
**AUDIT COMMITTEE
MEETING 2**

Date of Meeting:	April 5, 2005	Enquiry:	Christine Archibald
Time:	9:30 a.m.		Administrator
Location:	Committee Room 2		416-392-7033
	City Hall		teycc@toronto.ca
	100 Queen Street West		
	Toronto, Ontario		

Under the *Municipal Act, 2001*, the Audit Committee must adopt a motion to meet In-camera (privately) and the reason must be given.

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

Communications/Reports:

- 1. The Auditor General's Follow-Up Review on the October 1999 Report Entitled: "Review of the Investigation of Sexual Assaults – Toronto Police Service" dated October, 2004**

Report (March 16, 2005) from Councillor Pam McConnell, Chair, Toronto Police Services Board providing the Audit Committee with a copy of the Auditor General's Follow-Up Review on the October 1999 Report Entitled: "Review of the Investigation of Sexual Assaults – Toronto Police Service", dated October, 2004.

Recommendation:

It is recommended that the Audit Committee receive this report.

(Copies of the Auditor General's Follow-up Review on the October 1999 Report Entitled "Review of the Investigation of Sexual Assaults – Toronto Police Service", dated October, 2004, is distributed to Members of Council and key staff only)

2. Telecommunication Services Review

Report (January 31, 2005) from the Auditor General.

Recommendation:

It is recommended that:

- (1) City Council direct that this report be forwarded to all major City Agencies, Boards and Commissions. These entities be required to review the recommendations in this report to determine whether or not they have relevance to their operations and report to the November 2005 meeting of the Audit Committee on the results of their reviews, including any action taken or proposed;
- (2) the Commissioner, Corporate Services, ensure that new contracts are properly reviewed, approved and executed prior to the termination of the previous contract;
- (3) the Commissioner, Corporate Services, evaluate whether or not there is the potential for the recovery of fees paid to the network service provider in regard to the non-performance of certain provisions in the contract. In addition, the Commissioner, Corporate Services, consider including in contracts, where appropriate, remedies for non-compliance of contract terms and conditions. Such potential remedies to include liquidated damages (penalty clauses) for non-performance;
- (4) the Commissioner, Corporate Services, ensure that all appropriate contracts contain the necessary insurance guarantee provisions, that renewals are executed as required, and documentation to be provided is received in a timely manner;
- (5) the Chief Administrative Officer, in the development of its contract management framework, develop a standard template which identifies in a summary form all relevant contract revisions such that:
 - changes from the previous contract terms are highlighted;
 - appropriate performance requirements are highlighted; and
 - prices, costs and other relevant details are identified;
- (6) the Chief Administrative Officer, in the development of its contract management framework, ensure that the responsibility for reviewing contract terms and conditions is clearly articulated. The process for determining whether or not invoices submitted by vendors are in compliance with contract provisions should also be clearly defined;
- (7) the Commissioner, Corporate Services, in consultation with the Chief Financial Officer and Treasurer, review the accounting process to ensure that any credits for

discontinued land line and data services are tracked and received. In addition, the Commissioner, Corporate Services, ensure that at least once a year, the number of telephone lines, voice mail and data circuits billed by the vendor is reconciled to the City's inventory records. Differences should be appropriately reviewed and adjustments be made where appropriate;

- (8) the Commissioner, Corporate Services, in consultation with departments, review the activation of telephone long distance calling features to ensure that such capability is only provided on a need-to-have basis and is removed from telephones located in shared or open areas. Where it is necessary to have the long distance feature activated on telephones located in shared or open areas, long distance activity for these telephones be monitored monthly;
- (9) the Commissioner, Corporate Services, in consultation with the service providers, ensure that an appropriate level of cellular telephone billing information is provided to all departments. Departments ensure that controls are in place for the recovery of non-business related calls;
- (10) the Commissioner, Corporate Services, review the invoice validation practices in relation to the provider of Internet services. Where billing amounts exceed a predetermined threshold, such differences be reviewed with the provider;
- (11) the Commissioner, Corporate Services, in consultation with departments, expedite a comprehensive review of the use of cellular telephones and pagers by all City departments. The review should include an assessment of each department's communication needs and the identification of cost saving opportunities such as the pooling of unused cell phone usage;
- (12) the Commissioner, Corporate Services, review on an ongoing basis the extent of cellular telephones where there has been no activity for a period of time and where appropriate, ensure that such telephones are deactivated. Inactive cell phones be returned to the Corporate Services Department for disposal or reassignment;
- (13) the Commissioner, Corporate Services, require that the vendor provide the City with information relating to all telephone lines that have not been used for a predetermined period of time. This information be provided to the appropriate departments for review and validation, and lines which are no longer needed should be disconnected;
- (14) the Commissioner, Corporate Services, ensure that the Network Services Unit monitor the use of data circuits on a periodic basis and data circuits identified as no longer needed should be disconnected;
- (15) the Commissioner, Corporate Services, ensure that discounts for longer-term cellular telephone subscriptions are considered when acquiring cellular

telephones. In addition, procedures be implemented to ensure cellular telephone subscription rebates are identified, tracked, received and accounted for appropriately;

- (16) the Commissioner, Corporate Services, perform a one-time validation of chargeable data circuits used by the City with the inventory records in the Network Inventory Management database;
- (17) the Commissioner, Corporate Services, at a minimum of once a year, request departments to validate the complete inventory of all cellular telephones. The results, listing the staff member assigned to each cellular telephone, be forwarded to the Telecommunication Services Unit to update their inventory records;
- (18) the Commissioner, Corporate Services, during the review of the Corporate Disaster Recovery Plan, give consideration to the need for the development of a contingency plan in connection with its Internet services;
- (19) the Commissioner, Corporate Services, finalize and communicate to all departments the policies, procedures and standards for telecommunication services by the end of June 2005;
- (20) the Commissioner, Corporate Services, in consultation with the Chief Financial Officer and Treasurer, ensure that budget details for all telecommunication services costs are appropriately established in the City's accounting system; and
- (21) the Commissioner, Corporate Services, report back to the November 2, 2005 Audit Committee on a detailed action plan, including details of specific staff responsibility and time frames in regard to each one of the recommendations in this report.

2(a). Telecommunication Services Review – Management Response and Work Plan

Report (March 1, 2005) from the Commissioner, Corporate Services reporting on the management response and associated work plan resulting from the Auditor General's review of the costs and business processes for managing the City's telecommunication infrastructure for voice, and data services within the City of Toronto.

Recommendation:

It is recommended that this report be received for information

3. Treasury Services Review – Corporate Finance Division, Finance Department

Report (March 1, 2005) from the Auditor General.

Recommendation:

It is recommended that:

- (1) the Chief Administrative Officer, in the development and or acquisition of information technology systems ensure that, where appropriate, expert external resources are utilized in the development of Request for Proposal documents. Such a process should ensure that Request for Proposals are complete;
- (2) the Chief Financial Officer and Treasurer implement controls, processes and procedures necessary to ensure data integrity, and support accurate reporting to management. At a minimum, system controls be implemented to address system weaknesses outlined in this report. Improvements to controls include:
 - (a) access to the system be aligned with Treasury Services staff duties. Restrict user access and capabilities of Treasury Services staff to their respective functions;
 - (b) only authorized users be provided access to the database system for data entry;
 - (c) the editing of security settings be approved and documented with access limited to authorized users only;
 - (d) a Disaster Recovery Plan specific to the Financial Investments and Debt Management System be developed and implemented;
 - (e) changes to a transaction, and the reasons for the changes should be documented and limited to authorized staff only. Wherever possible, no changes should be made to transactions that have been settled;
 - (f) the deletion of transactions should not be allowed without proper approval. When the deletion of information is required, the rationale for the deletion, should be documented and retained. A report of all deletions should be generated and reviewed by management;
 - (g) Treasury Services staff should be required to change their system password periodically;
 - (h) audit trail capabilities must be enhanced. At a minimum, an audit trail should record all changes, when they were made and by whom;

- (i) system controls should be strengthened to provide automatic reasonableness edits;
 - (j) trades entered into the system must be in compliance with Investment Policies. Incidents of non-compliance should be automatically flagged by the system by way of a message to the user and documented in a system-generated report to be reviewed by senior management;
 - (k) hardcopy documentation of credit rating changes be retained until such time that the Financial Investments and Debt Management System can produce accurate reports for prior reporting periods;
 - (l) feasibility of importing of data be considered; and
 - (m) the Financial Investments and Debt Management System be configured for an interface with SAP to provide for more efficient and effective posting of entries and reconciliation;
- (3) the Chief Financial Officer and Treasurer ensure Investment Policies include clear guidelines, timelines and protocols for identifying, communicating and acting upon policy exceptions. The guidelines should include clear roles and responsibilities of Treasury Services staff and senior management and should outline documentation and approval requirements of any action related to the exceptions;
- (4) the Chief Financial Officer and Treasurer ensure that a formal review process for reports be developed, documented and implemented. All available reports, with special emphasis on exception reports, be reviewed and consulted regularly to ensure City holdings are in compliance with Investment Policies. Evidence of such review be documented;
- (5) the Chief Financial Officer and Treasurer ensure:
- (a) the development of a risk management strategy, which incorporates industry standards;
 - (b) this strategy include regular investment strategy meetings with Treasury Services staff; and
 - (c) all strategy meetings and communications in this regard are documented;
- (6) the Chief Financial Officer and Treasurer, in ensuring that trades are conducted in compliance with the Investment Policies and related legislation, determine the appropriateness of technical trading and address technical trading in the Investment Policies;

- (7) the Chief Financial Officer and Treasurer, whenever possible, separate the duties, roles and functions of Treasury Services staff according to Front, Back and Middle Office functions. Respective duties, roles and functions be clearly delineated and documented;
- (8) the Chief Financial Officer and Treasurer take the necessary steps to develop and document its cash flow forecasting methodology;
- (9) the Chief Financial Officer and Treasurer report back to the Policy and Finance Committee by June 30, 2005, on the merits of forming an oversight committee with an oversight role and advisor function to which the Treasury Services Unit would report performance. The Committee, as with the Sinking Fund Committee, should meet on a regularly scheduled periodic basis to review performance reports, and where appropriate, recommend changes to Investment Policies;
- (10) the Chief Financial Officer and Treasurer ensure accurate performance reporting. Appropriate and relevant benchmarks must be utilized in reporting performance results. In the event differences between City of Toronto holdings and the selected benchmark are present, the impact of these differences on performance results must be noted and explained as performance results are reported;
- (11) the Chief Financial Officer and Treasurer ensure that trader authority limits be established, that duties of all positions within the Treasury Services Unit correspond with their respective job descriptions, and that Treasury Services staff duties align with assigned signing authorities;
- (12) the Chief Financial Officer and Treasurer develop ethics policies and statements specific to the Treasury Services Unit. Policies and statements to include guidance regarding personal trading, gifts, offerings, trader ethics, and trader dealings with brokers or outside providers, as well as requirements for reporting deviations from policy to senior management. Acknowledgement Statements should be updated and signed by all Treasury Services staff on an annual basis;
- (13) the Chief Financial Officer and Treasurer, with a view to improving controls over cash and investment management:
 - (a) consider the use of taped lines, or other accepted recording processes to safeguard City interests in the event of a dispute;
 - (b) develop and implement a system to improve or replace the process of manual transposition of trade information;
 - (c) develop and implement policies and procedures to address trades for which a confirmation advice is not received;

- (d) ensure that trades are reconciled with trade ticket information in the FIDM System upon receipt of the confirmation advice. Outstanding confirmation advices should be tracked using the FIDM System and obtained as soon as possible;
 - (e) ensure that trade tickets are adequately completed and authorized. In circumstances where staff is not available, the rationale for less than three authorizing signatures be documented and reviewed by senior Treasury Services staff; and
 - (f) establish limits on concentrations in volume and dollar amounts. Concentrations over set amounts be explained, documented and reviewed by senior Treasury Services staff;
- (14) the Chief Financial Officer and Treasurer ensure the development and documentation of a formal debenture issuance policy;
 - (15) the Chief Financial Officer and Treasurer ensure that cancelled script debentures and retired inventory debentures are dead-marked or destroyed;
 - (16) the Chief Financial Officer and Treasurer address and implement all outstanding audit recommendations and report on the status of implementation at the July 2005 the Audit Committee meeting; and
 - (17) the Chief Financial Officer and Treasurer ensure that any changes or additions to the City's Investment Policies are reported in the annual investment report provided to City Council. All such changes or additions to the Investment Policies be specifically approved by City Council.

4. Terms of Reference – Audit Project

Report (March 22, 2005) from the Auditor General.

Recommendation:

It is recommended that this report be received for information.

5. Fleet Operations Review – Phase One (Status Update #2)

Report (March 14, 2005) from the Commissioner, Corporate Services providing the second, semi-annual update on Fleet Services' progress in implementing the recommendations described in the Auditor General's report, Fleet Operations Review – Phase One (November 18, 2003).

Recommendation:

It is recommended that this report be received for information.

- 5(a).** Clause 2a of the Audit Committee Report 2 titled “Fleet Operation Review – Phase One”, adopted, as amended, by City Council at its special meeting on April 15 and 26, 2004.

(Clause is included on the agenda for the Committee’s information.)

6. Fleet Operations Review - Phase One - Toronto Fire Services

Report (March 17, 2005) from the Acting Commissioner, Works and Emergency Services and the Fire Chief and General Manager responding to the Auditor General’s report on Fleet Operations – Phase One concerning Recommendation (1) for information concerning Toronto fire Services (TFS) Fleet.

Recommendation:

It is recommended that this report be received for information.

- 6(a)** See 5(a) for background Clause

7. Fleet Operations Review – Phase One – Toronto Emergency Medical Services

Report (March 17, 2005) from the Acting Commissioner, Works and Emergency Services and the Chief and General Manager, Toronto Emergency Medical Services responding to the Auditor General’s Report on Fleet Operations - Phase One - Recommendation (1).

Recommendation:

It is recommended that this report be received for information.

- 7(a)** See 5(a) for background Clause

8. Updated Report on Accounts Receivables Review, Parks and Recreation Operations, Economic Development, Culture and Tourism Department

Report (March 24, 2005) from the Commissioner, Economic Development, Culture and Tourism providing an update on Accounts Receivables Review in Parks and Recreation Operations in Economic Development, Culture and Tourism Department, as requested by Audit Committee at its November 23, 2004 meeting.

Recommendation:

It is recommended that this report be received for information

9. Relationship of the Auditor General and the Audit Committee to the City's Agencies, Boards, Commissions and Corporations

Report (March 24, 2005) from the Chief Administrative Officer and the City Solicitor.

Recommendation:

It is recommended that the Auditor General, in consultation with the Chief Administrative Officer, the Chief Financial Officer and Treasurer and the City Solicitor, be requested to report to the Audit Committee on the recommended role and responsibilities of the Auditor General in relate to Enwave Energy Limited, City of Toronto Economic Development Corporation, Toronto Hydro Corporation and Toronto Community Housing Corporation and on any changes required by the recommendations.

10. External Audit of the City of Toronto's Auditor General's Office – Request for Quotation 9171-05-7038

Report (March 21, 2005) from the Chief Administrative Officer and the Chief Financial Officer and Treasurer.

Recommendations:

It is recommended that:

- (1) authority be granted to enter into a contract with Hilborn Ellis Grant LLP, the lowest bid meeting specifications, in the amount of \$5,350.00 including all charges and taxes to conduct an external audit of the City of Toronto's Auditor General's Office for the years ending December 31, 2003 and December 31, 2004; and
- (2) authority be delegated to the Chief Administrative Officer, in consultation with the Purchasing Agent, to exercise the option to renew the contract with Hilborn Ellis Grant LLP for two additional one-year terms in the amount of \$3,042.50 including all charges and taxes in 2006 and \$3,042.50 including all charges and taxes in 2007 at a total cost of \$11,435.00 for the full three year term, under the same terms and conditions, provided that the City is satisfied with the services provided, and subject to budget approval for each one-year optional period, and
- (3) the appropriate City officials be authorized and directed to take the necessary action to give effect thereto.

11. Information Security Framework – Status Update

Report (March 7, 2005) from the Commissioner of Corporate Services and the Chief Administrative Officer advising the Audit Committee of work completed to date with respect to recommendations and the management responses relating to the Auditor General's report on Information Security Framework, January 26, 2001.

Recommendation:

It is recommended that this report be received for information.

- 11(a).** Clause 7 of Report 3 of the Audit Committee titled "Information Security Framework", adopted by City Council at its regular meeting on April 23-27, 2001 and its special meeting on April 30, May 1-2, 2001

(Clause is included on the agenda for the Committee's information.)

12. Status Update to the Auditor General's Report on Oracle Database Review – Security Controls and Other Issues

Report (February 25, 2005) from the Chief Administrative Officer and the Commissioner of Corporate Services advising the Audit Committee of work completed to date with respect to the recommendations and the management response relating to the Auditor General's Report on Oracle Database Review - Security Controls and Other Issues.

Recommendations:

It is recommended that:

- (1) this report be received for information; and
 - (2) the Commissioner of Corporate Services report to the November 2, 2005 Audit Committee, to provide a final status update on each recommendation.
- 12(a).** Clause 6 of Report 2 of the Audit Committee titled "Oracle Database Review – Security Controls and Other Issues", adopted by City Council at its meeting on March 1, 2 and 3, 2004.

(Clause is included on the agenda for the Committee's information.)

13. Policy on Preparation of Detailed Business Cases Supporting Major Capital Programs

Report (March 16, 2005) from the Chief Administrative Officer and the Chief Financial Officer and Treasurer responding to the directive from the Audit Committee and City Council that the Chief Administrative Officer amend the policy relating to the preparation of detailed business cases supporting major capital programs; in particular, the identification and accounting for internal staff costs.

Recommendation:

It is recommended that this report be received for information

14. Update on Issues Raised in Auditor Management Letters

Report (March 17, 2005) from the Chief Financial Officer and Treasurer presenting an update on the progress made on the workplan to address outstanding issues raised in the Management Letters issued by Ernst & Young on Audit Results since 2000.

Recommendation:

It is recommended that this update report on workplan progress be received and forwarded to Council for information.

15. Community Centres and Arenas – 2003 Audited Financial Statements and Management Letters

Report (March 23, 2005) from the Auditor General.

It is recommended that this report be received for information.

16. Status of 2004 Community Centre Audited Financial Statements

Report (March 18, 2005) from the Commissioner of Community and Neighbourhood Services advising the Audit Committee of the timing of the 2004 audited financial statements for 10 community centres.

Recommendation:

It is recommended that this report be received for information.

17. Toronto Hydro Corporation – “2003 THC Audit Observations and Recommendations” (Management Letter)

(In-Camera: security of the property of the municipality or local board)

(Deferred from January 17, 2005 meeting)

Communication (December 7, 2004) from the City Clerk advising that City Council, at its meeting on November 30, December 1 and 2, 2004, referred Clause 15 of Report 7 of the Audit Committee, titled “Toronto Hydro Corporation – 2003 THC Audit Observations and Recommendations (Management Letter)”, back to the Audit Committee for further consideration.

(The joint confidential report (November 16, 2004) from the Chief Administrative Officer and the Chief Financial Officer and Treasurer (referred to in the above clause) was submitted to City Council under confidential cover, and because the report relates to the security of the property of the municipality or local board, under the *Municipal Act, 2001* discussions be held in-camera.)

18. Potential Claim Against Beacon Software Systems, LLC and Remarkable Software, Inc.

(In-Camera: litigation or potential litigation)

Confidential report (March 23, 2005 from the City Solicitor) and because the report relates to litigation or potential litigation, under the *Municipal Act, 2001* discussions be held in-camera.)



**AUDIT COMMITTEE
SUPPLEMENTARY AGENDA**

Date of Meeting: April 5, 2005
Time: 9:30 a.m.
Location: Committee Room 2
City Hall
100 Queen Street West
Toronto, Ontario

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

3(a). Finance Department's Response to the Auditor General's Report "Treasury Services Review – Corporate Finance Division, Finance Department, dated March 1, 2005"

Report (March 24, 2005) from the Chief Financial Officer and Treasurer.

Recommendation:

It is recommended that this report be considered with the Auditor General's report, dated March 1, 2005 and be received as information.

15. Community Centres and Arenas – 2003 Audited Financial Statements and Management Letters

Revised Page 6: Re – George Bell Arena