

# TORONTO STAFF REPORT

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January 9, 2006

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

## Purpose:

The purpose of this report is to provide the Audit Committee with the terms of reference for two audit projects included in the 2005 Audit Work Plan currently in progress.

## Financial Implications and Impact Statement

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

## Recommendation:

It is recommended that this report be received for information.

## Background

Each year the Auditor General's Office provides a work plan to the Audit Committee summarizing audit projects to be undertaken. The audit process requires the development of terms of reference for each project providing 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 and audit work has been initiated.

1. Fines and Income Cash Collection Process Review – Toronto Public Library
2. Resident Fees and Trust Funds Review – Homes for the Aged

Conclusion:

Terms of reference for audit projects are important in providing direction and focus for the work undertaken. They also specify the background, scope and objectives of the review, as well as the expected reporting date. It should be noted that the audit process is not restricted to those areas contained in the terms of reference.

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aa/cg  
05-BPL-01  
05-SHA-01

Attachment:

- Appendix 1: Fines and Income Cash Collection Process Review – Toronto Public Library
- Appendix 2: Resident Fees and Trust Funds Review – Homes for the Aged

AUDITOR GENERAL'S OFFICE  
TERMS OF REFERENCE

Division/Board: Toronto Public Library  
Project Name: Fines and Income Cash Collection Process Review  
Year of Audit: 2005  
Project Code: 05-BPL-01

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A. Introduction/Background

The Auditor General's 2005 Work Plan included a review of the Toronto Public Library Fines and Income Cash Collection Process Review.

Toronto Public Library (TPL) operates 100 branches at different locations throughout the City. TPL's 2005 operating budget is approximately \$150 million. Approximately \$5 million or 4 per cent of the operating budget is funded through internally generated revenues. The balance is funded by the City (92 per cent) and other levels of government (4 per cent). Internally generated revenues consist of fines, user fees and the Toronto Public Library Foundation funding. Our review will focus on fines and income including:

- fines;
- room, theatre and equipment rentals;
- lease rentals; and
- photocopy income.

A number of factors exist impacting efforts to manage and administer the cash collection process including:

- integration of information technology systems;
- decentralization of cash collection processes; and
- economic and demographic differences among branches.

This review was selected based on the potential for control risks and exposures related to cash collection and our continued focus on strengthening controls in this area.

B. Financial/Operational Highlights

The Toronto Public Library integrated library branches after amalgamation into one primary circulation system known as Dynix. This system maintains records related to patrons, books and outstanding fines.

Since October 2003, the Toronto Public Library has been working with a collection agency to recover overdue fines and outstanding materials exceeding pre-established criteria.

In 2005, the Toronto Public Library initiated a project to implement debit and credit card point-of-sale machines at each library branch. Point-of-sale machines reduce cash handling at the branches. As of December 2005, point-of-sale machines have been implemented in 40 per cent of the library branches.

C. Key Financial/Operational Issues and Controls

Our audit will include a review of current processes including systems integration and centralization of data entry processes. These processes can often result in variances between cash collected and reports produced by the library circulation system. Our audit will also include a review of the follow-up system for obtaining feedback from library branches regarding operational and financial issues identified by management.

D. Audit Objectives and Scope

The objectives of this review are to:

- assess the efficiency and effectiveness of cash collection and related processes for fines and income and identify opportunities for cost savings and revenue enhancement;
- assess the extent of compliance with applicable policies and procedures; and
- provide management with recommendations to improve the processing and administration of cash collection processes.

The scope of our review will include current procedures and practices, efficiency and effectiveness of manual and automated processes, information technology utilization, performance measures and targets, monitoring activities and reporting mechanisms.

Audit methodology will include a review of policies and procedures, interviews with relevant Toronto Public Library staff, site visits, examination of documents and records, evaluation of management control practices and measures, data and any other procedures deemed appropriate.

E. Expected Reporting Date

Audit Committee Meeting: June 2006

AUDITOR GENERAL'S OFFICE  
TERMS OF REFERENCE

Division/Board: Homes for the Aged  
Project Name: Resident Fees and Trust Funds Review – Homes for the Aged  
Year of Audit: 2005  
Project Code: 05-SHA-01

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A. Introduction/Background

The City of Toronto owns and operates 10 homes for the aged that provide a continuum of long-term care through permanent admission and short-stay programs for over 2,600 residents. The Homes for the Aged Division is responsible for the operation of these homes. The Division is also responsible for the administration of funds held on behalf of the residents through the establishment of Resident Trust Funds.

All long-term care homes are regulated by the Ontario Ministry of Health and Long-Term Care under three Acts namely: Homes for the Aged and Rest Homes Act; Nursing Homes Act; and Charitable Institutions Act. The provincial government is currently proposing to introduce a Long-Term Care Act that would bring together the three acts.

The Auditor General's 2005 Work Plan includes a review of Toronto Homes for the Aged resident fees and trust funds.

B. Financial/Operational Highlights

In 2004, the City received over \$43 million in user fees mainly toward accommodation. The City also received approximately \$95 million in grants and subsidies mainly from the provincial government under three funding envelopes namely: Accommodation; Nursing and Personal Care; and Program and Support Services. The 2004 actual gross expenditures amounted to \$167 million.

At the end of 2004, the City held funds totalling approximately \$4.5 million in trust for residents of the 10 homes for the aged.

C. Key Financial/Operational Issues and Controls

Revenues from resident fees and provincial subsidies are primarily based on occupancy data. In addition, provincial funding is based on complex formulae and specific conditions. Therefore, it is essential that adequate controls are in place to ensure completeness and accuracy of occupancy data and that related revenues due to the City are properly accounted for.

The City also has fiduciary responsibility to safeguard funds held on behalf of the residents. Given the vulnerability of residents, most of whom are elderly with varying degrees of physical frailties and care needs, it is important that internal controls are adequate to properly manage such funds.

D. Audit Objectives and Scope

The objectives of this review are to:

- assess whether internal controls in place are adequate to ensure the accuracy and completeness of resident fees and related provincial subsidies;
- assess whether funds held on behalf of residents are managed efficiently and effectively;
- assess compliance with relevant legislation and City policies and procedures with respect to areas covered in the review; and
- identify opportunities to improve financial and administrative controls.

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

- admission procedures and determination of the appropriate rates;
- tracking of occupancy data;
- billing, recording and collection of resident fees;
- subsidy calculations; and
- administration of residents' trust funds.

The review will cover the period January 1, 2005 to September 30, 2005. The review will not include the provision of nursing and personal care, as well as community-based support services.

The audit work will include:

- a review of policies and procedures;
- interviews with relevant staff;
- site visits;
- examination of documents and records;
- review of relevant audit reports;
- analysis of data; and
- other procedures we deem appropriate.

E. Expected Reporting Date

Audit Committee Meeting

May 11, 2006