

# TORONTO STAFF REPORT

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September 15, 2004

To: Audit Committee  
From: Auditor General  
Subject: Terms of Reference

Purpose:

To provide the Audit Committee with the terms of reference for certain audit projects included in the 2004 Audit Work Plan that will be commencing shortly.

Financial Implications and Impact Statement:

There are no financial implications resulting from the receipt of this report.

Recommendations:

It is recommended that this report be received for information.

Background:

Each year my office provides a work plan to the Audit Committee that summarizes the projects that will be undertaken. Part of our audit process requires the development of a terms of reference for each project which provides the background, objectives and reporting timeframe for the respective assignment.

Comments:

The terms of reference for the following projects are provided as Appendices to this report. It should be noted that these terms of reference have been forwarded for information purposes to senior management of the respective program area:

- (1) Quality Control Unit – Social Services Assistance Review of Inactive Overpayments and Reconciliation of Overpayment Recoveries
- (2) Municipal Licensing and Standards – Operations Review- Phase One – Investigations Unit

Conclusion:

Terms of reference for audit projects are important in that they provide direction and focus for the work to be undertaken. They also specify the parameters, scope and objectives of the review, as well as the expected reporting date. However, it is important to comprehend that the audit process is not specifically restricted to those areas contained in the terms of reference.

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List of Attachments:

- Appendix 1: Quality Control Unit – Social Services Assistance Review of Inactive Overpayments and Reconciliation of Overpayment Recoveries
- Appendix 2: Municipal Licensing and Standards – Operations Review – Phase One – Investigations Unit



AUDITOR GENERAL'S OFFICE  
TERMS OF REFERENCE

Department: Community and Neighbourhood Services  
Division: Social Services  
Unit: Quality Control and Assurance  
Division: Social Development and Administration Division  
Unit: Financial Administration Unit  
Project Name: Quality Control Unit – Social Services Assistance Review  
of Inactive Overpayments and Reconciliation of Overpayment Recoveries  
Year of Audit: 2004  
Project Code: 04-SOC-01

A. Introduction/Background

The Ontario Works Program is a mandatory Province-wide program delivered by municipalities under the *Ontario Works Act* and Regulations, on behalf of the Ministry of Community and Social Services (the Ministry).

Temporary financial assistance and employment is provided through the Ontario Works Program to individuals upon satisfaction of requirements intended to help them find and maintain paid employment, with a view to promoting self-reliance through employment.

Funding for financial assistance to recipients through the Ontario Works Program is cost shared between the Province (80 per cent) and the City of Toronto (20 per cent).

The City of Toronto, Social Services Division, Community and Neighbourhood Services Department manages social assistance under the *Ontario Works Act*. Legislatively, there is an obligation to establish and collect overpayments made to recipients of social assistance (called active overpayments), even after a recipient is no longer receiving assistance (inactive overpayments).

Recently, overpayment portability has complicated this legislative obligation to collect overpayments by requiring that any overpayments accrued to social assistance recipients in other jurisdictions become the responsibility of the City of Toronto's Social Services Division, if that recipient relocates to Toronto and applies for and/or has been in receipt of social assistance from the City's Social Services Division.

While the issue of overpayment avoidance has been the subject of various reviews conducted over a number of years by the Provincial Auditor and the City Auditor (now called the Auditor General), this issue has also been the subject of more recent reports from the City's Social

Services Division to the Community Services Committee. As a result, in January 2000, the Social Services Division commenced a review of the overpayment area to develop a long-term strategy for managing overpayments, with a *Final Model for Inactive Overpayment Recovery* being finalized in May 2003.

The Auditor General's 2004 Work Plan included a review of the Quality Control and Assurance Unit, Social Services Division. The review will focus on the administration, monitoring and recovery of inactive overpayments and those business units within the Quality Control and Assurance Unit (the Business Review Unit, Inactive Overpayment Unit and Fraud Control Unit) to the extent that they deal with overpayments.

Moreover, we have added as an additional component to our review, an assessment of the adequacy and effectiveness of procedures in place, to ensure all overpayment recoveries are accurately reported and reconciled with the Province.

#### B. Financial/Operational Highlights

The City of Toronto's Social Services Division administers financial assistance through the Ontario Works Program in 14 community-based offices to eligible Toronto residents. In 2003, the Division provided approximately \$524 million in benefits to eligible clients.

Social assistance payments provided under the *Ontario Works Act* are highly regulated and complex to administer having regard to a number of dynamic factors considered in determining eligibility. Such factors include timely reporting and recording of changes in a recipient's employment status, income and shelter costs. These factors impact eligibility and in turn, the amount of social assistance issued. Consequently, the complexity of administering the Ontario Works Program makes it vulnerable to adjustments in social assistance payments, which may result in overpayments.

Overpayments occur when the amount of social assistance provided to recipients exceeds the amount they are entitled to receive. As of August 2004, the cumulative balance for overpayments (dating back to January 1979) was estimated at approximately \$173 million (\$24 million of which were new overpayments in 2003). Of this outstanding amount, approximately \$95 million is currently uncollectible while the amount of collectible overpayments was estimated at approximately \$78 million. Inactive overpayments account for approximately \$53 million of collectible overpayments.

Generally, recovery of active overpayments are collected at the community-based (local) office level, while recovery of inactive overpayments are transferred to the Inactive Overpayment Unit (within the Quality Control and Assurance Unit of the Social Services Division) for collection, provided they meet established divisional criteria (for example, inactive cases terminated less than five years with an overpayment balance greater than \$200.00).

The foregoing overpayment figures were provided by the City's Social Services Division, based on data extracted from the provincial Service Delivery Model Technology, a live environment

and as such, the data is subject to change at any time. However, management staff has expressed concern regarding the reliability of data from the Service Delivery Model Technology.

Lack of accurate and reliable information about overpayments, available through the Province's information technology system, was one of the Provincial Auditor's findings in a 2002 report on a review of the Ontario Works Program. This information technology system was implemented across the Province by January 2002, as part of the government's Business Transformation Project, an ambitious government undertaking to revise the technology system and business processes in support of the delivery of social assistance through the Ontario Works Program.

### Ontario Works Program Funding

Funding for financial assistance to recipients through the Ontario Works Program is cost shared between the Ontario Ministry of Community and Social Services (80 per cent) and the consolidated municipal service manager, the City of Toronto (20 per cent). Administration costs are shared equally by the Province and the consolidated service managers (50/50).

Moreover, any overpayment recoveries by the City would also be shared with the Ministry on an 80/20 basis (the same basis on which they were originally funded).

Each consolidated municipal service manager of the Ontario Works Program is required to submit a monthly claim to the Ministry for its share of actual financial-assistance payments provided to recipients, as well as the share of administration costs for the Ontario Works Program.

The City's Financial Administration Unit in the Social Development and Administration Division, Community and Neighbourhood Services Department, has responsibility for filing the subsidy claims made to the Ministry of Community and Social Services for its share of program and administration costs related to the delivery of the Ontario Works Program by the City's Social Services Division.

An integral part of the subsidy claims process for program costs is the reconciliation of overpayment recoveries, in which the overpayment recovery is also to be shared between the Ministry and the consolidated service managers on an 80/20 basis (the same basis on which they were originally funded).

The Ministry conducts (through its regional offices) an annual review with respect to subsidy claims to determine whether municipal service manager subsidy claims made to the Ministry are complete, accurate, and based on actual payments made to eligible recipients.

### C. Audit Objectives and Scope

#### Inactive Overpayments

A prerequisite to the integrity of the City's social assistance program is ensuring that benefits are paid accurately, efficiently and that when overpayments occur they are effectively administered.

The main objectives of this review are to assess whether the Social Services Division has adequate controls in place to ensure the effective management and recovery of inactive overpayments, with due regard to efficiency, compliance with City policies and legislative requirements and to identify opportunities for improving the administration and collection of inactive overpayments.

The review will include, but may not be limited to, an assessment of the following areas:

- compliance with provincial legislative requirement;
- current divisional practices and procedures in the area of inactive overpayments;
- compliance with established divisional policies and procedures; and
- recovery of overpayments, including overpayments established further to divisional eligibility review investigations.

#### Reconciliation of Overpayment Recoveries

Secondary objectives of this review are to assess whether the Social Development and Administration Division and the Social Services Division has adequate and effective procedures in place to ensure overpayment recoveries are accurately reported and reconciled with the Province.

In the area of overpayment reporting and reconciliation, this review will include, but may not be limited to, an assessment of the following areas:

- the Corporate accounting/administrative policies and procedures governing the reconciliation of all overpayment recoveries with the Ministry of Community and Social Services (i.e., adjustments for the provincial 80 per cent share of recoveries are made to the subsidy claim filed with the Province)
- the annual recognition and allocation of the 20 per cent municipal revenue generated from the overpayment recoveries

Audit procedures may include interviews with relevant City staff, site visits to local area offices, review of related reports and legislation, examination of documents and records and analysis of data, and any other procedures deemed appropriate.

#### D. Expected Reporting Date

Audit Committee Meeting

November 23, 2004



AUDITOR GENERAL'S OFFICE  
TERMS OF REFERENCE

Department/Board: Urban Development Services  
Division: Municipal Licensing and Standards  
Project Name: Operations Review – Phase One – Investigations Unit  
Year of Audit: 2004  
Project Code: 04-UML-01

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A. Introduction/Background

The Auditor General's 2004 Work Plan includes a review of the Municipal Licensing and Standards Division of the Urban Development Services Department. Given the significant extent of the Division's operation, this review will be divided into two phases. Phase One of the review will cover the areas of inspections and enforcement within the Investigations Unit.

Phase two of the review of Municipal Licensing and Standards Division, to be included in the Auditor General's 2005 work plan will cover the efficiency and effectiveness of the licensing issuance functions.

B. Financial/Operational Highlights

The Municipal Licensing and Standards Division has a gross operating budget of \$24 million and collects approximately \$18 million in revenue with the issuance of over 62,000 licenses as well as the completion of over 36,000 inspections annually.

The Division has complex services including regulation, licensing, training, investigation and inspection and enforcement and prosecution under numerous By-laws and Acts. The Division's responsibilities include licensing as well as inspection and enforcement over by laws governing property standards, zoning, fences, noise, vending, marketing and cafes and use and maintenance of private property. Its mandate encompasses the mobile industry (taxi, towing, limousine, catering, street carts), stationary businesses (variety stores, nightclubs, restaurants and food stores) as well as qualifications for trades and other professions.

The Policy and Business Planning Unit reviews and recommends new policy and business standards in order to harmonize and revise by-laws. These initiatives impact the Division's services with respect to licensing and investigations.

Pursuant to a 2003 consulting study, the Division has re-organized to streamline similar business processes and standardize service levels. This involved the integration of like functions and

services under three distinct areas creating an Investigations Unit, a separate Licensing Unit and a Policy and Business Planning Unit. Previously licensing, enforcement and training activities of the taxi unit was managed separately from other mobile and stationary businesses.

**C. Key Financial/Operational Issues and Controls**

The effectiveness of the Division's service has a direct impact on the quality of life within the City by ensuring the delivery of services in a manner that ensures public safety, consumer integrity and protection, and responsible business activities. For example, lack of enforcement within the mobile industry could result in sub-standard service, impact public safety and also have economic impact on the tourism industry. In addition, inefficient enforcement response in dealing with standing water issues on private property could result in a mosquito infestation and a public health hazard with regard to West Nile Virus.

**D. Audit Objectives and Scope**

The purpose of the review is to assess the overall quality of the inspection and enforcement operations of the Investigations Unit, to identify any systemic weakness affecting efficient and effective program delivery, to assess the degree of compliance with statutory and policy directives and to make practical recommendations for improvement. Accordingly, the audit will address the following objectives:

- Assess the efficiency and effectiveness of the corporate and administrative services,
- Assess the effectiveness of governance and monitoring controls in place, and
- Assess the effectiveness, efficiency and overall management of information and information technology services.

The audit work will involve a review of relevant policies and procedures, interviews with staff, site visits, examination of documents and records, analysis of data, review of relevant audit reports and best practices from other jurisdictions and other procedures we deem appropriate.

**E. Expected Reporting Date**

Phase One – Audit Committee Meeting	November 2004
Phase Two – Audit Committee Meeting	To Be Determined