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**AUDIT COMMITTEE  
AGENDA  
MEETING 3**

**Date of Meeting:** September 20, 2006  
**Time:** 9:30 a.m.  
**Location:** Committee Room 1  
City Hall  
100 Queen Street West  
Toronto, Ontario

**Enquiry:** Christine Archibald  
Administrator  
416-392-7033  
carchiba@toronto.ca

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**If the Audit Committee wishes to meet In Camera (privately), a motion must be made to do so and the reason given (*Municipal Act, 2001*)**

**Declarations of Interest under the *Municipal Conflict of Interest Act***

**Confirmation of Minutes – February 22 and June 15, 2006**

*(Minutes are distributed to Members of Committee only, and are available on the City of Toronto's Website at [www.toronto.ca/legdocs/2006/minutes.htm](http://www.toronto.ca/legdocs/2006/minutes.htm))*

**Communications/Reports:**

**1. Review of the Administration of Leases on City-owned Property**

**(Presentation from the Auditor General's Office)**

**(Presentation from Chief Corporate Officer and Deputy City Manager and Chief Financial Officer)**

Report (July 8, 2006) from the Auditor General

Recommendations:

It is recommended that:

- (1) the following recommendations in the attached Auditor General's report entitled "Review of the Administration of Leases on City-owned Property" be adopted:

- “1. The City Manager ensure that a centralized inventory of leases for City-owned property is prepared and that all lease information included in this inventory is accurate and complete. The inventory should include information relating to rental amounts, lease expiry dates, details of the property being leased and details relating to the tenant. Information contained in the inventory of City property and maintained by the Facilities and Real Estate Division should be reconciled to the inventory of property leases. Any items which do not reconcile should be reviewed and appropriate action taken.
2. The City Manager, at the conclusion of the review of the governance structure relating to the City’s property maintenance program, give consideration to how the recommendations resulting from the governance review may have relevance to the management of the City’s lease portfolio.
3. The City Manager, in consultation with the appropriate General Managers, ensure that all leases contained in the final inventory listings are clearly assigned to appropriate Divisional staff. Staff be advised of such assignments and be held accountable for the efficient and effective management of all leases within their portfolio.
4. The Deputy City Manager and Chief Financial Officer take steps to ensure that accurate and complete revenue and cost information for each leased property is accounted for in the SAP Financial Information System by requiring that:
  - (a) separate cost centres are maintained in the SAP Financial Information System for each leased property and all property revenue and expenditures are charged to separate property cost centres;
  - (b) financial reports for individual leased properties are prepared, reviewed and approved by senior staff. Financial results which are unexpected and unusual be identified and appropriate action taken; and
  - (c) the financial performance of properties be reviewed and evaluated prior to the negotiation of lease agreements. Evidence of such review be contained in all leasing files.
5. The City Manager take appropriate steps to implement the lease management function of the SAP Real Estate Module for all City leases, including those administered by the Parks, Forestry and Recreation Division. Unless there are compelling reasons to the contrary, the future

development of alternative management information systems be discontinued.

6. The City Manager take steps to:
  - (a) review the status of all City lease agreements in order to ensure that every agreement is current. Immediate action be taken to finalize all expired leases; and
  - (b) ensure that the SAP property management module currently being developed includes a facility to identify lease expiry dates well in advance of the actual expiry date so that expiring leases are identified and renewed on a timely basis.
7. The City Manager direct that a complete review of all lease agreements be initiated in order to ensure that all tenants are paying rent in accordance with specific provisions in lease agreements. Where lease payments are less than contractual amounts, efforts be made, in consultation with City Legal, to recover underpayments. A formal ongoing reporting process be established to ensure that appropriate lease payments are made on a timely basis.
8. The City Manager, in consultation with City Legal, direct that a policies and procedures manual for the administration of the leasing of all City-owned property be developed.
9. The City Manager:
  - (a) establish a formal lease compliance program in order to ensure that tenants are in compliance with key operational provisions contained within lease agreements; and
  - (b) occurrences of non-compliance identified during property inspections be followed up on a timely basis and appropriately documented.
10. The City Manager ensure that up-to-date and adequate insurance coverage for all properties leased by the City is obtained. Evidence of insurance coverage be included in all lease files.
11. The City Manager ensure that, wherever possible, lease amounts are established through an independent valuation process such as the use of an appraisal process or through competitive bids. Evidence of such a process be documented and retained in lease files.

12. The City Manager ensure that all vacant City properties available for lease are identified. A proactive process be initiated to ensure that all such properties are marketed on a timely basis.
13. The City Manager review the capacity of current in-house leasing staff to deliver an effective leasing program, and based on this review assess whether there is a financial and operational advantage to assigning the administration of the leasing of City-owned property in whole or in part to an outside property management company. Detailed cost benefit analyses be an integral part of this evaluation.
14. The City Manager ensure that:
  - (a) the inventory of below-market rent leases for City-owned properties is a accurate, up-to-date and complete; and
  - (b) the below-market rent policy addresses tenants who receive below-market rent for land or who have purchase of service agreements with the City.
15. The City Manager ensure that:
  - (a) a detailed financial assessment is conducted for all organizations being considered for below-market rent; and
  - (b) the amount of any rent subsidy provided to organizations be based on the financial capacity of organizations to pay rent.
16. The City Manager review the City's eligibility criteria for the below-market rent policy with a view to making them more specific and measurable.
17. The City Manager establish priorities for providing below-market rent space. The City should allocate below-market space to organizations providing services which will most benefit its residents.
18. The City Manager ensure that:
  - (a) Council reports seeking approval or renewal for leasing space at rates below-market contain the opportunity cost of providing the below-market space; and
  - (b) the accounting of all grants in-kind be incorporated into the Corporate Grants Management Information System currently being developed for all City grants.

19. The City Manager ensure that eligibility reviews conducted for below-market tenants include, where practical, a site visit and a review of other required documentation such as the lease agreement and financial statements. Evidence of completion of the eligibility review, including copies of documentation, should be retained in the lease file.
20. The Deputy City Manager and Chief Financial Officer upgrade the SAP financial information system to automatically produce standard collection reminder letters as soon as possible. When this functionality is implemented, all City Divisions responsible for the billing and collection of accounts receivable be required to use it to create timely reminder notices for all overdue accounts and such notices be sent out on a regular basis.
21. The Deputy City Manager and Chief Financial Officer, in consultation with City Legal, require that all new tenants be mandated to participate in the pre-authorized payment program or provide post dated cheques or rental deposits in advance as a means of collecting rental income on a timely basis.
22. The Deputy City Manager and Chief Financial Officer ensure that:
  - (a) all revenue from existing leases containing provisions for “additional rent” are reviewed to ensure that all rental income is accounted for correctly;
  - (b) all revenue from future leases, including “additional rent”, is accounted for appropriately and recorded as revenue and accounts receivable in the SAP Financial Information System when earned; and
  - (c) all write-offs of outstanding receivables greater than \$10,000, irrespective of whether or not they have been accounted for in the City’s records, be approved by City Council.
23. The City Manager, in consultation with City Legal, clarify the legal concerns pertaining to the imposition of late payment charges on outstanding accounts and where possible such charges be imposed as soon as possible.
24. The City Manager ensure that prior to renewing any lease agreement direction be sought from City Legal in order to ensure that there is compliance with any lease renewal provisions and in addition all outstanding receivables are collected prior to the commencement of negotiation of any lease renewal.

25. City Council direct that this report be forwarded to the City's major Agencies, Boards and Commissions in order to ensure that concerns, issues and recommendations raised in this report are considered and addressed where appropriate."
- (2) the City Manager be requested to report to the Audit Committee by June 30, 2007 on the implementation of the recommendations in the Auditor General's report entitled "Review of the Administration of Leases on City-owned Property".

## **2. Management of Construction Contracts – Reconstruction of Queensway Eastbound Lanes**

Report (July 28, 2006) from the Auditor General

### Recommendations:

It is recommended that:

- (1) the following recommendations in the attached Auditor General's report entitled "Management of Construction Contracts – Reconstruction of Queensway Eastbound Lanes" be adopted:
  - “1. The Executive Director, Technical Services Division, develop policies to ensure that:
    - (a) Construction Inspector's Daily Reports are adequately completed providing all relevant details such as calculations, measurements and work location references supporting payment;
    - (b) documentation supporting progress payments are diligently reviewed in detail by supervisory staff; and
    - (c) all such policies and procedures are communicated to the appropriate staff.
  2. The Executive Director, Technical Services Division, take steps to determine and recover over payments made to the contractor identified as part of this review.
  3. The Capital Works Projects, Procurement and Administration Procedures Manual be revised to include details relating to the work requested by third parties during the course of City contracts. The manual should address:

- the specific circumstances when third-party work should be undertaken;
  - the requirement for written agreements for all third-party work conducted; and
  - policies and procedures relating to the billing and recovery of agreed upon costs.
4. The Executive Director, Technical Services Division, ensure that all contracts contain provisions relating to any excess equipment or supplies purchased. While there may be certain circumstances where it is not possible to determine the exact amount of equipment or supplies required, there should be specific provisions in each contract to determine how such matters are dealt with.
  5. The Executive Director, Technical Services Division, review the possibility of recovering the \$2,000 “administrative premium” charged by the contractor in connection with supplies purchased from the contractor by the City.
  6. The Executive Director, Technical Services Division, develop appropriate controls and processes to ensure that:
    - (a) inspection reports prepared by third-party consultants are reviewed and adequately monitored;
    - (b) follow-up actions on work failing agreed upon standards are taken and documented;
    - (c) reworks are validated and actions not yet taken on failed tests are completed prior to the final payment on the project; and
    - (d) information relating to tests performed by consultants are maintained.
  7. The Executive Director, Technical Services Division, ensure that policies and procedures for issuing extra work orders through change directives be complied with and separate documentation is used for recording work pertaining to extra work orders.
  8. The Executive Director, Technical Services Division, review the payment made to the contractor for detour services for the period in excess of the original contract and, if appropriate, recover the overpayments. Future charges similar in nature be adequately reviewed prior to payment.

9. The Executive Director, Technical Services Division, ensure that policies and procedures are followed to address and document project delays and, where applicable, liquidated damages are recovered on a timely basis.
10. The Executive Director, Technical Services Division, ensure that:
  - (a) extra work is approved in accordance with authorized spending limits and splitting work orders for the same project be discontinued; and
  - (b) payment for extra work is reviewed for calculations, errors and omissions, and adequacy of supporting documentation.
11. The Executive Director, Technical Services Division, take steps to determine and recover the overpayments made to the contractor in relation to the extra work orders relating to this particular contract.
12. The Executive Director, Technical Services Division, ensure that any cost adjustments made for the substitution of materials contracted for are adequately reviewed for material quality, accuracy and reasonableness before approval.
13. The Executive Director, Technical Services Division, ensure that wherever possible all required work is included in the original contract to limit extra work orders where a premium is paid.
14. The Executive Director, Technical Services Division, update the procedures manual to include procedures for verifying the thickness of asphalt, concrete and granular material before the release of payment.
15. The Executive Director, Technical Services Division, develop procedures to ensure details of all charges, including labour rates payroll overhead costs, are agreed upon and form part of the original contract documents.
16. The Executive Director, Technical Services Division, take steps to ensure compliance with policies and procedures in relation to:
  - documenting the daily work completed in the Field Inspector's Daily Work Report;
  - documentation of monthly field meetings;
  - preparation of the Deficiency List and List of Incomplete Items on achieving substantial completion;
  - confirmation of final inspection before release of final payment;



- obtaining statutory declaration and WSIB clearance as required by the procedures manual.”
- (2) the City Manager be requested to report to the Audit Committee by June 30, 2007 on the implementation of the recommendations in the Auditor General's report entitled “Management of Construction Contracts – Reconstruction of Queensway Eastbound Lanes”.

### **3. Fines and Income Review – Toronto Public Library**

Report (May 29, 2006) from the Auditor General

#### Recommendations:

It is recommended that:

- (1) the following recommendations in the attached Auditor General's report entitled “Fines and Income Review – Toronto Public Library” be adopted:
  - "1. The City Librarian take steps to:
    - (a) develop a process to ensure all write-offs including fines and fees related to past due amounts and the cost of lost materials waived and purged during the year are formally approved by management and reported to the Library Board on a periodic basis; and
    - (b) review Library practices related to recording outstanding fines, provisions for uncollectible accounts, and write-offs into accounting and financial records.
  - 2. The City Librarian establish financial limits for staff fine and cost of overdue material waivers in the circulation system.
  - 3. The City Librarian implement a process providing for input of staff identification and the reason for a fine waiver when granted in the circulation system.
  - 4. The City Librarian consider the implementation of the following features for the proposed Library circulation system:
    - automated controls for limiting waivers and fine overrides in accordance with staff access levels; and

- capability of generating more periodic reports related to collections and waivers including fine waivers over certain limits, cumulative fines waived by account, fine waivers by staff identification and the reasons for the waiver.
- 5. The City Librarian strengthen the process for reporting and follow-up on branch variances from established benchmarks for fine waivers and cost of overdue materials.
- 6. The City Librarian develop and implement a process for more frequent review of fine waivers and the cost of lost materials by branch managers and Library management.
- 7. The City Librarian should integrate cash registers and point-of-sale machines with the circulation system and strengthen cash management controls by implementing a process for more frequent review and reconciliation of cash collection reports with circulation system reports.
- 8. The City Librarian implement the following cash control policies and procedures:
  - (a) Accounting documents should be reviewed and approved by branch managers before being submitted to the Library Accounting Department;
  - (b) Variances on cash collection reports should be followed up by branch staff;
  - (c) Frequency requirements for cash counts and reconciliations should be developed for branches;
  - (d) Limits for the accumulation of funds should be established and funds collected should be deposited timely;
  - (e) Branch bank reconciliations should be reviewed by supervisors;
  - (f) Front desk staff schedules should be documented;
  - (g) Safes and vaults should be located in secure areas, kept locked when unattended, and combination locks changed periodically; and
  - (h) Policies and procedures related to handling petty cash should be enforced.

9. The City Librarian should take steps to either allow for the direct bank deposit of funds by the Access Services Department at the Toronto Reference Library or develop a formal process for cash transfer between the Access Services Department and Accounting Department.
10. The City Librarian should review the cheque receipt and recordkeeping process to ensure adequate separation of duties exists between staff receiving funds and staff updating accounting records.
11. The City Librarian should ensure procedures for transfer of funds includes a protocol for acknowledging receipt of funds.
12. The City Librarian should ensure that the delinquent patron reminder statement regarding transfer of overdue accounts to a collection agency be displayed prominently on the front of the notice so that readers are more likely to read the warning.
13. The City Librarian should implement a process for verification of collection agency invoices ensuring variances are investigated, and incorrect entries are adjusted accordingly. Reported instances should be investigated and excess payments, if any, made to the collection agency in the past should be recovered.
14. The City Librarian should review the process for formally validating the corporate status of organizations applying for room booking as not-for-profit.
15. The City Librarian should ensure that outstanding balances for room bookings are recorded in the accounting system and reported in the financial statements.
16. The City Librarian should develop policies and procedures for:
  - (a) collecting advance payment for room bookings;
  - (b) ensuring timely follow-up on outstanding room rentals; and
  - (c) maintaining complete records of room bookings and outstanding room rentals by branches not using the centralized room booking system (CLASS).
17. The City Librarian should maintain and monitor occupancy statistics for room rentals as a tool for planning.
18. The City Librarian should ensure centralized branch use of the room booking system (CLASS) by the end of 2006.

19. The City Librarian should ensure licences are acquired based on a review of expected use and actual use is monitored. Centralized room booking system (CLASS) licenses acquired to date should be reviewed and related maintenance costs should be negotiated with the vendor according to expected use.
20. The City Librarian should improve controls on management of leases and lease rentals by:
  - (a) developing a lease agreement process to track lease details including expiry dates to ensure timely lease renewals. In addition, all terms and conditions should be finalized prior to commencement of the agreement; and
  - (b) obtaining post dated cheques in advance from tenants as a means of collecting lease rental revenue on a timely basis.
21. The City Librarian should ensure lease rental write-offs are supported with formal management approval.
22. The City Librarian should renegotiate photocopier rates with the vendor and evaluate other options including the coordination of the Library photocopy contract with the City.
23. The City Librarian ensure existing and future contracts are reviewed and evaluated to take advantage of volume pricing by coordinating with the City.
24. The City Librarian should review the photocopier maintenance payment process to ensure service is not covered under the current maintenance agreement prior to payment. Prior period maintenance costs should be reviewed and any duplicate payments should be recovered accordingly.
25. The City Librarian should reduce the current charge card machine (“Mini-Till”) maximum value (currently \$999), and ensure charge card machines and library cards are maintained in a secure location where cards cannot be accessed and charged by persons other than library staff.
26. The City Librarian should direct branches to reconcile charge card machine (“Mini-Till”) reports with daily cash collection reports.
27. The City Librarian should review current controls in the circulation system and ensure data integrity is maintained and adequate records exist for changes made to system records.

28. The City Librarian should ensure the price change control process is formally documented and all price changes in the system adhere to a formal written process.
29. The City Librarian should take steps to minimize the risk of unauthorized access to patron information transmitted to the collection agency. Steps should be taken to ensure the use of secure methods for transmitting data such as data encryption and secure logins.
30. The City Librarian should ensure the formal development of system control processes for:
  - granting staff access to library systems;
  - maintaining access controls lists;
  - ensuring access is provided to appropriate staff and periodically removing users not requiring system access; and
  - enforcing password change controls on a regular basis.
31. The City Librarian should ensure development of implementation plans for planned projects. Projects affecting library branches should be coordinated and communicated to branches and include an agreed upon implementation plan.
32. The City Librarian should ensure the implementation of measures to promote the integrity and accuracy of inventory records, and minimize errors when receiving and processing returned material."

(2) this report be forwarded to the City of Toronto Audit Committee for information.

**3(a). Auditor General Report – Fines and Income Review – Toronto Public Library Response**

Report (September 20, 2006) from the City Librarian providing a preliminary response to the report and recommendations of the Auditor General, following the review of Fines and Income at Toronto Public Library (TPL)

Recommendation:

It is recommended that Auditor General Report – Fines and Income Review – Toronto Public Library Response be received for information.

**4. Update On Implementation of Recommendations From The Auditor General's Operational Review of Toronto Fire Services**

Report (September 6, 2006) from the Fire Chief and General Manager

Recommendation:

It is recommended that this report be received for information.

**5. Terms of Reference – Audit Projects**

Report (September 5, 2006) from the Auditor General

Recommendation:

It is recommended that this report be received for information.

**6. Investment and Leasing Policy Compliance for 2005**

Report (September 1, 2006) from the Deputy City Manager and Chief Financial Officer

Recommendation:

It is recommended that this report be received as information.

**7. Response of the Board of Governors of Exhibition Place – Maintenance and Administrative Controls Review – Facilities and Real Estate**

Report (June 29, 2006) from the General Manager and CEO, Exhibition Place responding to the request of City Council with respect to the Exhibition Place responses regarding its Maintenance and Administrative Controls Review – Facilities and Real Estate

**8. 2006 Audit Work Plan Amendments**

Report (September 6, 2006) from the Auditor General

Recommendation:

It is recommended that this report be received for information.

**9. Supporting Communities Partnership Initiative (SCPI) – Overview of External Audits**

Report (August 25, 2006) from the General Manager, Shelter, Support and Housing Administration

Recommendation:

It is recommended that this report be received for information only.

**10. 2005 Sinking Fund Financial Statements**

Report (September 1, 2006) from the Deputy City Manager and Chief Financial Officer

Recommendation:

It is recommended that the 2005 financial statements for the City's sinking funds be received.

**11. Outstanding Auditor's Recommendation – Implementation of Building Code Statute Law Amendment Act**

Communication (June 2, 2006) from the Planning and Transportation Committee advising that, on June 1, 2006, it received the report (May 17, 2006) from the Chief Building Official and Executive Director and directed that a copy be forwarded to the Audit Committee for information

**12. Financial Statements and Audit Results for the Year Ended December 31, 2005 - Agencies, Boards and Commissions.**

**12(a).** St. Lawrence Centre for the Arts, submitted by Ernst & Young

**12(b).** The North York Performing Arts Centre Corporation, submitted by Ernst & Young

**12(c).** The Hummingbird Centre for the Performing Arts, submitted by Ernst & Young

**12(d).** Communication (July 6, 2006) from Secretary, TTC Insurance Company Limited, forwarding the Financial Statements for the year 2005 for the TTC Insurance Company Limited

**12(e).** Communication (June 22, 2006) from the General Secretary, Toronto Coach Terminal Inc, forwarding the Financial Statements for the Year Ended December 31, 2005 from the Toronto Coach Terminal

- 12(f).** Communication (July 18, 2006) from the President, Toronto Parking Authority, forwarding the Audited Financial Statement for Year Ended December 31, 2005 and Audit Results Report prepared by Ernst & Young

Recommendation:

It is recommended that this report be received for information only.

**13. 2005 Audited Consolidated Trust Funds Financial Statement**

Report (September 5, 2006) from the Treasurer

Recommendation:

It is recommended that the audited financial statements of the City's consolidated trust funds for the year ended December 31, 2005 be approved.

**14. Community Centre 55 – 2005 Audited Financial Statements**

Report (August 29, 2006) from the Auditor General

Recommendation:

It is recommended that this report be received for information.

**15. 2005 Financial Statements of Business Improvement Areas**

Report (May 31, 2006) from the Treasurer and General Manager, Economic Development, Culture and Tourism.

Recommendation:

It is recommended that the 2005 audited financial statements and related management letters appended to this report for Business Improvement Areas operated by Boards of Management be received.

**Note: Financial Statements of the following Business Improvement Areas are distributed to Members of the Audit Committee only:**



|                           |                          |
|---------------------------|--------------------------|
| Beaches                   | Junction Gardens         |
| Bloor Annex               | Little Italy             |
| Bloor by the Park         | Mimico Village           |
| Corso Italia              | Parkdale Village         |
| Eglinton Hill             | Queens Quay Harbourfront |
| Emery Village             | Rosedale Main Street     |
| Gerrard India Bazaar      | Weston                   |
| Greektown on the Danforth | Wychwood Heights         |
| Hillcrest Village         | York-Eglinton            |
| Korea Town                | Church-Wellesley         |

**16. Audited Financial Statements – City of Toronto Pension Plans**

Report (September 6, 2006) from the Treasurer

Recommendation:

It is recommended that 2005 financial statements for the City of Toronto Pension Plans be received for information.

**Note: Financial Statements of the City of Toronto Pension Plans distributed to Members of the Audit Committee only.**