



# AUDITOR GENERAL'S REPORT ACTION REQUIRED

## Amendments to the 2013 Audit Work Plan

<b>Date:</b>	September 17, 2013
<b>To:</b>	Audit Committee
<b>From:</b>	Auditor General
<b>Wards:</b>	All
<b>Reference Number:</b>	

### SUMMARY

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The purpose of this report is to advise Audit Committee of amendments to the Auditor General's 2013 Audit Work Plan.

### RECOMMENDATION

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**The Auditor General recommends that:**

1. City Council receive the Auditor General's Amendments to the 2013 Audit Work Plan.

### Financial Impact

The recommendation in this report has no financial impact.

### DECISION HISTORY

The Auditor General submitted his 2013 audit work plan to Audit Committee on October 25, 2012. The report is accessible on the City's Web site at:

<http://www.toronto.ca/legdocs/mmis/2012/au/bgrd/backgroundfile-50926.pdf>

### COMMENTS

The audit work plan is intended to be flexible and subject to amendments based on emerging issues or new developments. In this context, this report is to advise Audit Committee of the deferral, cancellation and addition of the following projects.

## 1. Project Deferrals

### 1.1 Long Term Disability Benefits

A review of Long Term Disability benefits was included in the Auditor General's 2013 Annual Work Plan due to the magnitude of the liability created by the related obligations combined with complaints received through the Fraud and Waste Hotline.

The City's Pension Payroll and Employee Benefits Division is responsible for the oversight of benefit plans including the Long Term Disability program (LTD). Manulife Financial is the City's benefit administrator for claim processing. The City is self-insured which means that the City is responsible for paying the amounts of the benefit claims plus the Manulife Financial administration fee for adjudication of the LTD claims.

As of June 30, 2013, the Division reported a total of 1,249 active LTD claims. Of that total 607 claims are 'permanent' status which means the employee will continue to be eligible to receive LTD benefits to age 65.

Over the past few years there has been an increase in the number of LTD benefit claims. As a result the cost of the program has also gone up. The table below summarizes this information:

Year	No. of Claims	No. of Permanent Claims	Total Paid
2012	1217	619	\$36 million
2011	1129	587	\$31 million
2010	1021	566	\$28 million

The complaints investigated by the Fraud and Waste Hotline identified areas of concern that were discussed with the Division. The Pension, Payroll and Employee Benefits Division together with Manulife Financial are actively working on ways to improve the management of the LTD process. According to Division staff, these initiatives are expected to be implemented during 2014. Given that these initiatives are likely to result in changes to current procedures, we are deferring the audit to allow time for these changes to take effect. We will re-assess the timing of the LTD benefits review in 2014 for inclusion in a future year's work plan.

### 1.2 Operational Review of Fleet Services

The Auditor General's Office has released a Hotline Investigation Report titled, "Fleet Services Division – Review of Various Equipment Maintenance Practices". This review was conducted in response to complaints received through the City's Fraud and Waste Hotline program.

At the time the 2013 Audit Work Plan was being developed, the hotline investigation was in its early stages and the outcome was unknown. In any event, as a result of the significance of Fleet Operations, a project was included on the Work Plan. With the

completion of the hotline investigation and management's responses to the report's recommendations, we have determined that it would not be beneficial to perform the originally planned operational review at this time. Rather, the Auditor General's Office will monitor management's progress in implementing the recommendations made in the Hotline Investigation Report and include the Fleet Services operational review in a future Work Plan.

## **2. Project Cancellation - Outsourced Professional Legal Services**

The Auditor General's 2013 work plan included a review of outsourced professional legal services. The review intended to include an analysis and evaluation of expenditures pertaining to external legal services.

At the June 7, 2010 Audit Committee meeting, the Auditor General presented an audit report entitled "Insurance and Risk Management Review". The scope of the 2010 review included a comprehensive review of external legal services provided for insurance claims litigation. The report is available at:

<http://www.toronto.ca/legdocs/mmis/2010/au/bgrd/backgroundfile-30571.pdf>

Based on the audit planning work conducted to date, we have determined that the total cost of external legal services provided to the City, excluding those expenditures related to insurance claims litigation, represents only \$1.6 million in 2012 (10.6 per cent of total cost of outsourced professional legal services). Given the relatively low dollar value of these expenditures we have determined that it would not be productive to perform this review, therefore the Auditor General is removing the audit from the 2013 Audit Work Plan.

## **3. Project Additions**

The project amendments noted above have left room in our 2013 schedule to undertake additional projects. The projects selected are listed below.

### **3.1 Review of the Redevelopment of the Sony Centre**

At its meeting of November 19, 2012, the City's Executive Committee recommended that "*City Council request the Auditor General to consider undertaking a complete audit of the Sony Centre for the Performing Arts during the years 2006-2011 inclusive of business plans.*" City Council adopted this recommendation on November 27, 2012.

The Auditor General's annual audit work plan for 2013 was submitted to Audit Committee on October 25, 2012 prior to this request and consequently did not include the requested audit. However, because of the significant funds involved from both a financing and expenditure perspective, the Auditor General determined that the 2013 audit work plan would be revised to include an audit of the Sony Centre redevelopment project.

The objective of this review is to assess the management of relevant contracts for the redevelopment and the effectiveness of the redevelopment in achieving the objectives set out in the Sony Centre's Business Plan.

### **3.2 Review of Training, Conferences and Seminars**

The objective of this review is to assess the adequacy and effectiveness of the approval and payment process relating to staff attendance at training, conferences and seminars.

### **3.3 Review of Local Road Resurfacing Measurement Practices**

Transportation Services Division is responsible for managing local road resurfacing contracts. The Auditor General's Office recently completed an audit of Transportation Services local road resurfacing contracts. That report identified issues in the areas of progress payments, quality assurance and project documentation. It was determined that supplementary audit work on road measurement practices was warranted.

The objective of this audit is to determine whether inspectors' road measurements, used to calculate amounts payable to contractors, are accurate and if there is proper documentation to support all measurements.

## **CONTACT**

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## **SIGNATURE**

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Jeff Griffiths, Auditor General

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