

## Audit Committee

<b>Meeting No.</b>	6	<b>Contact</b>	Rosemary MacKenzie, Council Administrator
<b>Meeting Date</b>	Friday, February 22, 2008	<b>Phone</b>	416-392-8021
<b>Start Time</b>	9:30 AM	<b>E-mail</b>	rmacken@toronto.ca
<b>Location</b>	Committee Room 1, City Hall		

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*The Decision Document is for preliminary reference purposes only. Please refer to the Committee's Report to City Council or to the Minutes for the official record.*

***How to Read the Decision Document:***

- *Recommendations of the Committee to City Council appear after the item heading.*
- *Any amendments by Committee to recommendations appearing in a staff report are italicized.*
- *Other action taken by the Committee on its own authority which does not require Council's approval, is listed in the decision document under the heading "Decision Advice and Other Information".*
- *Declarations of Interest, if any, appear at the end of an item.*

***Minutes Confirmed – Meeting of November 16, 2007.***

AU6.1	ACTION	Adopted		Ward: All
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### **External Audit Services Contract Extension – Results of Negotiations**

**Confidential Attachment - The security of the property belonging to the City or one of its agencies, boards and commissions**

(February 8, 2008) Report from the Treasurer

### Committee Recommendations

The Audit Committee recommends that:

1. Council authorize a two-year contract extension with Ernst & Young LLP for external audit services for fiscal years 2008 and 2009 as per the fee schedule outlined in Confidential Attachment 2 and under terms satisfactory to the Auditor General and the City Solicitor.
2. Council authorize the public release of the confidential information in Attachments 1 and 2 upon Council's approval of this contract extension to Ernst & Young and Ernst & Young's signing the contract.
3. The appropriate City officials be directed to take the necessary action to give effect thereto.

### Financial Impact

If the total contract award identified in the confidential attachment to this is approved by Council, the City's portion of the audit fee increase will be included in the Auditor General and non program 2008 and 2009 budget. The audit fee increase for the ABCs and Pension, Payroll and Employee Benefits Division will be absorbed in their respective 2008 and 2009 operating budgets.

The Deputy City Manager and Chief Financial Officer has reviewed this report and agrees with the financial impact information.

### Summary

This report outlines the results of the negotiations to extend the external audit services contract with the Ernst & Young LLP for the fiscal years 2008 and 2009 and the recommendations that result. The approval of this extension will assist the Office of the Treasurer in completing its major projects that are taking place during this period. It will also ensure that the Office of the Treasurer receives consistent advice over the term of the Capital Asset Accounting Project that is taking place during this period.

### Background Information

External Audit Services Contract Extension, Results of Negotiations - report (February 8, 2008) from the Treasurer

<http://www.toronto.ca/legdocs/mmis/2008/au/bgrd/backgroundfile-10789.pdf>

AU6.2	ACTION	Adopted		
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### 2008 Audit Work Plan

(January 21, 2008) Report from the Auditor General

### Committee Recommendations

The Audit Committee recommends that:

1. City Council receive the 2008 Audit Work Plan attached as Appendices 1 and 2.

### Financial Impact

The recommendation in this report has no financial impact beyond the amount provided in the Auditor General's 2008 budget request.

### Summary

The purpose of this report is to provide City Council with details of the Auditor General's 2008 Audit Work Plan. The 2008 Audit Work Plan is attached as Appendix 1 and Appendix 2 to this report.

The 2008 Audit Work Plan is a combination of projects in progress, new projects, annual recurring audits, various investigations and projects requested by City Council. Our 2008 Audit Work Plan also includes a formal process to ensure that recommendations contained in audit reports have been implemented.

### Background Information

2008 Audit Work Plan – January 21, 2008 report from the Auditor General, including Appendices 1 and 2  
<http://www.toronto.ca/legdocs/mmis/2008/au/bgrd/backgroundfile-10691.pdf>

AU6.3	ACTION	Adopted		
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### Employee Benefits Review

(October 16, 2007) Report from the Auditor General

### Committee Recommendations

The Audit Committee recommends that:

1. the Director, Pension, Payroll and Employee Benefits, in consultation with senior management representatives of the City's agencies, boards and commissions, review and consider the cost-effectiveness of expanding the current City of Toronto benefits umbrella to include other City of Toronto agencies, boards and commissions.
2. the Director, Pension, Payroll and Employee Benefits, continue to review cost containment initiatives for the purpose of identifying potential cost reduction opportunities related to employee and retiree benefit costs. The review should include the use of drug dispensing fee caps as well as the potential for deductible and co-insurance provisions.

3. the Director, Pension, Payroll and Employee Benefits, give consideration to the formal documentation of an annual evaluation of benefit administrator performance.

### Financial Impact

The recommendations in this report are high level and generally long term in nature. While the financial impact of the implementation of these recommendations are not particularly significant in the context of the large amount of funds expended on employee benefits, their relevance to the improved management of employee benefits is important.

### Summary

The objective of this audit was to assess whether cost containment opportunities exist in City sponsored employee benefit plans, to review procedures in place to manage and control services provided under the benefit administrator's contract and to determine if opportunities exist for improving future benefit administrator contracts. Our audit included a review of employee benefit related practices and procedures in place during the period January 1, 2005 to June 30, 2007 for active and retired employees of the City (excluding the Agencies, Boards and Commissions). We focused on cost containment strategies related to employee benefit costs and claims analysis, claims processing, quality assurance and improvements in monitoring the benefit administrator's performance.

Our review indicates that the City Benefits and Employee Services Section of the Pension, Payroll and Employee Benefits Division administer benefit plans in a diligent, effective and efficient manner.

Our review identified a number of issues related to increasing employee benefit costs and provides general information related to future benefit costs. Management is very much aware of the challenges facing them in this regard and have undertaken a number of initiatives to reduce employee benefit costs.

In this report, we have provided three high level recommendations related to cost reduction and containment, and management of the contract with the third party administrator.

### Background Information

Employee Benefits Review - October 16, 2007 report from the Auditor General

(<http://www.toronto.ca/legdocs/mmis/2008/au/bgrd/backgroundfile-10709.pdf>)

Employee Benefits Review - Appendix 1

(<http://www.toronto.ca/legdocs/mmis/2008/au/bgrd/backgroundfile-11011.pdf>)

Employee Benefits Review - Appendix 2 Management's Response

(<http://www.toronto.ca/legdocs/mmis/2008/au/bgrd/backgroundfile-10711.pdf>)

AU6.4	ACTION	Adopted		Ward: All
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### 2007 Fraud and Waste Hotline

(February 7, 2008) Report from the Auditor General

## **Committee Recommendations**

The Audit Committee recommends that City Council:

1. direct the City Manager to ensure that all management staff are aware of their reporting responsibilities under the Fraud Prevention Policy. Such responsibilities include the reporting of allegations pertaining to fraud and wrongdoing to the Auditor General's Office on a timely basis.

## **Financial Impact**

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

Investigations or reviews conducted by both Management and the Auditor General's Office as a result of various communications to the Fraud and Waste Hotline have resulted, in certain cases, in the recovery of funds to the City. More importantly these investigations or reviews have resulted in improved internal controls which will likely mitigate the loss of future funds.

## **Summary**

In June 2000, Audit Committee requested that the Auditor General submit an annual report on the status of fraud and related matters. This report represents the Auditor General's seventh annual report on the activities of the Fraud and Waste Hotline Program for the period January 1, 2007 to December 31, 2007.

Fraud constitutes a business risk that every organization must deal with including the Public Sector. Management has the responsibility to manage this business risk by assessing the likelihood of occurrence and by implementing a strategy that includes prevention controls and detection processes to minimize the incidence of fraud and wrongdoing.

One of the key components of the City's strategy to manage this business risk has been the establishment of the Fraud and Waste Hotline Program, which was established with Council's support to provide a practical and anonymous tool for employees and the public to report incidents of fraud and wrongdoing at the City of Toronto. The Hotline Program is operated by the Auditor General's Office which manages and investigates complaints received and makes recommendations to mitigate the risk of fraud and wrongdoing.

All City of Toronto staff have a responsibility to report improper activity involving City resources. In 2007, we continued to identify instances in which divisions have not reported or delayed reporting incidents of fraud or wrongdoing to the Auditor General's Office. We recognize that divisions may wish to conduct preliminary enquiries to confirm whether there is merit to the allegations. However, once the division has reason to suspect there has been improper activity involving City resources, then the Auditor General's Office should be notified on a timely basis. This report recommends the City Manager ensure that all management are aware of their reporting responsibilities under the Fraud Prevention Policy.

## **Background Information**

2007 Fraud and Waste Hotline - February 7, 2008 report from the Auditor General  
(<http://www.toronto.ca/legdocs/mmis/2008/au/bgrd/backgroundfile-10712.pdf>)

## Appendix 1

(<http://www.toronto.ca/legdocs/mmis/2008/au/bgrd/backgroundfile-10713.pdf>)

**Communications**

(February 21, 2008) Submission from Larry Perlman (AU.New.AU6.4.1)

AU6.5	Information	Received		
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**Auditor General's Audit Reports – Benefits to the City of Toronto – Annual Update**

(January 28, 2008) Report from the Auditor General

**Decision Advice and Other Information**

The Audit Committee received for information, the report (January 28, 2008) from the Auditor General.

**Summary**

This report responds to a request from the Audit Committee to “provide the value added of his department ... by identifying:

- a. actual dollar savings to the City;
- b. potential savings to the City of Toronto;
- c. at risk dollars to the City of Toronto; and
- d. for non-identifiable dollar activities, the impact of the audit review on those items.”

At the request of the Audit Committee, attempts have been made to identify the extent of the quantifiable financial benefits which have resulted from the work conducted by the Auditor General's Office.

While certain reports have resulted in tangible cost savings, the more important benefits provided relate to the avoidance of future costs, as well as the protection of City assets. Nevertheless, tangible annual cost savings have occurred, or will occur, as a result of the work conducted by the Auditor General. Over the five year period commencing January 1, 2003 the estimated potential savings to the City are in the range of \$82 million compared to a cumulative audit expenditure of \$15 million. In simple terms, for every \$1 invested in the audit process the return on this investment has been \$5.50. Many of the estimated cost savings are ongoing and occur on an annual basis.

**Background Information**

Auditor General's Audit Reports - Benefits to the City of Toronto - Annual Update - (January 28, 2008) report from the Auditor General  
 (<http://www.toronto.ca/legdocs/mmis/2008/au/bgrd/backgroundfile-10692.pdf>)

## Appendix 1

(<http://www.toronto.ca/legdocs/mmis/2008/au/bgrd/backgroundfile-10693.pdf>)

AU6.6	Information	Received		
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### **The Feasibility of Creating a Reserve Fund for the Recovery of Funds from the Activities of the Auditor General's Office**

(November 1, 2007) Report from the City Manager

#### **Decision Advice and Other Information**

The Audit Committee received for information, the report (November 1, 2007) from the City Manager.

#### **Financial Impact**

In cases where the City has lost funds through contract overpayments, fraud or other reasons and is successful in recovering some or all of those funds, the recovered moneys are currently allocated to the operating or capital accounts, depending on the original source of the funds. Since this report does not recommend the creation of such a reserve fund, there are no financial implications.

#### **Summary**

This report responds to a request from the Audit Committee to explore the feasibility of creating a reserve fund from recoveries resulting from the activities of the Auditor General's Office which would be used to enhance the activities of the Office. No changes to existing practices are recommended, that is, any such recoveries would continue to accrue to the accounts from which the funds originated and any enhancements to the budget of the Auditor General's Office would be considered part of the annual budget process.

#### **Background Information**

Feasibility of Creating a Reserve Fund for the Recovered Funds - Report (November 1, 2007) from the City Manager

(<http://www.toronto.ca/legdocs/mmis/2008/au/bgrd/backgroundfile-10650.pdf>)

AU6.7	Information	Received		
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### **Toronto Police Services Board - Response to the 2006 City of Toronto Audit Results and Letter of Recommendations**

(January 30, 2008) Report from the Chair, Toronto Police Services Board

### Decision Advice and Other Information

The Audit Committee received for information, the report (January 30, 2008) from the Chair, Toronto Police Services Board.

### Summary

The purpose of this report is to provide the Audit Committee with the response to the 2006 City of Toronto audit results and letter of recommendations.

### Background Information

Report (January 30, 2008) from the Chair, Toronto Police Services Board  
<http://www.toronto.ca/legdocs/mmis/2008/au/bgrd/backgroundfile-10651.pdf>

AU6.8	Information	Received		
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### 2006 Audited Financial Statements of Business Improvement Areas (BIAs) – Report No. 3 (Mount Dennis BIA)

(February 6, 2008) Report from the Treasurer and the Acting Director, Small Business and Local Partnerships, Economic Development, Culture and Tourism

### Decision Advice and Other Information

The Audit Committee received for information, the report (February 6, 2008) from the Treasurer and the Acting Director, Small Business and Local Partnerships, Economic Development, Culture and Tourism.

### Summary

The purpose of this report is to present the 2006 audited financial statements and management letter of the Mount Dennis Business Improvement Area (BIA) to the Audit Committee.

The financial statements and management letter attached to this report have been approved by the Board of Management of the BIA. The 2006 audited financial statements and management letters for fifty-two other BIAs were presented at previous Audit Committee meetings, (twenty-eight on September 24, 2007 and twenty-four on November 16, 2007). The Knob Hill Plaza BIA's financial statement, which is the only one that remains outstanding is in the process of being prepared and audited. Upon Board approval, it will also be presented to the Audit Committee.

### Background Information

2006 Audited Financial Statements of Business Improvement Areas (BIAs) y Report No. 3 - February 6, 2008 staff report (Mount Dennis)  
<http://www.toronto.ca/legdocs/mmis/2008/au/bgrd/backgroundfile-10714.pdf>  
 Appendix A-1 - Mount Dennis BIA 2006 Financial Statements  
<http://www.toronto.ca/legdocs/mmis/2008/au/bgrd/backgroundfile-10715.pdf>



Appendix A-2 - November 7, 2007 management letter Mount Dennis BIA  
<http://www.toronto.ca/legdocs/mmis/2008/au/bgrd/backgroundfile-10716.pdf>

AU6.9	Information	Deferred		Ward: All
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## Review of City of Toronto Pandemic Planning and Preparedness

(February 8, 2008) Report from the Auditor General

### Decision Advice and Other Information

The Audit Committee deferred this item to the next meeting of the Audit Committee.

### Summary

The Auditor General presented the findings, conclusions and recommendations from his report to the Toronto Board of Health in December 2007.

Because the City's pandemic planning is still in progress, the purpose of the audit was to provide a snapshot of what the City has accomplished and what work remains to be completed in preparing for a pandemic emergency. The overall audit question is: "To the extent possible, how prepared is the City for a potentially severe pandemic?" We are cognizant that this should only be answered within the context of what the City can realistically achieve as a municipal government in pandemic planning, in particular considering the City's current fiscal constraints and the need for provincial and federal guidance and coordination. In addition, the substantial degree of uncertainty surrounding a possible pandemic influenza makes planning for a pandemic emergency a complex and difficult task.

The City has undertaken a number of planning activities, and is working towards implementing key actions such as stockpiling personal protective equipment and essential operational supplies. Certain important pandemic public health measures remain to be completed, some of which are dependent upon federal or provincial guidance. The City has established a framework for pandemic planning and preparedness in which public health related planning is led by Toronto Public Health, and corporate planning for continuity of operations is led by the Pandemic Influenza Steering Committee. Our audit noted certain challenges and gaps in the pandemic planning and preparedness process, and as a result our report includes a number of recommendations to help strengthen the existing accountability framework and corporate coordination, as well as enhancing the completion of pandemic public health planning.

### Background Information

Review of City of Toronto Pandemic Planning and Preparedness - report (February 8, 2008) from the Auditor General

<http://www.toronto.ca/legdocs/mmis/2008/au/bgrd/backgroundfile-10690.pdf>

**Meeting Sessions**

Session Date	Session Type	Start Time	End Time	Public or Closed Session
2008-02-22	Morning	9:35 AM	11:50 AM	Public