



STAFF REPORT ACTION REQUIRED

2008 Audit Work Plan

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| Date: | January 21, 2008 |
| To: | Audit Committee |
| From: | Jeff Griffiths, Auditor General |
| Wards: | All |
| Reference Number: | |

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.

RECOMMENDATION

The Auditor General 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.

ISSUE BACKGROUND

Section 177 of the *City of Toronto Act* formalized the appointment of an Auditor General for the City of Toronto. Under Section 178 of the *City of Toronto Act*, the Auditor General is responsible for "assisting city council in holding itself and city administrators accountable for the quality of stewardship over public funds and for achievement of value for money in city operations."

Even though the position of Auditor General is now required under legislation, the Auditor General's Office was initially created at the City of Toronto in May 2002, under By-law No. 1076-2002.

The 2002 by-law requires that an annual audit work plan be submitted to City Council for information and provides that no deletions or amendments to the audit work plan be made, except by the Auditor General. Council, however, may add to the audit work plan by a two-third's majority vote.

The Audit Work Plan as presented in this report provides City Council with an overview of how the resources allocated to the Auditor General's Office will be used during 2008.

COMMENTS

The Auditor General's 2008 Audit Work Plan contains details of audit projects planned during the year. Certain of these projects will not be completed during 2008, as some will commence later in the year and will not be finalized until 2009.

Projects included in the 2008 Audit Work Plan provided in Appendix 1 are classified into five categories as follows:

1. Audit Projects in Progress and New Audit Projects
2. Annual Responsibilities
3. Reports Requested by City Council
4. Follow-up of Audit Recommendations
5. Investigations Related to Fraud or Other Wrongdoing

In addition to the projects listed in Appendix 1, the Auditor General is responsible for overseeing the work of the external financial attest auditors of the City, its Agencies, Boards and Commissions, the Boards of Management of the Community Centres and the Committees of Management for the Arenas. The oversight role of the Auditor General, in connection with these attest audits, is incorporated into the 2008 Audit Work Plan.

Conclusion

The Audit Work Plan is intended to be flexible and will be amended if additional projects of high priority are identified during the year. The 2008 Audit Work Plan provides a balance of audit work that once complete, will result in improving the overall operations of the City by strengthening management controls, improving accountability and enhancing the efficiency and effectiveness of municipal services.

CONTACT

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SIGNATURE

Jeffrey Griffiths, Auditor General

ATTACHMENTS

Appendix 1: Auditor General's Office – 2008 Audit Work Plan

Appendix 2: Auditor General's Office – 2008 Audit Work Plan –
Audit Projects in Progress and New Audit Projects

AUDITOR GENERAL'S OFFICE
2008 AUDIT WORK PLAN

The Auditor General's 2008 Audit Work Plan contains details of audit projects planned during the year. Certain of these projects will not be completed during 2008 as some will commence later in the year and will not be finalized until 2009.

The projects included in the 2008 Audit Work Plan are classified into five categories as follows:

1. Audit Projects in Progress and New Audit Projects
2. Annual Responsibilities
3. Reports Requested by City Council
4. Follow-up of Audit Recommendations
5. Investigations Related to Fraud or Other Wrongdoing

In addition to the projects listed on the Work Plan, the Auditor General is responsible for overseeing the work of the external financial attest auditors of the City, its Agencies, Boards and Commissions, the Boards of Management of the Community Centres and the Committees of Management for the Arenas. The oversight role of the Auditor General, in connection with these attest audits, is incorporated into the 2008 Audit Work Plan. Since the contracts with the City's current auditors expire once the audit for 2007 is completed, the workplan includes the time required to perform the steps necessary to make a recommendation to appoint an auditor for the years 2008 to 2012 inclusive or extend the contract of the current auditor as requested at the November 16, 2007 meeting of Audit Committee.

Audit Projects in Progress and New Audit Projects

The Selection of Audit Projects

Determining which areas to audit and the appropriate allocation of audit resources is essential in maximizing the value of an effective audit process. In order to assess the relative importance of potential audit areas and to objectively develop an audit work plan, the Auditor General conducted a comprehensive risk assessment of the City's programs and services in 2003. In addition, in 2007 a similar risk assessment was conducted for the majority of the City's Agencies, Boards and Commissions.

The purpose of the risk assessment exercise was to ensure all areas of the City were evaluated from an audit risk perspective by using consistent criteria and to prioritize potential audit projects based on an objective risk analysis. During this process, we identified 120 separate auditable units within the City's operations and 72 audit units at the City's Agencies, Boards and Commissions.

The risk assessments conducted by the Auditor General form the basis for the 2008 Audit Work Plan. High-risk areas identified in the risk assessment were considered along with other information that has since come to our attention. While risk assessments are informally conducted on an ongoing basis, we will be conducting a comprehensive reassessment of risk for City operations in 2008.

An important component in any risk assessment model is the selection of risk factors against which each audit unit is evaluated. The selected factors were compared with those being used by other North American cities, as well as private sector audit organizations. As a result of this process, the following factors were used in the risk evaluation process of each of the 120 identified audit units throughout the City and 72 audit units at the City's Agencies, Boards and Commissions:

- the extent of the revenues, expenditures, assets or liabilities of the entity - the materiality of the operations;
- the degree of liquidity of each entity's assets. For example, the extent of cash being handled or the susceptibility of other assets to misappropriation;
- the adequacy of documented policies and procedures in each unit;
- an initial evaluation as to the quality of the internal controls within each entity;
- results from prior audits;
- the potential for liability against the City;
- an initial evaluation of the human resource competence both in terms of quality and quantity;
- the complexity of the operations of each entity; and
- the visibility of the program as reflected in its public and political sensitivity.

In evaluating audit risk, interviews were conducted with senior staff throughout the Corporation. These interviews focused on each of the above risk factors. Specific interview questionnaires were developed in order to ensure that each risk factor was adequately addressed during the interview and also to ensure that where possible the process was consistent throughout the City. Senior staff in the Auditor General's Office conducted approximately 160 interviews. The results of each interview were documented and shared with senior staff of the Corporation.

In developing the risk assessment model, the above risk factors were not weighted equally as certain of them were viewed to be of more significance than others. Consequently, the process involved the determination of a specific weighting to each of the factors.

Information obtained from each interview was tabulated and each audit unit was assigned a final ranking. This ranking formed the primary basis for the inclusion of projects in the annual audit work plan.

The extent of the audit projects subject to review is dependent on:

- approval of the Auditor General's budget as submitted;
- the extent of fraud or forensic investigations which may be required during the year;
- the extent of work by any internal audit functions;
- the number of special requests approved by City Council; and
- other issues which may emerge during the year.

In determining the number of projects included in the annual work plan, the hours of staff time available are allocated to the estimated time required to conduct each review. Time has also been allocated to potential fraud investigations.

Appendix 2 provides a listing, and brief description of audits in progress and new audit projects anticipated for 2008.

Review of the City's Agencies, Boards and Commissions

The *City of Toronto Act, 2006* excludes the Toronto Police Service, Toronto Public Library Board, and the Toronto Board of Health from the Auditor General's scope. All three of these entities were previously within the scope of the Auditor General's Office. At its meeting of February 5, 6, 7, and 8, 2008, City Council approved the expansion of the Auditor General's mandate to permit undertaking of reviews of operations of these City agencies at the request of their boards and that any resulting recommendations be submitted to the respective board. In addition, Toronto Hydro and the Toronto Community Housing Corporation were not previously included in the Auditor General's mandate. At the same February Council meeting, the Auditor General was designated to be the City's representative under the shareholder directions of Toronto Hydro, Toronto Community Housing Corporation and their subsidiaries.

The Toronto Transit Commission

The Auditor General has met with the Chief Auditor of the Toronto Transit Commission in order to review his 2008 Work Plan and the risk assessment methodology used to develop that plan. The 2008 Work Plan of the Commission was prepared using the same methodology as the risk assessment process developed by the Auditor General. The work plan prepared by the Chief Auditor at the Commission, in our view, provides an appropriate level of audit coverage for 2008. In keeping with past practice, the Chief Auditor of the Commission and the Auditor General will meet on a regular basis throughout the year to review audit reports issued and deal with any emerging issues.

In addition, the Auditor General has also met with the external attest auditors of the Commission. Any issues identified by them during their attest audit will be considered during the audit process of both the Auditor General and or the Chief Auditor of the Commission. These meetings will continue during 2008.

The Auditor General recently completed a review at the Toronto Transit Commission on the way the Commission manages its information technology projects and the resulting report will be issued to the Commission early in 2008.

The Toronto Police Service

The Auditor General has met with the Chief of Police, the Executive Command and the head of the Audit and Quality Assurance Unit at the Toronto Police Service. The purpose of the meeting was to discuss the work plan of the Audit and Quality Assurance Unit during 2008 and to determine whether or not there were any audit issues which needed to be addressed. As a result of these discussions and at the request of the Chief of Police, we have included in our work plan a review of the Fleet function at the Toronto Police Service.

The Auditor General has previously conducted the following reviews at the Toronto Police Service:

- Police Training
- Enterprise Case and Occurrence Processing System (eCOPS) Project Review
- Follow-up Review on the October 1999 Report Entitled “Review of the Investigation of Sexual Assaults – Toronto Police Service”
- Overtime
- Revenue Controls
- The Public Complaints Process
- The Evaluation of the Air Support Unit Pilot Project
- Parking Enforcement Unit

A review of Court Services Operations is currently being conducted.

Other Agencies, Boards and Commissions

While Agencies, Boards and Commissions were excluded from the 2003 risk assessment, the Auditor General has conducted work in certain of these agencies over the past number of years. Ongoing discussions are held with the external attest auditors of each of these entities throughout the year. If emerging issues of concern are identified, depending on other priorities, audit resources will be redeployed to address them.

The Auditor General has previously conducted reviews at:

- Toronto Zoo
- Toronto Library Board
- Toronto Parking Authority
- Toronto Public Health
- Toronto Atmospheric Fund

The comprehensive risk assessment conducted at the City's Agencies, Boards and Commissions in 2007 will be used to select projects at these entities over the next five years.

Annual Responsibilities

The Auditor General's responsibilities in this area include the management, coordination and oversight of the external attest audits of the City, its Agencies, Boards and Commissions, the Boards of Management of Community Centres and Committees of Management for Arenas.

During 2008, the Auditor General will be required to manage a Request for Proposal process for audit services for the years 2008 to 2012 inclusive for smaller City entities such as Community Centres and Arenas. The Auditor General has also been asked to work with the Treasurer to negotiate a two-year extension of the contract with the external auditor for the City and its larger entities. Should these negotiations be unsuccessful, a Request for Proposal will also be issued for these audits.

Reports Requested by City Council

In July 2006, City Council requested the Auditor General to consider performing a review of the issuance of sole source contracts. We have included this review in our 2008 Audit Work Plan. In addition, in June 2007, City Council requested the Auditor General to perform a forensic review of the affordable housing project at 2350 Finch Avenue West. This review was commenced in 2007 and will be completed in early 2008.

Follow-up of Audit Recommendations

Follow-up of audit recommendations is important to ensure that management has taken appropriate action to implement recommendations identified in an audit report. Government Auditing Standards require an audit follow-up process to determine the status of outstanding audit recommendations. The follow-up of recommendations is also a requirement of the City's Audit Framework Policy approved by City Council.

The Auditor General's Office has implemented a formalized follow-up process and has reported to the Audit Committee on the status of all recommendations made at the City and its Agencies, Boards and Commissions since January 1, 1999. We will be updating the status of all outstanding recommendations in mid - 2008.

The follow-up process includes the following:

- (a) Upon submission of the Auditor General's original report and management's response to City Council, the recommendations and expected date of implementation are recorded. Annually, the Auditor General notifies the City Manager or other appropriate management representative (in the case of the Agencies, Boards and Commissions) in writing of all outstanding audit recommendations.
- (b) The responsible official provides a written status report to the City Manager or other appropriate management representative (in the case of the Agencies, Boards and Commissions). The written report on the status of outstanding audit recommendations is then reported to the Auditor General.
- (c) Upon notification that corrective action has been taken to implement the recommendation, the Auditor General takes the necessary steps to verify that corrective action has been taken and provides a status report on all outstanding audit recommendations to the Audit Committee and City Council.

Time is included in the Auditor General's 2008 Audit Work Plan for the necessary verification procedures to ensure adequate follow-up of previously issued recommendations.

Investigations Related to Fraud or Other Wrongdoing

Fraud or other wrongdoing is identified by the Auditor General's Office as a result of ongoing audit work, notification by management, or through the Fraud and Waste Hotline.

The investigation of fraud or other wrongdoing receives high priority. It is difficult to project the extent of investigative work required during 2008, as this depends on the volume of complaints reported to our office and the concerns identified.

The Forensic Unit will conduct a review of City employees' use of sick leave banks immediately prior to retirement.

The Audit of the Auditor General

In order to ensure that the Auditor General is subject to an independent audit process, the Office of the Auditor General is subject to audit in two different ways:

- an external quality control review; and
- an external financial audit.

External Quality Control Review

In conducting our audit work, we are particularly mindful of the need to ensure that all of our work is conducted in accordance with *Government Auditing Standards*. These standards require that audit organizations provide for an external quality control review, known as peer review, at least every three years. This review is conducted by a team of external audit professionals, appointed by an independent association, who assess the adequacy of the Auditor General's internal quality control system and its overall level of compliance with *Government Auditing Standards*. The peer review conducted on the Auditor General's Office in 2006 was the first time that any Canadian municipality has been reviewed using this process.

The external quality assurance review process includes a complete review of the Auditor General's internal quality control policies and procedures. The review considers monitoring procedures, audit reports, documentation, and other necessary documents related to compliance with *Government Auditing Standards*. The review also includes interviews with various levels of the Auditor General's professional staff, City management and members of the Audit Committee. The review team selects a cross section of audit work performed by the Auditor General's Office and provides an opinion on overall compliance with *Government Auditing Standards*.

The review team is comprised of professional local government auditors from other organizations throughout North America and results in a written report. The report from the 2006 review, and the Auditor General's written response, are available at:

http://www.toronto.ca/audit/reports2006_sub4.htm

These reviews are conducted at no cost to the City other than out-of-pocket expenses. There is an expectation, however, that the City will reciprocate and provide one or more staff to participate in teams to conduct external quality control reviews at other North American cities. The audit work plan provides for this work.

In accordance with *Government Auditing Standards* the next review will be performed in 2009.

External Audit

Conducting an external audit of the Auditor General's Office, became a requirement with the adoption of the new audit framework for the City in November 2002. The objective of this annual audit is to provide Audit Committee and Council assurance that the Auditor General's Office is carrying out its operations in compliance with City policies and procedures. The City Manager is responsible for engaging the auditor and providing the resulting report to Audit Committee.

**AUDITOR GENERAL'S OFFICE
2008 AUDIT WORK PLAN**

AUDIT PROJECTS IN PROGRESS AND NEW AUDIT PROJECTS

1. PROJECTS IN PROGRESS

| Audit Project | Project Description |
|--|--|
| Payroll Processing Review – Phase Two – Review of the Administration of Employee Benefits | The objective of this review is to assess whether adequate systems and procedures exist to manage employee benefit plans economically and in accordance with the terms of their respective plans. Additionally, our audit will evaluate whether the contract with the benefit administrator is properly managed and contractual obligations are fulfilled. |
| Management of Information Technology Projects – Toronto Transit Commission | The objective of this review is to evaluate Toronto Transit Commission (TTC) practices and procedures related to the development and implementation of information technology projects in order to identify opportunities for improvement. The TTC Information Technology Services Department is responsible for development and implementation of information systems and related technology services to support TTC programs and operations. |
| Review of the Implementation of Recommendations of the Final Report of the Task Force on Community Access and Equity | <p>In January 1998, City Council approved the establishment of a Task Force on Community Access and Equity to identify the necessary policies, structural functions, program priorities and evaluation processes for implementing access and equity in the City of Toronto. In December 1999, City Council adopted, as amended, the Final Report of the Task Force on Community Access and Equity containing 97 recommendations.</p> <p>This review will assess the City's success in achieving access and equity in keeping with the principles and philosophy of the recommendations provided by the Task Force.</p> |

| Audit Project | Project Description |
|---|---|
| Toronto Police Service – Review of Court Services | <p>The Toronto Police Chief and the Police Services Board requested the Auditor General to conduct a review of the management and administration of staff resources in the Court Services Unit. The Toronto Police Services Board approved the Chief's request at its January 25, 2007 meeting.</p> <p>The objectives of this review are to assess and determine the extent to which financial resources are deployed cost effectively in meeting the legislated responsibilities of the Court Services Unit.</p> |
| Municipal Licensing and Standards - Integrated Business Management System | <p>The Integrated Business Management System (IBMS) is a workflow management tool used to track major projects and provide project summaries to various managers throughout the City. This system is also an important source of official reports to Statistics Canada and City Council and used by over 1,100 staff in many city divisions including Planning, Buildings and Municipal Standards.</p> <p>The objective of this review is to assess the efficiency and effectiveness of procedures and controls to ensure the confidentiality, availability and integrity of information maintained in the IBMS system.</p> |
| Toronto Water - Compliance with Sewer Use By-law | <p>This project is to determine if the Division's enforcement activities, including mandatory pollution prevention planning, are effective in meeting the requirements of the City's Sewer Use By-law.</p> |
| Information Technology Disaster Recovery Plan | <p>The objective of this review is to determine the status of the City's Information Technology Disaster Recovery Plan. Our review will include an assessment of the overall strategy and approach taken to develop the plan as well as plan accountability, and completeness. We will also assess whether the effectiveness of the plan is tested on a regular basis.</p> |
| Capital Program, Parks, Forestry and Recreation | <p>This review includes an assessment of how well the Division manages its capital program with due regard to economy, efficiency and effectiveness.</p> |

| Audit Project | Project Description |
|---|--|
| Social Services - Overpayments Phase II - Active Clients | This review is examining how overpayments for clients currently in receipt of social assistance can be prevented. |
| Review of Major City Revenue Streams | The objective of this review is to ensure that adequate controls exist in billing for goods and services provided by the City, collecting revenues, and ensuring that billings and collections are recorded and accounted for in a timely manner. |
| Forensic Review of the Affordable Housing Project at 2350 Finch Avenue West | In June 2007 City Council requested the Auditor General to perform this review. The review will investigate the reasons for the significant increase in the cost of the project. |
| City Employees Use of Sick Leave Banks | <p>This review is based on various issues identified during 2007 and, in particular, calls to the Fraud and Waste Hotline.</p> <p>The objectives of this review are to:</p> <ol style="list-style-type: none"> 1) Assess and identify the risk and extent of potential misuse of sick leave taken by employees to intentionally draw down the portion of their accumulated sick bank not eligible for the sick pay credit grant on retirement; and 2) To inform the City Manager of any issues which may require further review and action to prevent misuse of sick banks by employees prior to retirement. |

2. NEW AUDIT PROJECTS

| Audit Project | Project Description |
|---|--|
| Toronto Police Service – Fleet Operations | To review the deployment, usage and maintenance of vehicles in the Police fleet. |
| Use and Control of Sole Source Contracts | To review the issuance of sole source contracts and the checks and balances in place. |
| City Hiring Processes | To review the efficiency and effectiveness of processes used to fill vacant employment positions at the City. |
| Insurance and Risk Management | This review is to determine that major city risks are adequately insured and that the insurance and risk management processes are operating efficiently and effectively. |
| IT Training | To review if the right training is being provided to the right people at the right time and place and at the right cost. |
| Accounts Receivable | To review the City's billing and collection processes. |
| Surplus Real Estate Assets | To determine if the identification and disposal of surplus properties is effective. |
| Follow-up of Review of the Investigation of Sexual Assaults | To determine the status of recommendations made in the Auditor General's 1999 report entitled, "Review of the Investigation of Sexual Assaults – Toronto Police Service" and additional recommendations made in the Auditor General's 2004 report entitled, "Follow-up Review on the October 1999 Report Entitled, 'Review of the Investigation of Sexual Assaults – Toronto Police Service'". |
| Payment of Utility Charges | To ensure controls exist to validate payments for utilities and evaluate controls in place to prevent inaccurate payments at both the City and its major Boards and Commissions. |
| Mobile and Remote Wireless Environment | To review the City's wireless strategy, related infrastructure and security standards |
| Toronto Parking Authority | To assess the efficiency and effectiveness of controls over revenues, expenditures and procurement practices. |
| Recommendations Follow-up | This project is for our annual review of the implementation status of recommendations issued to the City and its Agencies, Boards and Commissions by the Auditor General's Office. |

| Audit Project | Project Description |
|---------------------------|--|
| City Wide Risk Assessment | This significant exercise, done in detail every five years, is a quantitative approach to prioritize potential audits, which pose the greatest risk and liability to the City. Performing this assessment increases our ability to allocate scarce audit resources more effectively. |
| Peer Review Participation | One staff member will participate for one week in the review of the audit process at a North American city. Other than staff time, this is at no cost to the City. |