement of the Audit Unit. General reviews are those identified on an ongoing basis in response to concerns at the Command level. These audits are generally "one off" and are usually conducted by Police staff unless the issues are financial in nature at which point they are conducted by civilian staff.

In a report dated December 15, 1998, the Police Services Board was advised that "internal audits are not assigned on a yearly basis but are assigned on the basis of staff availability. This is done to ensure that the quality of the reports is the prime factor as opposed to the quantity of reports." The Board was advised that most reviews take from 12 to 18 months to complete.

The Police Services Board was also advised that audit requests are "evaluated by the Command at the Executive Review Committee meeting against the following criteria:

- (1) Risk to the Service;
- (2) The need for evaluation for Unit/Program performance;
- (3) Rotation of review among Commands;
- (4) The ability of the Internal Audit and Program Review Unit (IAPR) to perform the review; and
- (5) The present workload of the IAPR."

Of the 22 staff 8 (36 percent) have professional accounting qualifications.

Toronto Transit Commission:

The Internal Audit Unit of the TTC consists of 17 staff with an annual budget of approximately \$1,172,000.00 and reports directly to the Chief General Manager. Audit reports are forwarded to the Commission on a regular basis.

The internal audit process at the TTC independently evaluates the various operations and systems of control within the organization to determine whether acceptable policies and procedures are followed, established standards are met, resources are used efficiently and economically, planned goals are accomplished effectively and the organization's objectives are being addressed. Audits are selected on a similar basis to that used by the City Auditor.

Of the 17 staff 12 (70 percent) have professional accounting and other qualifications.

Community and Neighbourhood Services:

Included in the Quality Control and Assurance Group of the Social Services Division are two audit related Units. These units are the Performance Improvement Unit which consists of 17 staff and the Fraud Control Unit which consists of 14 staff. The Performance Improvement Unit conducts a "management audit process for the Division" which includes the evaluation of performance measures, internal controls, compliance, economy, efficiency and effectiveness.

The Fraud Control Unit acts as a centralized support to the Social Services Division and is mandated to screen cases suspected of social assistance abuse.

The Department has one qualified accountant.

Parking Authority:

The Parking Authority employs three internal audit staff and are currently reviewing the need for a fourth. The focus of the group is to ensure that revenue controls are adequate. In addition, the group reviews the adherence by attendants to operating procedures, as well as the review of the appearance of facilities and equipment maintenance.

Toronto Housing Company:

The Toronto Housing Company currently has a staff complement of three in its internal audit unit. This Unit is currently being restructured and new hirings are taking place. The Company is reviewing staff requirements and a work plan. The major responsibilities of the Unit are to:

- (a) conduct operational and financial reviews to ensure adherence to policies and regulations. Prepare reports on findings, recommending appropriate corrective measures when necessary;
- (b) review and analyze management and financial procedures in the Company to ensure the integrity of internal controls. Prepare reports on findings, recommending appropriate corrective measures where necessary;
- (c) provide technical advice, as required, to operating management within the Toronto Housing Company;
- (d) manage investigations in response to complaints about business practices or alleged fraud. Document findings and recommend changes in systems, practices and policies, and
- (e) lead the continuing development and implementation of an internal control program.

Potential for Consolidation of Audit Activities:

The potential for consolidation of audit activities has been the subject of discussion for a number of years particularly at the Metro level where the Metropolitan Audit Department, the Metro Finance Internal Control Unit, the Police Services Board and the Toronto Transit Commission each operated separate audit activities. Prior to the creation of the new City of Toronto, the consolidation of these entities was not pursued, mainly because the role of the Metropolitan Auditor differed from those of the other entities. The Metropolitan Auditor's role was as the statutory financial attest auditor, a role which has now been assumed by Ernst & Young.

Since amalgamation however, the role of the City Auditor has changed and is now consistent with the role of all other audit entities in the City including its Agencies, Boards and Commissions. Recognizing this, the City Auditor in early 1998, in consultation with the Chief Financial Officer and Treasurer, rolled into the City Audit Office the former Metro Finance Internal Control Unit. The Internal Control unit is now a part of the City Auditor's Office.

The City Auditor's Office has effectively been in existence for approximately eight months. Consequently, it would seem appropriate that the issue of the consolidating all audit activities should be considered.

The consolidation of the audit process has a number of advantages including the following:

- (i) A more efficient co-ordination of audits across the City;
- (ii) Emphasis on audit activities across the City where priorities may be greater than audit activities at the Police Service or TTC for example. Broader audit coverage;
- (iii) Sharing of resources e.g. administrative, training, etc. with a potential for reduced costs;
- (iv) Increased independence particularly for those audit entities which report to management;
- (v) Consistent audit standards; and
- (vi) Greater flexibility in terms of skills and staff resources available.

Consolidation - Police Services:

The Chief of Police, in response to the City Budget Committee, reported to the Police Services Board on April 23, 1998, in connection with the amalgamation of the Civilian Audit Unit into the City Auditor's Office. The Chief recommended that amalgamation not be considered. The Police Services Board approved the Chiefs recommendation. A number of reasons for not amalgamating the audit functions were contained in the report to the Board. The review by Ernst & Young should evaluate the appropriateness of these reasons.

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The report also indicated that the Board "advise Toronto City Council that Council does not have the authority to recommend staffing reductions and draw their attention to section 40 of the *Police Services Act* which directs that terminations of employment for the purpose of abolishing the police force or reducing its size can only be initiated by the Board and has to have the consent of the Ontario Civilian Commission on Police Services."

Consolidation - Toronto Transit Commission:

While the Chief General Manager of the TTC has not been asked to report on the potential of amalgamating his audit function, he has indicated on many occasions that he regards his Audit group as an invaluable resource to his office. Many of the projects undertaken by the group are technical in nature and require the expertise of staff familiar with specific transit related issues such as safety, maintenance, signal operations, etc. Audit staff at the TTC, for example, include a number of engineers.

Consolidation - Community and Neighbourhood Services:

During the 1997 financial audit of community and Neighbourhood Services we identified a number of issues relating to the Quality Control and Assurance Unit. These matters were communicated to management in a report dated June 15, 1998, which was also forwarded to the Audit Committee. One of the issues identified related to the effectiveness of the Unit. As a result of these issues, we have included a further review of this area in our 1999 work plan. The intent of the review is to measure the effectiveness and efficiency of the Unit and provide management with recommendations pertaining to the audit process. Consequently, it is recommended that no further action be contemplated in regards to this matter until the audit review is completed.

Consolidation - Parking Authority:

The internal audit group at the Parking Authority generally performs revenue audits. Due to the extent of cash in existence at the Authority there is probably merit in retaining this function. It may be appropriate however, that the City Auditor review the work of the auditors at the Authority in order to determine its adequacy and appropriateness.

Consolidation - Toronto Housing Company:

The audit function at the Housing Company is presently being established. It is suggested that this process be deferred until a review of the audit function at the City is completed.

Conclusion:

The Chief of Police and the General Manager of the Toronto Transit Commission both wish to retain the audit functions which currently exist in their operations.

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In order to independently evaluate the potential of amalgamating all audit units into the office of the City Auditor, it is suggested that the Chief Administrative Officer request the City's attest auditors, Ernst & Young, to review this matter at the conclusion of the annual financial audit.

By the end of April 1999, the audit firm of Ernst & Young will have completed its first annual financial audit of the City. Included in the audit will be a general evaluation of the activities of all audit units. This evaluation is an extremely valuable component of the audit process particularly in the context of determining whether the external auditors can rely on the work of the internal audit staff. By the time the audit process is complete Ernst & Young will have familiarized themselves with the internal audit process at the City including its Agencies, Boards and Commissions. In addition, they will probably be in a position to identify any shortcomings, weaknesses and other issues that require addressing. An internal audit process is complementary to the external financial audit and it will inevitably be in the best interest of Ernst & Young to ensure that the internal audit process is an effective and efficient one.

Contact Name and Telephone Number:

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Respectfully submitted,

DOUG MAHOOD
Chair

Toronto, March 1, 1999

(Report No. 3 of The Audit Committee, including an addition thereto, was adopted, as amended, by City Council on April 13, 14 and 15, 1999.)

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