

Audit Committee

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

AU6.1	NO AMENDMENT			Ward: All
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External Audit Services Contract Extension – Results of Negotiations

Confidential Attachments 1 and 2 - The security of the property belonging to the City or one of its agencies, boards and commissions

City Council Decision

City Council on March 3, 4 and 5, 2008, adopted the following motions:

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.

Confidential Attachments 1 and 2 to the report (February 8, 2008) from the Treasurer, remain confidential in their entirety, at this time, in accordance with the provisions of the City of Toronto Act, 2006, as they contain information related to the security of the property belonging to the City or one of its agencies, boards or commissions. Confidential Attachments 1 and 2 will be made public when the contract has been signed by Ernst & Young.

[Confidential Attachments 1 and 2 were made public on November 19, 2009](#)

(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	NO AMENDMENT			
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2008 Audit Work Plan

City Council Decision

City Council on March 3, 4 and 5, 2008, adopted the following motion:

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

(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	NO AMENDMENT			
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Employee Benefits Review

City Council Decision

City Council on March 3, 4 and 5, 2008, adopted the following motions:

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.

(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	NO AMENDMENT		Ward: All
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2007 Fraud and Waste Hotline

City Council Decision

City Council on March 3, 4 and 5, 2008, adopted the following motion:

1. City Council 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.

(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)

Speakers

Mr. Larry Perlman (Submission Filed)

*Submitted Friday, February 22, 2008
Councillor Doug Holyday, Chair, Audit Committee*