

The logo features a stylized graphic of a building with three vertical bars of increasing height on the left, followed by the word "TORONTO" in a large, bold, sans-serif font. To the right of "TORONTO" is the text "STAFF REPORT" in a smaller, bold, sans-serif font. A horizontal line is positioned below the text.

TORONTO STAFF REPORT

September 5, 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 audit projects included in the 2006 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. Review of Major Contracts, Solid Waste Management Services
2. Internet Access Review
3. Children's Services – Administration of Child Care Subsidies

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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06-AAS-00

List of Attachments:

- Appendix 1: Review of Major Contracts, Solid Waste Management Services
- Appendix 2: Internet Access Review
- Appendix 3: Children's Services – Administration of Child Care Subsidies

AUDITOR GENERAL'S OFFICE
TERMS OF REFERENCE

Division/Board: Solid Waste Management Services
Project Name: Review of Major Contracts, Solid Waste Management Services
Year of Audit: 2006
Project Code: 06-SWM-01

A. Introduction/Background

The Solid Waste Management Services Division is responsible for providing collection, transfer and disposal services for residual waste and the collection, transfer and processing of recyclable and organic materials throughout the City. The Division also accepts waste from the commercial sector.

The Auditor General's 2006 Audit Work Plan includes a review of major contracts administered by the Solid Waste Management Services Division. This review was selected based on criteria such as potential for City liability, the extent of expenditures, revenues and assets, and other emerging issues of concern.

B. Financial/Operational Highlights

Solid Waste Management Services is comprised of four sections: two District Solid Waste Collection sections, a Transfer, Processing and Disposal Operations section, and a Solid Waste Management Policy and Planning section.

The Division operates seven transfer stations, six household hazardous waste depots, one blue box materials recovery facility, an organic processing facility, 13 maintenance and operating yards, as well as closed former landfill sites. The Division also manages several waste diversion programs including a Clean City Litter Program, source separated organics collection and processing, environment days, backyard composter distribution, recovery of household hazardous waste, and tire and white goods recycling.

C. Key Financial/Operational Issues and Controls

With a total of 1,422 approved positions in 2005, Solid Waste Management Services incurred gross expenditures totalling \$216 million and generated revenue totalling \$58 million. In-house staff costs account for approximately 39 per cent of the divisional operating costs while contracted services make up about 43 per cent.

D. Audit Objectives and Scope

The objective of this review is to assess whether proper management controls are in place to ensure that contracted services are delivered according to established performance criteria, cost, specifications, regulatory requirements, and that the City's interests are adequately protected.

This review will not include an assessment of activities carried out at City transfer stations for issuing weigh scale tickets and recordkeeping. Our evaluation of the information system will be limited to examining management controls over the accurate accounting of weigh scale tickets for invoice payment and revenue billing purposes.

Our review will cover the period from January 1, 2005 to June 30, 2006 and will cover a sample of major contracts of the Division.

Audit methodology will include a review of policies and procedures, interviews with relevant City staff, site visits, examination of documents and records, evaluation of current management control processes, review of relevant Council, Standing Committee and audit reports, analysis of data and any other procedures deemed appropriate.

E. Expected Reporting Date

Audit Committee Meeting

First meeting in 2007

AUDITOR GENERAL'S OFFICE
TERMS OF REFERENCE

Division/Board: Information and Technology
Project Name: Internet Access Review
Year of Audit: 2006
Project Code: 06-ITD-02

A. Introduction/Background

The City provides internet access as a standard feature on all City computers. In 2005, the City issued an Acceptable Use Policy, which provides guidelines with respect to acceptable use of the City's information and technology resources. The policy stipulates that information and technology resources are to be used solely for city business purposes with the exception of limited and occasional personal use.

A review of employee's internet usage has been identified as a high risk area. This assessment has been borne out by reports to the Fraud and Waste Hotline.

B. Financial/Operational Highlights

The City's Information and Technology Division manages over 18,000 desktop and laptop computers of all City divisions. Employees who have access to these computers also have access to the internet, unless this feature is specifically restricted on that computer. In some cases, management may deem it necessary to restrict internet access in certain computers.

C. Key Financial/Operational Issues and Controls

Internet use that is inappropriate or not in compliance with the City's Acceptable Use Policy such as downloading or displaying offensive or malicious material exposes the City's information and technology systems to security threats and could result in liability or embarrassment to the City. In addition, excessive use of the internet for personal or non-business reasons places unnecessary strain on existing resources and results in productivity losses.

D. Audit Objectives, Scope and Methodology

The objectives of this review are to:

- evaluate adequacy and effectiveness of the City's Acceptable Use Policy with respect to internet use;

- determine whether internet usage is in compliance with the City's Acceptable Use Policy;
and
- assess whether adequate controls are in place to ensure adherence to such policy.

This review will cover a sample analysis of internet usage during the period from January 1, 2006 to July 31, 2006.

Our audit methodology will include a review of policies and procedures, interviews with relevant City staff, analysis of data, review of relevant Council, Standing Committee and audit reports, and other procedures deemed appropriate.

E. Expected Reporting Date

Audit Committee Meeting

First meeting in 2007

AUDITOR GENERAL'S OFFICE
TERMS OF REFERENCE

Division/Board: Children's Services
Project Name: Children's Services – Administration of Child Care Subsidies
Year of Audit: 2006
Project Code: 06-CSD-01

A. Introduction/Background

The Toronto Children's Services Division is designated as the City's "child care service system manager" under provincial legislation and as such is responsible for managing a broad range of child care services.

There are over 850 licensed child care facilities (including licensed child care centers and licensed home child care agencies) in Toronto providing approximately 50,000 licensed child care spaces. One of the key responsibilities of the Children's Services Division is management of fee subsidy contracts with 628 licensed child care programs (including licensed child care centers and home child care agencies) that provide approximately 23,000 subsidized child care spaces. According to its 2005-2009 Child Care Service Plan, the Division also manages 46 family resource centers, 26 programs providing resources to children with special needs, 16 before-and after-school programs, and 40 summer day programs, as well as directly operating 57 municipal child care centers and one home child care agency.

All licensed child care facilities are regulated by the Day Nurseries Act under the Ontario Ministry of Children and Youth Services. In addition, the City must meet the requirements of the Provincial Child Care Service Management Guidelines, and City policies such as the Child Care Service Plan 2005-2009, Operating Criteria for Child Care Programs and Operating Budget Guidelines.

Based on criteria such as the extent of expenditures, revenues and assets, and potential impact on public safety and City liability, Children's Services Division was selected for a review by the Auditor General and included in its 2006 Work Plan.

B. Financial/Operational Highlights

The Children's Services Division underwent an organizational re-structuring in 2005 and its current structure comprises three services: program administration, municipal child care, and purchased child care. The Division's total approved positions in 2006 were 968.

In 2005, the Division incurred gross expenditures at \$295 million and received provincial funding and other revenues totalling \$229 million, resulting in net operating costs of \$66 million.

Under the original Ontario Best Start Strategy, the City was to receive provincial funding increasing from \$45.9 million in 2005 to \$125 million in 2008. Due to termination of federal funding to the Province, allocation of Best Start funding to the City will be substantially reduced to \$27.5 million for 2006/2007. This will have significant impact on the City's Child Care Service Plan and Best Start Service and Transition Plan. City Council at its meeting on July 25, 26 and 27 approved the staff recommendation to transfer 2005/2006 Best Start's unspent funds of \$32.6 million to the City's Child Care Expansion Reserve Fund for future uses.

C. Key Financial/Operational Issues and Controls

Effective financial and management controls are essential to providing quality child care services within existing resources. In particular, adequate controls must be in place to maximize funding from the Province through the cost-share agreement and other initiatives. Under the cost-share agreement with the City, the Province funds 80 per cent of the City's operating costs of subsidized child care spaces and 50 per cent of the City's costs of managing the child care system, up to an annual maximum funding limit.

D. Audit Objectives and Scope

The objectives of this review are to:

- assess whether Toronto Children's Services has adequate management controls to ensure child care subsidies are managed in a cost effective manner;
- assess compliance with relevant legislation and guidelines, and City policies and procedures with respect to areas covered in the review;
- assess whether adequate controls are in place to maximize the use of available funding; and
- identify opportunities for cost savings and improved administrative controls.

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

- administration of subsidies with child care providers;
- implementation of operating criteria;
- assessment and continuous monitoring of eligibility for fee subsidy;
- subsidy calculation; and
- internal administrative controls over revenue and payment.

The review will cover the period from January 1, 2005 to June 30, 2006.

The audit work will include:

- a review of relevant legislation, policies and procedures;
- interviews with relevant staff;

- site visits;
- an examination of documents and records;
- an evaluation of current management control processes;
- a review of relevant audits and reports;
- analyses of data; and
- any other procedures deemed appropriate.

This review will not include the delivery of services in child care facilities directly operated by the Division.

E. Expected Reporting Date

Audit Committee Meeting	June 2007
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