



TORONTO STAFF REPORT

September 6, 2006

To: Audit Committee
From: Auditor General
Subject: 2006 Audit Work Plan Amendments

Purpose:

To provide information to the Audit Committee relating to certain amendments to the Auditor General's 2006 Annual Work Plan as submitted to City Council on April 25, 26 and 27, 2006.

Financial Implications and Impact Statement:

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

Recommendations:

It is recommended that this report be received for information.

Background:

The Auditor General's By-law requires that the Auditor General submit an annual work plan to City Council, which summarizes the projects to be undertaken during the year. This work plan was submitted to City Council on April 25, 26 and 27, 2006, and was based on information available to the Auditor General at the time.

The work plan is dynamic and may be amended during the year to accommodate changes in the City's operations or developments in City Divisions. This report provides information on our decision to defer two audit projects originally scheduled for 2006.

Comments:

In 2003, the Auditor General conducted a risk assessment of the City's programs and services. The purpose of the risk assessment exercise was to assess the relative risk of City program areas in order to provide information to assist in the selection of projects for future years audit work plans.

Based on current information we have determined that audit resources can be more effectively used by deferring two projects that were included in the 2006 Audit Work Plan to future years. A brief explanation for our decision is provided as follows:

1. Water Billing Process and Controls Review, Revenue Services Division

The Revenue Services Division is responsible for billing and collecting water revenues of approximately \$450 million each year. The Division uses the Water Management and Accounting System to bill, collect, and administer water and wastewater revenues.

Based on our recent discussions with divisional staff and a review of staff reports, a number of operational issues are currently before City Council for consideration. The Division's major concerns include water revenue loss caused by aging water meters that do not properly register water consumption and operational inefficiencies resulting from the fragmented meter reading methods inherited from former municipalities. Staff estimated that by replacing old water meters and introducing Fixed Area Network technology, the City could recover approximately \$5 million each year in unbilled water consumption and save another \$5 million annually in staffing and related costs.

City Council, at its meetings held in October 2002 and September 2004, approved a Water Meter Replacement and Meter Reading Technology project. Implementation of this project would allow staff to replace the City's aging meters and install a Fixed Area Network automated radio frequency-based meter reading system over an eight year period. At its meeting of September 28 – October 1, 2004, City Council also approved a Water Meter Replacement pilot project to install approximately 10,000 water meters. Full implementation of the project will be conditional on the evaluation of the system's performance during the pilot phase.

At the present time, City staff has been reviewing proposals and a contract will soon be awarded for overseeing the implementation of the pilot project in 2007. If project results support an expansion of the meter reading technology, appropriate standing committees and Council may consider a City-wide implementation of the Water Meter Replacement and Meter Reading Technology project over the next number of years. According to divisional staff, current business processes will be modified to accommodate this new technology.

In addition, Revenue Services has planned a major review of its Water Management and Accounting System. The system was built from the same platform as the Tax Management and Collection System and was implemented at the time of amalgamation in 1998. In order to ensure that the two systems meet the Division's current and future business needs, an independent review of the two systems has been scheduled for 2007. The review will include an assessment of divisional business requirements, available options in the market, and a business case to support any resulting recommendation.

Given the work in progress and planned changes in the near future, it appears that any recommendations coming out of a current review by the Auditor General's Office would relate to systems and processes that will change significantly in the next few years and thus be redundant.

Therefore, it would not be efficient or effective for our Office to perform a review of the water billing process at this time.

2. Review of City Operated Community Centres, Parks, Forestry and Recreation Division

The Parks, Forestry and Recreation Division is currently undertaking an internal review of recreational services. It is our understanding that the review will include recreational services provided at community centres. As this internal review may result in changes in programs or service delivery during the audit process, it is our opinion that a review of City operated community centres would not be productive at this time.

The deferral of these two projects to future years is partially offset by increased activity on the City's Fraud and Waste Hotline and other unanticipated work such as a review of certain applications before the North York Committee of Adjustment. Despite this, the net effect of these changes provides an opportunity to address one other high risk area not included in the 2006 Audit Work Plan. We will be reviewing employee's use of Internet access within the City. This project has been identified as high priority for the past two years and this assessment has been borne out by reports to the Fraud and Waste Hotline.

Conclusion:

The Auditor General's 2006 Audit Work Plan included the Water Billing Process Review and City Operated Community Centres Review. Work currently in progress by City staff led to a re-evaluation of the original 2006 Audit Work Plan submitted to City Council. Given the significant changes that are anticipated to the two programs, we have deferred reviews of these two programs and will re-consider them in future audit work plans. In their place, we will be conducting a review of employee's use of Internet access in the City.

Contact:

Jerry Shaubel, Director
Tel: (416) 392-8462, Fax: (416) 392-3754
E-Mail: jshaubel@toronto.ca

Anne Cheung, Senior Audit Manager
Tel: (416) 392-8439, Fax: (416) 392-3754
E-Mail: ACheung1@toronto.ca

Jeffrey Griffiths
Auditor General

cg
06-AAS-02