

Terms of Reference - Audit Projects

Date:	March 29, 2007
To:	Audit Committee
From:	Jeff Griffiths, Auditor General
Wards:	All
Reference Number:	

SUMMARY

This report is to provide Audit Committee with the terms of reference for audit projects included in the 2007 Audit Work Plan currently in progress.

FINANCIAL IMPACT

There is no financial impact resulting from the adoption of this report.

ISSUE BACKGROUND

Each year the Auditor General's Office submits a work plan to 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 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. Payroll Processing Review – Phase Two – Employee Benefits
2. Pandemic Influenza Plan Audit
3. Toronto Water-Wastewater Treatment

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.

CONTACT

Jeff Griffiths, Auditor General, Auditor General's Office
Tel: 416-392-8461, Fax: 416-392-3754, E-mail: Jeff.Griffiths@toronto.ca

SIGNATURE

Jeff Griffiths, Auditor General

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ATTACHMENTS

Appendix 1: Payroll Processing Review – Phase Two – Employee Benefits
Appendix 2: Pandemic Influenza Plan Audit
Appendix 3: Toronto Water – Wastewater Treatment

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AUDITOR GENERAL'S OFFICE
TERMS OF REFERENCE

Division/Board:	Human Resources
Unit:	Pension, Payroll and Employee Benefits
Project Name:	Payroll Processing Review-Phase Two-Employee Benefits
Year of Audit:	2007
Project Code:	06-PPB-01

A. Introduction/Background

The Auditor General's Payroll Processing Review-Phase One was presented to the Audit Committee in November 2004 and contained 18 recommendations.

This phase two payroll processing audit of employee benefits is included in the Auditor General's 2007 Audit Work Plan and relates to our review of the City's administration of the employee benefits program. This audit was selected based on the complexity of related operations, audit risks and the extent of expenditures.

The City of Toronto provides health care benefits to its employees, eligible dependants and retirees based on City policies and collective agreements. These benefits include extended health care, dental care, long-term disability, group life insurance, accidental death and dismemberment and line of duty death coverage.

The City also provides benefits to employees of various Agencies, Boards and Commissions including the Hummingbird Centre for the Arts, the Board of Governors of Exhibition Place, Toronto Zoo, Toronto Public Library and Community Centres and Arenas.

The City provides employee benefits (with the exception of life insurance, accidental death and dismemberment and line of duty death coverage, which are provided on an insured basis) on an Administrative Services Only basis. The City reimburses the benefit administrator for actual benefit claims paid to employees and pays an administrative fee for claim adjudication and processing services.

The provider for Administrative and Underwriting Services for Employee Benefit Plans since 2000 has been the Manu Life Assurance Company. This agreement expired December 31, 2005. In December 2005, City Council approved an agreement with the incumbent for another five year period effective January 1, 2006.

The Benefits and Employee Services Section of the Pension, Payroll and Employee Benefits Division is responsible for management of benefit plans and the ASO contract with the benefit administrator.

B. Financial/Operational Highlights

The City provides benefit coverage to approximately 32,000 employees, their spouses and eligible dependants. In total, approximately 71,000 individuals are entitled to these benefits along with another 10,000 retired employees who qualify for some of the same benefits.

The cost of providing the City employee benefit program has increased due to various factors such as increased utilization of the plan(s) either in total number of claims or cost per claim, inflation related to general health and dental costs, and plan enhancements provided through the collective bargaining process. This trend is expected to continue in the future.

In 2006, the City spent \$161 million providing related benefits to employees and retirees (excluding ABCs).

C. Key Financial/Operational Issues and Controls

The City places considerable reliance on the benefit administrator to process claims in accordance with the terms of the various plans and to provide an efficient and accurate claims processing operation. How well the City is able to hold the benefit administrator accountable for both operational and cost efficiencies depends on several factors including:

- ensuring processes, systems and quality assurance measures in place by the benefits administrator are adequate;
- eligibility data is reasonable and policies in effect with the administrator are correct, up-to-date and adequately reflect negotiated City benefits;
- ensuring amounts charged by the benefit administrator are in accordance with guaranteed rates outlined in contracts and consistent with claims paid by the benefits administrator; and
- adequacy and integrity of agreed upon performance standards included in the Performance Standards Guarantee Agreement negotiated by the City with the benefit administrator.

D. Audit Objectives and Scope

The objective of this review is to assess whether:

- adequate systems and procedures are in place to manage employee benefit plans economically and in accordance with plan terms;

- ASO contract with the benefit administrator is properly managed and contractual obligations are fulfilled; and
- controls are in place to ensure the accuracy and integrity of contract related expenditures.

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

- benefit plan(s) eligibility;
- controls and processes over the administration of employee benefit plans;
- recording of employee benefit costs in the City's financial records;
- payment of ASO contract related expenditures;
- quality assurance processes involving the benefit administrator;
- benefit administrator performance standards guarantee agreement; and
- contract management practices.

Our review will focus on the administration and processing of benefits for all current and retired employees of the City (excluding the Agencies, Boards and Commissions) and cover the period from January 1, 2005 to February 28, 2007.

Audit methodology will include a review of policies, procedures and current divisional practices, interviews with relevant City staff, examination of relevant documents, records and management reports, evaluation of the adequacy of management control processes, analysis of data and any other procedures deemed appropriate.

E. Expected Reporting Date

Audit Committee Meeting	June 15, 2007
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AUDITOR GENERAL'S OFFICE
TERMS OF REFERENCE

Division/Board:	Technical Services
Unit:	Office of Emergency Management
Project Name:	Pandemic Influenza Plan Audit
Year of Audit:	2007
Project Code:	06-AAS-20

A. Introduction/Background

In light of the significant health, economic and social impacts that can be caused by a world wide outbreak of influenza, governments and large institutions throughout the world are developing emergency preparedness plans specific to an influenza pandemic. Both the Public Health Agency of Canada and the Ontario Ministry of Health and Long-Term Care have developed and updated their pandemic influenza plans. The City of Toronto, as the fifth largest municipal government in North America, must plan and prepare for a pandemic, building on the lessons learned from SARS and other communicable disease outbreaks.

According to the Ontario Emergency Management and Civil Protection Act and its Regulation, every municipality within the province shall develop and implement an emergency management program and a municipal emergency plan governing the provision of necessary services during an emergency. Ontario Regulation 380/04 made under the Act further defines the standards for a municipal emergency management program.

Toronto Municipal Code, Chapter 59 "Emergency Planning", defines the establishment of City's Emergency Management Program Committee and its role, the declaration and termination of an emergency, and other aspects of emergency management.

B. Financial/Operational Highlights

Currently the City pandemic planning is led by both the Office of Emergency Management (under Technical Services) and Toronto Public Health.

In late 2002, Toronto Public Health established a steering committee consisting of internal and external stakeholders to develop an influenza pandemic plan. The first version of the Toronto Pandemic Influenza Plan and the associated staff report were presented to the Board of Health in November 2005 and were approved by City Council in 2006.

While Toronto Public Health is the lead for pandemic influenza health planning, all agencies, boards, commissions and divisions of the City are responsible for the continuity of their services during an emergency. The City's planning for continuity of operations began in February 2006 and is coordinated by the Office of Emergency Management, Technical Services.

The Office of Emergency Management, Technical Services, is operated with one manager and six coordinators and is responsible for developing programs and plans to prevent disasters if possible and for reducing the vulnerability of residents to any disaster that cannot be prevented.

C. Key Financial/Operational Issues and Controls

Given that risk is measured by the likelihood of an event's occurrence and its potential impact, there should be no question that the influenza pandemic presents a significant risk to the City and its residents and businesses. City management should ensure, to the extent possible, that adequate control and mitigation measures are in place through a pandemic preparedness plan. The goal of the City's pandemic planning should be to protect employee and public health, mitigate adverse impacts on City operations, as well as speed up business recovery.

D. Audit Objectives and Scope

While staff of the Auditor General's Office do not normally possess any expertise in disease prevention or emergency management, the Office can contribute to the process by providing an independent and objective assessment of the City's pandemic planning and preparedness.

The overall audit question would be "To the extent possible, how prepared is the City for the next pandemic?" We are cognizant that this should only be answered within the context of what the City can realistically do as a municipal government in pandemic planning.

The specific objectives of this review are to determine:

- adequacy of the corporate governance and coordination of pandemic planning;
- compliance with municipal standards for emergency management and planning as set out by provincial legislation; and
- degree of completeness and comprehensiveness of the City's pandemic influenza plan, continuity of operation plans, and related policies and procedures.

The review will cover the period from January 2006 to April 2007.

The audit work will include:

- a review of relevant legislation, policies and procedures;
- interviews with relevant staff;
- an examination of documents and records;
- a review of current literature on pandemic preparedness;
- a review of pandemic plans that have been developed by other municipal governments;
- qualitative analyses of information; and
- any other procedures deemed appropriate.

E. Expected Reporting Date

Audit Committee Meeting

June 15, 2007

AUDITOR GENERAL'S OFFICE
TERMS OF REFERENCE

Division/Board: Toronto Water
Project Name: Wastewater Treatment
Year of Audit: 2006
Project Code: 06-TWD-01

A. Introduction/Background

Toronto Water is responsible for supplying Toronto's drinking water and for collecting and treating all the City wastewater, both sanitary sewage and stormwater. The City of Toronto also supplies water to York Region and receives sewage from Region of Peel and Greater Toronto Airport Authority. All revenues are derived from user fees charged for water consumption and sewage treatment, rather than through tax assessment.

The Auditor General's 2007 Audit Work Plan includes a review of Toronto Water's wastewater treatment program. This review was selected based on criteria such as potential for City liability, the extent of expenditures and assets, and other emerging issues of concern.

B. Financial/Operational Highlights

The Wastewater Treatment section of Toronto Water operates four wastewater treatment plants which treated approximately 438 million cubic metres of wastewater annually and generated over 53,000 dry tonnes of wastewater biosolids in 2006. Biosolids are produced by the wastewater treatment process after the solid organic material is separated from the wastewater. A strategy to manage the biosolids has been developed and is currently under review and awaiting Council approval.

C. Key Financial/Operational Issues and Controls

In 2006, the four wastewater treatment plants incurred gross expenditures totalling \$91 million. With a total of 284 approved positions, in-house staff costs account for \$26 million or approximately 28 per cent of the plant operating costs. Other major operating costs include energy usage and the processing and disposal of biosolids.

In 2006(actual) and 2007 (projected), there is a 9 per cent increase in water and wastewater rates. The rate increase is mainly to fund the backlog in the state of good repair in Toronto Water's infrastructure.

D. Audit Objectives and Scope

The objective of this review is to assess whether the City's wastewater treatment program is being managed economically, efficiently and in compliance with City policies and legislative requirements.

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

- payroll processing, overtime and attendance management;
- management of biosolids;
- compliance with regulatory requirements; and
- contract management and payment processes.

Our review will focus on two wastewater treatment plants and will cover the period from January 1, 2006 to March 31, 2007.

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

September 24, 2007