



STAFF REPORT ACTION REQUIRED

EMPLOYEE BENEFITS REVIEW

Date:	October 16, 2007
To:	Audit Committee
From:	Jeff Griffiths, Auditor General
Wards:	All
Reference Number:	

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.

RECOMMENDATIONS

The Auditor General 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.

DECISION HISTORY

This report provides the results of the Auditor General's review of the City's employee benefit plans. This review was conducted as part of the Auditor General's Annual Work Plan.

ISSUE BACKGROUND

This review was selected based on the complexity involved in the administration of benefits, risks related to the inadequacy of internal controls and the extent of expenditures.

COMMENTS

The attached report, included as Appendix 1, contains three recommendations. Management's response to each of the recommendations contained in this report is attached as Appendix 2.

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SIGNATURE

Jeffrey Griffiths, Auditor General

ATTACHMENTS

Appendix 1: Employee Benefits Review

Appendix 2: Management's Response to the Auditor General's Employee Benefits Review