

# TORONTO STAFF REPORT

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November 5, 2004

To: Audit Committee

From: Auditor General

Subject: Annual Report and 2005 Budget – Auditor General’s Office

Purpose:

To provide the Audit Committee with information relating to the annual report and the 2005 budget for the Auditor General's Office.

Financial Implications and Impact Statement:

The 2005 budget request for the Auditor General’s Office is \$3,412,460, which is \$183,691 in excess of its adjusted base budget of \$3,222,223. The proposed budget and base budget both contain audit fees in the amount of \$327,300 relating to the external financial audit.

The adjusted base budget was the amount recommended by the Finance Department.

Recommendations :

It is recommended that the attached Annual Report and 2005 Budget for the Auditor General’s Office be approved and forwarded to the Budget Advisory Committee.

Background :

In May 2002, City Council approved an independent Auditor General’s Office for the City of Toronto. The Auditor General’s Office reports directly to Council through the Audit Committee, and as such is independent from management. As an independent office, the Auditor General submits an annual audit work plan to the Audit Committee for review and an annual budget for review and approval.

Consequently, this budget has been forwarded directly to the Audit Committee without a detailed review by the City’s Budget Division. This process was approved by City Council in 2001.

Detailed information relating to the 2005 budget is contained in the attached document, entitled "Annual Report and 2005 Budget – Auditor General's Office."

Comments:

The Auditor General's Office 2005 budget request is \$3,412,460, is in excess of its base budget of \$3,222,223 by \$183,691.

The major component of the 2005 budget is salaries and benefits, which represent almost 93 per cent of its budget.

A business case supporting this request is contained in the attached document.

Benefits of the Audit Process to the City of Toronto

Reviews, investigations and audits conducted by the Auditor General's Office have benefited the City of Toronto in a variety of ways.

Audit recommendations identify ways to:

- Maximize City revenues or identify opportunities for new revenues or cost savings;
- Manage or utilize City resources, including public funds, personnel, property, equipment and space in an economical and efficient manner; and
- Identify causes of inefficiencies or uneconomical practices, including inadequacies in management information systems, internal and administrative procedures, organizational structure, use of resources, allocation of personnel, purchasing policies and equipment.

Audits help auditees to:

- safeguard assets;
- check the accuracy and reliability of accounting data;
- detect unauthorized transactions and unauthorized access to assets that could result in unauthorized acquisitions, use, or disposition of assets;
- ensure compliance with laws, regulations, policies, procedures, or generally accepted industry standards; and
- achieve the desired program results.

While certain reports have resulted in tangible cost savings, the more important benefits provided relate to the avoidance of future costs, as well as the protection of City assets. Nevertheless, tangible annual cost savings have occurred, or will occur, as a result of the work conducted by

the Auditor General. The Auditor General's summary of accomplishments, together with details of these savings are included in the attached document and are in the range of \$8.5 million. The vast majority of this amount is annual ongoing savings.

Conclusions:

Detailed information relating to the 2005 budget is available in the Auditor General's Office budget submission attached to this report (Appendix 1).

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Auditor General

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Attachment: Appendix 1: 2005 Operating Plan and Budget – Auditor General's Office

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# **Auditor General's Office**

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## **Annual Report and 2005 Budget**

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**October 29, 2004**

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**Auditor General's Office**

**Annual Report and 2005 Budget**

**Jeffrey Griffiths, C.A., C.F.E.  
Auditor General**

**9th Floor, Metro Hall  
Toronto Ontario Canada M5V 2C6**

**October 29, 2004**

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**THE AUDIT FRAMEWORK AT THE CITY OF TORONTO**

In May 2002, City Council approved an independent Auditor General's Office for the City of Toronto in conjunction with the implementation of a new audit framework.

The new audit framework established three levels of independent audit services for the City of Toronto. The Auditor General's Office was created in order to report directly to and provide assurance strictly for City Council. A separate Internal Audit Division was established to report to the Chief Administrative Officer and provide assurance for the City's Executive Management Team. Also, an External Auditor is appointed by City Council to perform the annual statutory attest audit of the City's financial statements and provide an opinion on the fairness of the information presented in these financial statements.

**The Auditor General's Office**

City of Toronto By-law No. 1076-2002 enacted November 28, 2002, and set out in Chapter 169 of the Municipal Code, established the Auditor General's Office duties and responsibilities.

**The Internal Audit Division – Chief Administrator's Office**

The Internal Audit Division reports to the Chief Administrative Officer and is responsible for providing internal audit services and support to senior management in the City. The internal audit function provides impartial and objective assurance, consulting services designed to improve the administration of municipal operations, and promote compliance with policies and regulations.

**External Annual Attest Audit – Ernst & Young**

Ernst & Young, an external public accounting firm, performs the annual statutory attest audit of the City's financial statements, under a new five-year contract that was approved by City Council in 2003.



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## **THE AUDITOR GENERAL' S OFFICE**

### **Mission Statement**

The Mission Statement of the Auditor General's Office is:

**To assist Council in fulfilling its responsibilities by conducting independent risk-based assessments of City operations and to report to Council on how well the City manages its resources and delivers services as well as to make recommendations to enhance the accountability of Council and its administration.**

The audit process is an independent, objective assurance activity designed to add value and improve an organization's operations. The audit process assists an organization in accomplishing this objective by bringing a systematic, disciplined approach in evaluating and improving the effectiveness of risk management, control and governance processes.

In carrying out its audit activities, the Auditor General's Office is independent of management, and has the authority to conduct financial, operational, compliance, information systems, forensic and other special reviews of all City Departments, Agencies, Boards and Commissions.

### **Independence of the Auditor General**

The Auditor General is appointed by City Council and is independent of the City Administration. The Auditor General is responsible for assisting City Council in holding itself and its administrators accountable for the quality of stewardship over public funds and for the achievement of value for money in City operations. The Auditor General is independent of City administration with no responsibility for assurance services to management and reports directly to Council through the Audit Committee.

### **Responsibilities of the Auditor General**

The Auditor General has full responsibility for the conduct of the Auditor General's Office and is responsible for carrying out financial (excluding attest), compliance and performance audits of all programs, activities and functions of all City Departments, Agencies, Boards and Commissions.

Responsibilities of the Auditor General include:

- the conduct of forensic investigations including suspected fraudulent activities;
- providing assurance that the information technology infrastructure contains adequate controls and security including business continuity (emergency) planning;

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- conducting special assignments identified by the Auditor General, or approved by a two-thirds majority resolution of Council;
- overseeing the work and the contract of the external auditors performing financial statement/attest audits;
- coordinating audit activities with internal auditors and any contracted work to ensure the efficient and effective use of audit resources; and
- managing the Fraud and Waste Hotline Program, including the referral of issues to departmental management and the Internal Audit Division.

**Professional Audit Standards**

The Auditor General's Office conducts its work in accordance with generally accepted Government Auditing Standards. Audits are conducted in accordance with these standards, which relate to independence, objectivity, professional proficiency, scope and performance of work, and departmental management. Staff are also bound by the standards and ethics of their respective professional organizations, which include the Institute of Chartered Accountants of Ontario, the Certified General Accountants Association, the Society of Management Accountants, the Information Systems Audit and Control Association, the Institute of Certified Fraud Examiners and the Canadian Environmental Auditing Association.

All non-administrative members of the Auditor General's Office have at least one professional designation. In the past twelve months, certain staff have obtained a Certified Internal Auditors designation. Certain other staff are working towards a Certified Fraud Examiner designation.

**Access to Records by the Auditor General**

The Auditor General has complete and full access to any records within the City, including its Agencies, Boards and Commissions, as well as other entities the City is related to or has interest in. Staff of those organizations within the Auditor General's scope have a duty to co-operate with the Auditor General and to not obstruct audit activities.

**Annual Audit Work Plan and Budget**

The Auditor General submits an audit work plan each year to Council through the Audit Committee, and as such, no deletions or amendments to the Audit Work Plan can be made, except by the Auditor General. Council may only add to the Audit Work Plan pursuant to a two-thirds majority vote.

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**2005 Audit Work Plan**

The 2005 Audit Work Plan for the Auditor General's Office recognizes the fact that audit resources of personnel and dollars do not allow for 100 per cent audit coverage each year. This limiting factor is inherent in the concept of utilizing risk assessment to help prioritize audits. The 2005 Audit Work Plan also considers the planned work to be performed by the internal audit function reporting directly to the Chief Administrative Officer the work to be conducted by the respective audit groups at both the Toronto Police Service and the Toronto Transit Commission.

The 2005 Audit Work Plan for the Auditor General's Office is based on the results of the Corporate-wide risk assessment and priority setting exercise conducted in 2003. The assessment directs the use of audit resources to the Auditor General's focus on value for money reviews in those areas which potentially pose the greatest risk or provide the greatest value/return to the City.

This assessment included several risk factors such as the magnitude of gross expenditures and revenues; political and public sensitivity; legislative requirements; complexity of the operation; and system of internal controls. The 2005 Audit Work Plan for the Auditor General's Office has been developed with an awareness that there are inherent risks and limitations associated with any method or system of prioritizing audits. The risk factors and scoring process will be periodically evaluated and modified, if necessary, in order to improve the 2005 Audit Work Plan.

Although the primary objective is to complete the activities in accordance with the 2005 Audit Work Plan, the Auditor General also recognizes the need to shift resources and priorities in response to changing needs, issues and risks within the City. The goal of the Auditor General's Office is to provide maximum value to the City.

The Auditor General's budget is submitted to the Audit Committee for review and approval and is subsequently forwarded to the Budget Advisory Committee. The Auditor General's budget is not subject to review by Senior Management.

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## **AUDITOR GENERAL'S OFFICE**

### **2004 AUDIT REPORTS**

Projects completed by the Auditor General's Office in 2004 covered a diverse range of issues and operations across the City and in some cases, went beyond traditional audit assignments. Reports issued by the Auditor General's Office are included on the following Web site: [www.toronto.ca/audit/reports.htm](http://www.toronto.ca/audit/reports.htm)

#### **Major Reports Completed and Issued**

- Economic Development, Culture and Tourism Department – Review of Receivables Relating to Parks and Recreation Operations and the Review of Revenue and Cash Controls Relating to the Parks and Recreation Division, North and South Districts
- Cash Controls Follow-up Review – Toronto Zoo
- CLASS Recreation Registration and Permitting System Information Technology Review – Economic Development, Culture and Tourism Department
- CLASS Recreation Registration and Permitting System Information Technology Licence Costs Review – Economic Development, Culture and Tourism Department (In Camera)
- Consulting Contract Review – Network Architecture Group Inc. and EDS Canada Inc.
- Forensic Review – Telephone System Selection for the City of Toronto
- Fleet Operations (Phase One)
- Fleet Operations (Phase One) Additional Information
- Hostel Services Review – Community and Neighbourhood Services
- Implementation Review of the Recommendations of the Final Report of the Task Force on Community Access and Equity
- Payroll Processing Review (Phase One)
- Supplementary Report to the Auditor General's "Annual Report on the Status of Fraud and Related Matters, Including the Operation of the Fraud and Waste Hotline Program" (September 3, 2003)

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- Second Supplementary Report to the Auditor General's "Annual Report on the Status of Fraud and Related Matters, Including the Operation of the Fraud and Waste Hotline Program" (September 2, 2003)
- 
- Auditor General's Response – SAP Financial and Human Resources/Payroll Information System, Post Implementation Review – Status of Recommendations
- Toronto Maintenance Management System Application Review
- Oracle Database Review – Security Controls and Other Issues
- SAP Financial and Human Resources/Payroll Information System – Migration to the City's Agencies, Boards and Commissions

**Major Reports Completed and Not Yet Issued**

- City-wide Telecommunications Services – Corporate Services
- Fleet Operations (Phase Two) – Corporate Services
- Fleet Rental and Lease Vehicles Review – Corporate Services
- Investigation of Sexual Assaults Follow-up Review – Toronto Police Service
- Municipal Licensing and Standards (Phase One) – Urban Development
- Operational Support Review – Emergency Medical Services
- Cash and Investment Management – Treasury Services

**Major Projects in Progress**

- eCOPS – Enterprise Case and Occurrence Processing System – Toronto Police Service
- Environmental Liabilities Review
- Management of Employee Benefits (Phase Two) – Pension, Payroll, Employee Benefits
- Management of the City's Accounts Receivable – Revenue Services
- Quality Control and Assurance Overpayments – Social Services
- Transfer, Processing and Disposal Operations – Solid Waste Management
- Management of the City's Information Technology Assets

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In conducting each one of its reviews, the Auditor General's Office is cognisant of the potential applicability of audit recommendations to other Departments, Agencies and Commissions. In this context, recommendations are made to ensure that issues identified are addressed at other Departments, Agencies, Boards and Commissions. This is a method whereby work conducted by the Auditor General's Office is leveraged elsewhere throughout the City.

**Additional Accomplishments and Responsibilities**

- operated and administered the City's Fraud and Waste Hotline Program;
- conducted a number of fraud and special investigations which led to the laying of criminal charges and the restitution of funds to the City;
- provided advice and assistance to departments in relation to potential fraud related issues identified by them;
- increased the awareness of the Fraud and Waste Hotline by making presentations to the Senior Executive Staff group at the City;
- made presentations to the Association of Certified Fraud Examiners on establishing and operating a Fraud and Waste Hotline Program;
- made a presentation at the Telestrategies Conference on the topic "Enhancing Revenue Assurance Using Data Analysis Tools";
- made presentations to the Municipal Internal Audit Association relating to the implementation of a Corporate-wide Risk Assessment Program, as well as a presentation relating to the Fleet Operations review;
- during 2004, the Auditor General's Office acquired ACL, a data extraction and analysis software program. The initial cost of the software at \$12,500 was offset by \$2,500 through its shared use with the Internal Audit Division. As an audit support tool, ACL has been used in a number of projects to extract and analyze large amounts of data in accordance with predefined audit criteria. During 2004, ACL was utilized to identify \$93,000 in one-time savings and approximately \$300,000 in potential ongoing annual savings;
- provided advice and guidance to representatives from other municipalities, including the recently appointed Auditor General of Ottawa on the operation of the Auditor General's Office and audit related issues;
- provided extracts from audit reports for publication in the quarterly publication of the National Association of Local Government Auditors. Provided specific articles for the same publication; and
- made presentations to various foreign delegations on the Auditor General's Office and the audit process.

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### **Administration of the Fraud and Waste Hotline**

There has been a legislated impetus in the United States and in Canada to enhance corporate accountability standards (which includes the Sarbanes-Oxley corporate reform law and various rules proposed and adopted by the Securities and Exchange Commission, applicable to public companies). This legislated impetus, along with initiatives by international internal audit organizations, media coverage and professional literature, require private and government organizations to focus on enhancing corporate governance practices and seem to have all contributed to the use of a hotline (or other anonymous reporting mechanism) becoming a best practice.

Establishment of an anonymous hotline in an organization to report inappropriate or unethical conduct is one initiative that may enhance control and accountability bringing an organization one step closer to minimizing the risk of irregular conduct involving corporate resources.

The operation of the Fraud and Waste Hotline is a major initiative of the Auditor General's Office. The Department has developed a proprietary database management application for the administration of the Fraud and Waste Hotline. This application electronically tracks all complaint data, which are submitted anonymously. The database tracks all complaints to facilitate decision making and investigations for a variety of periods and requirements. Based on the success of this database and the considerable interest expressed by other municipalities and organizations, the Auditor General's Office has developed a Request for an Expression of Interest to explore further development and marketing opportunities. The results of this process will be reported to Audit Committee.

In its 2002 Report to the Nation, the Association of Certified Fraud Examiners (ACFE) reported that "Organizations with fraud hotlines cut their losses by 50% per scheme", a figure which supports hotlines as an efficient detection tool.

The Auditor General will be reporting out on the 2004 activities of the Fraud and Waste Hotline in January 2005.

### **Coordination of Audit Work**

In developing its annual Audit Work Plan and conducting its audit work, the Auditor General's Office routinely meets with the External Auditors, the Internal Audit Division, the Toronto Transit Internal Audit Unit and Professional Standards Risk Management Quality Assurance Unit. These meetings are held to discuss audit concerns and plans, results of audit work conducted by each organization, and also to ensure that audit work is not duplicated. Any major issue identified by any of the audit functions is considered during the preparation of the Auditor General's Annual Work Plan.

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**Professional Associations**

The National Association of Local Government Auditors (NALGA) is a U.S. based professional organization, formed to improve local government auditing and has more than 500 organizational members representing a wide range of audit organizations in local government auditing. The Auditor General has been an active member of NALGA's Board of Directors over the last several years, and has served as President of NALGA for 2003-2004, the first and only time a Canadian has served in this capacity. The Auditor General continues to serve on the Board of Directors as Past President and is the sole Canadian Board Member. The Auditor General's Office in fact has the unique distinction of having two of its members serve as President of NALGA. In 2004, the Auditor General's Office was very fortunate in attracting to the City of Toronto the City Auditor of a mid-sized U.S. city to fill one of its vacant Director positions. This Director had been President of NALGA in 2000-2001.

In addition, senior staff of the Auditor General's Office act in the capacity as President of the Canadian Association of Local Government Auditors (The Canadian equivalent of NALGA) and as the Chairperson and Secretary of the Municipal Internal Auditors Association of Ontario. A staff member of the Auditor General's Office was also appointed as Chairman of the Information and Technology Management Committee of the Canadian Information Processing Society – Toronto Chapter, Canada's largest association of information technology professionals.

Senior staff represent the City on the Institute of Internal Auditor International Government Relations Committee and also participates in the Institute of Internal Auditors (IIA) Instructor Development Program. This program uses the volunteer services of members as training facilitators to lead IIA developed course material in exchange for credits to offset tuition to future seminars.

The Auditor General also maintains regular contact with the forensic arms of the major accounting firms in order to ensure that he is aware of emerging trends and issues in the forensic audit investigative field.

**External Quality Assurance Review – Peer Review**

A common and justifiable refrain relating to the issue of Peer Reviews is “who audits the auditor”. Government Auditing Standards require that audit organizations provide for an external quality control review at least every three years. This review, also known as Peer Review, consists of a team of external audit professionals who assess the adequacy of the Auditor General's Office internal quality control system and its overall level of compliance with Government Auditing Standards.



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This review is completely voluntary and, in fact, many audit organizations do not participate in the Program. The Auditor General's Office expects to have its review conducted in January 2006 and is currently in the process of evaluating internal control systems to ensure compliance with Government Auditing Standards. The Auditor General will schedule and arrange for the review and communicate the results to the Audit Committee and City Council.

**Other Services Provided by the Auditor General's Office**

During the year, the Auditor General has met with the newly appointed Integrity Commissioner Mr. David J. Mullan. The purpose of the meeting was to review mutual roles and to develop an informal protocol in relation to issues and respective responsibilities. Both parties are committed to working together to address issues of concern and when appropriate will arrange to meet throughout the year.

The Auditor General has also met with the Honourable Patrick J. LeSage, Q.C. the former Chief Justice of the Superior Court of Ontario to review, discuss and provide advice in relation to the Auditor General's report entitled "Performance Audit, The Public Complaints Process, Toronto Police Service". The Honourable Patrick J. LeSage has been appointed by the Attorney General to review the Police Complaints System and recommend changes.

The Auditor General's report entitled "Procurement Process Review" featured prominently during the Good Governance Phase of the Public Inquiry relating to the Toronto Computer Leasing Inquiry. The Research Paper commissioned by Commission Counsel to review the procurement process at the City made reference to the Audit Report as being " a useful catalyst and focus for their review."

**The Auditor General's Web Site**

The Auditor General's Office Web site, [www.toronto.ca/depts/audit.htm](http://www.toronto.ca/depts/audit.htm), continues to provide a wide range of information on the Auditor General's organizational structure, mission statement and reports completed. This Web site has increased the profile of both the City and the Auditor General's Office, and further promoted the sharing of information with other audit departments throughout North America. The Web site also contains information on the Fraud and Waste Hotline. In an independent evaluation of Web sites conducted in 2002 throughout North America, the Toronto Auditor General's Office Web site was ranked third among all local government audit departments.

During 2004, approximately 6,000 "hits" have been made to the report section of the Auditor General's Web site.

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**Visiting Delegations**

The Auditor General's Office has hosted a number of visiting delegations from Canada and around the world, requesting to meet with our staff to obtain insight, information and experiences on audit related matters. Presentations to these delegations have been made by a wide range of staff from the Auditor General's Office.

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## **THE AUDITOR GENERAL'S OFFICE**

### **Potential Economic Impact**

During 2004, the Auditor General's Office generated approximately 150 recommendations in various audit reports and other communications to Commissioners. Certain of these recommendations have resulted in improved internal controls, and enhanced protection of the City's assets. The potential economic impact of these specific recommendations is not quantifiable.

Other recommendations have resulted in the potential for increased revenue and also for the reduction of costs. In many of these cases, it is difficult to quantify savings to the City particularly those relating to fraud investigations. For instance, while certain investigations have identified quantifiable losses the extent of the future losses would have been much more significant if such frauds had remained undetected for a significant period of time.

In other situations, certain recommendations have benefits to the City but only in specific circumstances. For instance, the extended reliance on external consultants by the City could have had significant repercussions if these consultants were suddenly not available. The recommendation that the City reduce its reliance on such consultants, while extremely significant and important nevertheless at the present time, has no quantifiable monetary benefit to the City.

Where it is possible, the Auditor General's Office has estimated the following potential economic impact to the City generated by the Auditor General's Office.

### **Savings from Fraud and Fraud Related Investigations**

Estimated savings and recoveries as a result of fraud and fraud related investigations are in the range of \$500,000. Savings have been as a result of identifying excessive overtime, excessive consulting expenses, inappropriate disbursements and grants, etc. As part of our coordination of audit work with the City's external auditors Ernst & Young, we have reviewed our findings with them as well as the forensic audit unit of Ernst & Young. Ernst & Young has advised us that their estimate of the amount of savings would be significantly greater than the \$500,000 identified. For instance, in the case of excessive overtime Ernst & Young take the view that if the excessive overtime had not been identified the extent of the loss to the City would have continued for a significant period.

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**Other Quantifiable and Non Quantifiable Savings**

Many of the savings identified are annual recurring amounts and over a period of time have accumulated significantly. The savings identified below are for the most part annual savings. Specific background information to each of the following is contained in the relevant appropriate reports to Audit Committee and to City Council.

- Potential increase in Provincial subsidies relating to Hostel operations in the range of \$750,000.
- Reduction of maintenance and licensing costs relating to excess software licenses and other recoveries of approximately \$545,000. The recommendations resulting from this review will likely have significant savings in regard to future information technology contracts.
- Increased revenue of approximately \$750,000 relating to changes to the Courtesy Parking Ticket program at the Toronto Parking Authority.
- Potential increases in parking tag revenues relating to improved collection procedures, the need to focus on preventing "drive aways" and the requirement for reciprocal collection agreements for out-of-province parking offenders. The Chief Financial Officer and Treasurer estimated the potential increase in revenue to be somewhere in the range of \$1 million.
- Increased revenues from the introduction of hand held parking ticketing equipment is estimated by independent staff to be in the range of \$300,000.
- The savings resulting from the audit report entitled "Review of the Selection and Hiring of Professional and Consulting Services" have been significant. On a conservative basis, it is likely that savings, which have accrued as a result of the report, are somewhere in the range of \$500,000 on an annual basis. It is extremely difficult to quantify such savings and the estimate of \$500,000 is very much a best estimate.
- The Auditor General conducted a review of payroll overtime at the Toronto Police Service in early 2000. Overtime decreased in 2000 by approximately \$4.7 million when compared to 1999. Recognizing the fact that improved management of overtime occurred the impact of the audit report was significant.
- In regard to one particular contract compliance audit, it was determined that the City was paying for advertising space, which should have been receiving for no charge. The savings related to this have not been quantified.
- Savings resulting from improved controls relating to the dispensing of fuel, potential rationalization of fuel sites, etc.

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- Improved controls relating to the supervisory approval of overtime, reviews relating to various grant programs.

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**THE AUDITOR GENERAL'S OFFICE**

**2005 OBJECTIVES**

The Auditor General, in addition to the development of a risk-based 2005 Audit Work Plan, has developed the following objectives for 2005:

1. Ensure that adequate organizational supports and quality assurance measures are in place for a successful peer review of the Auditor General's Office in 2006;
2. Develop a systematic formal process that will ensure timely follow-up to audits within an approximate two-year time frame;
3. Ensure that communication and coordination of audit resources with the external auditors are properly managed and in compliance with the terms and conditions of the service agreement;
4. Complete projects that are in process, as well as those projects that have been planned for the first quarter of 2005;
5. Ensure that relationships with all audit entities external to the City are continued;
6. Increase the use of information technology by staff in carrying out audits. Such technology to include the use of the data extraction program called ACL. Continue to communicate with other North American audit organizations that operate ACL in order to determine where the software is most effective;
7. Complete a project to identify key "red flags" for the detection of potential fraud or operational problems, which will lead to the implementation of reports to be run on a regular basis;
8. Explore and, where possible, expand the use of information technology in support of the new framework being implemented to administer the follow-up of audit recommendations;
9. Facilitate the audit process through the creation of an electronic working paper file;
10. Ensure that all staff have the necessary technical and management skills as well as an adequate knowledge of City operations, to effectively carry out their duties and responsibilities;
11. Keep current with issues related to auditing, accounting or other fields related to the program areas that are subject for review through various training opportunities;

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12. Ensure that all staff attain at least 80 hours of training and continuing education over a two-year period, in accordance with generally accepted professional standards for auditors. This standard is required for peer review purposes and unless this is met the office will not pass the peer review process;
13. Encourage and support Audit staff in obtaining professional designations in specific academic fields related to environmental auditing, fraud investigations or information technology;
14. Require the administrative group to provide ongoing input to the revised Auditor General's Policy and Procedures Manual;
15. Maintain and update the Auditor General's Web site in order to ensure that it continues to be rated as one of the best audit Web sites in North America; and
16. Establish and maintain links and associations with various municipal audit administrators within Canada and throughout the United States.

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## **THE AUDITOR GENERAL'S OFFICE**

### **Audit Follow-up Framework**

Follow-up on audit recommendations is important to ensure management has taken appropriate action to implement outstanding audit recommendations. Generally Accepted Government Auditing Standards require audit follow-up to determine the status of outstanding recommendations. The Auditor General's Office is currently in the process of reviewing and re-engineering its follow-up process to increase follow-up timeliness, efficiency and effectiveness. The general framework of the proposed process includes the following steps:

- (a) Upon tabling of the Auditor General's original report and management's response by City Council, the recommendations and expected date of implementation are recorded. On a semi-annual basis, the Auditor General will notify the Chief Administrative Officer or other appropriate management representative in writing of all outstanding audit recommendations.
- (b) The responsible departmental management official will then provide a written status report to the Chief Administrative Officer or other appropriate management representative who reports this information 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, if the action is deemed adequate, the recommendation is removed from the list of outstanding recommendations.

The intent of this process is to ensure that audit recommendations are addressed. Where such recommendations have not received the appropriate level of attention, a reporting process to Audit Committee will be initiated.



# **2005 BUDGET**

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**THE AUDITOR GENERAL'S OFFICE – 2005 BUDGET**

**BACKGROUND – COMPARISONS WITH OTHER MUNICIPALITIES**

The Auditor General's Office has benchmarked its costs with those of major municipalities across Canada, as well as those of a number of municipalities in the United States. The following comparison of 2004 costs with other major municipalities for comparable levels of audit services indicates that, as a percentage of total municipal budgets, the audit costs at the City of Toronto are at the lower end of the scale.

**Table 1**

	Municipal Operating Budget (in \$000s)	Audit Costs (in \$000s)	Audit Costs as a % of Municipal Operating Budget
	\$	\$	%
Los Angeles County	17,127,000	15,000	0.09
City of Ottawa	1,889,000	1,203	0.06
<b>City of Toronto (2005)</b>	<b>6,478,000</b> <sup>(1)</sup>	<b>3,908</b> <sup>(2)</sup>	<b>0.06</b>
Calgary	1,600,000	1,300	0.08
San Jose	2,860,000	2,200	0.08
Winnipeg	1,141,000	1,000	0.09
Detroit	3,105,000	3,294	0.11
Edmonton	1,148,000	1,660	0.14
Phoenix	2,447,000	3,677	0.15
Philadelphia	4,627,000	11,253	0.24

(1) Excludes TTC

(2) Excludes external attest audit and includes the internal audit group

In prior years, the Auditor General's Office has placed emphasis on the fact that the extent of audit resources compared to the City's overall municipal budget is on the low end of the scale compared to other municipalities. The intent was to demonstrate that the office operates in a fiscally responsible manner and that its level of resources was not out of line with other municipalities.

In view of the budgetary difficulties at the City since amalgamation, requests for additional resources by the Auditor General's Office during that time have been minimal even though the demand for audit services has been increasing.

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**2005 BUDGET REQUEST**

Details relating to the 2005 budget request for the Auditor General's Office are as follows:

**Table 2**

	<b>2005 Budget Request</b>	<b>2005 Adjusted Base</b>	<b>2004 Budget</b>	<b>2004 Projected Actual</b>
Salaries	2,511,064	2,292,174	2,182,590	1,934,839
Employee Benefits	566,739	424,192	414,912	404,600
External Auditors	327,300	333,846	327,300	327,239
Services, Material and Supplies	124,255	124,255	120,300	103,037
External Consultants	60,000	1,200	60,000	34,417
Interdepartmental Charges	24,500	24,500	24,500	25,019
Other	22,056	22,056	21,900	17,754
<b>Total</b>	<b>\$3,635,914</b>	<b>\$3,222,223</b>	<b>\$3,151,502</b>	<b>\$2,846,905</b>

**The 2005 Adjusted Base Budget**

The 2005 adjusted base budget of **\$3,222,223** reflects corporate projected merit increases of 3 per cent and economic factor increases to other categories in 2005 to provide for inflation. The 2005 adjusted base budget was provided to the Auditor General's Office by the Budget Division of the Finance Department.

The 2005 Budget Request represents the Auditor General's opinion in terms of the funds required to operate and provide an effective level of audit services for the City. These funds are required to provide services to the City as well as its Agencies, Boards and Commissions.

**The 2005 Budget Request – Comparisons with Other Municipalities**

The Amount included in Table 1 reconciles to the 2005 budget request as follows:

Budget Request	3,635,914
Less External Auditors	(327,300)
Add Internal Audit Division	<u>599,000</u>
Audit Costs – Table 1	<u>3,907,614</u>

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**The 2005 Budget Request**

The 2005 budget request of **\$3,635,914** is in excess of the 2005 adjusted base budget of **\$3,222,223** by **\$413,691**. An analysis of the increase is as follows:

**Analysis of Additional 2005 Budget Request**

<b>2005 Adjusted Base</b> (as provided by the City Finance Department)		\$3,222,223
Increases to Budget		
Salaries	218,890	
Benefits	142,547	
Consulting Fees	<u>58,800</u>	
		420,237
Decreases to Budget		
External Auditors		<u>(6,546)</u>
<b>2005 Budget Request</b>		<u><b>\$3,635,914</b></u>

An analysis of each one of the above increases and the decrease is provided in the following paragraphs.

**The 2005 Budget Request – Justification for Increased Request**

**1) Increases to Budget - Salaries**

The 2005 Budget Request includes an additional salary request of \$218,890 of which \$190,000 relates to the proposed addition of two staff, one at the Senior Audit Manager level the other at the Audit Manager level.

Based on our analysis of specific audit projects as identified on the 2005 Audit Work Plan, it is apparent that there are significant projects, which will not be subject to an independent review for a number of years. In particular, up to the current period, minimal audit work has been conducted on the City's Agencies, Boards and Commissions and at certain City Departments. For example, little audit work has been conducted at the Toronto Public Library, the Fire Department, the Toronto Transit Commission, and the North York Performing Arts. In addition, while there has been a certain level of work conducted at the Toronto Police Service much of this has not been risk based but rather in response to specific requests of City Council or the Toronto Police Services Board itself. These projects have been as follows:

- the Investigation of Sexual Assault Investigations
- an Evaluation of the Helicopter Pilot Project
- an Operational Review of the Police Complaints System

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Consequently, there is also a need to expand the Auditor General's focus to areas at the Toronto Police Service which may have additional payback, e.g., payroll overtime and court time, police training, etc. In addition, there may also be areas at the TTC, which the TTC Internal Audit Division may not have addressed.

There is also a need to revisit certain audits conducted over the past year or two in order to ensure that the concerns identified have been addressed. An extremely important component of any audit process is the requirement that there be a follow-up of recommendations made. There is little benefit to an audit unless such recommendations are implemented

In addition, the 2004 activity relating to the Fraud and Waste Hotline has increased significantly since its inception. It was recognized and acknowledged that during its initial phase the Hotline could be accommodated with existing resources until the extent of activity was determined. It is now apparent that the activity is at such a level that additional resources are required in order to ensure that issues identified as a result of the Fraud and Waste Hotline are addressed appropriately. The activity of the Fraud and Waste Hotline in 2004 has increased by 50 per cent over 2003.

The balance of the increase in the salary request in the amount of \$28,890 represents additional costs relating to the need to hire staff during the year at slightly increased levels than originally budgeted.

**2) Increase to Budget – Benefits**

The increased benefits costs of \$142,547 consist of two separate components. An amount of \$40,000 relates to benefit costs relating to the proposed additional staff as explained above. The balance of \$102,547 represents an increase in benefit costs of 7 per cent over the prior year as directed by the City Finance Department and an adjustment to reflect the actual benefit costs incurred in 2004. The calculation of benefit costs is also in compliance with the direction from the City Finance Department.

**3) Increase to Budget – External Consultants**

The external consultants' budget has been increased to reflect the same amount budgeted as in 2004. It is not specifically possible to determine the exact extent of consulting resources required due to the unpredictability of emerging audit issues, potential requests from City Council or other entities, etc. Mr. Denis Desautels, the former Auditor General of Canada during his review of the audit process at the City of Toronto outlined the advantages of using an "Independent Advisory" body in certain specific audits. The Auditor General has made use of advisory bodies and individual consultants on certain specific audit projects. To eliminate completely the flexibility to use such bodies may make the audit process on these specific projects less effective. Consultants are contracted infrequently on an as needed basis and generally are hired because the specific expertise is either not available in house or specific resources are not available due to other important commitments. External consultants have been used on the following projects over the past number of years.

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The Investigation of Sexual Assaults – Toronto Police Service  
The Review of Procurement Processes at the City – Analysis of Best Practices  
Investment and Cash Management at the City  
The Evaluation of the Helicopter Pilot Project – Toronto Police Service  
Forensic review – Selection of Telephone System

**4) Reduction to Budget – External Auditors Fees**

The City Finance Department adjusted the external audit fees by its “economic factor”. The contract with the external auditors is based on a set fee contract and as a result no adjustment is necessary. Consequently, the budget request has been reduced by \$6,456.

**Summary**

The budget of the Auditor General's Office includes \$327,300 which relates to the fees for the legislated annual attest audit conducted by Ernst & Young. The Auditor General has no control over this budget as it represents the results of a contractual agreement based on a competitive RFP process in 2003 extending to 2007.

The actual budget to operate the Auditor General's Office for 2005 (excluding the financial attest audit fees) is \$3,308,614 of which over 93 per cent relates to salaries and benefits. The Auditor General's Office currently operates with a staff of 23 auditors and 3 administrative staff. The 2005 request is for 2 additional staff to bring the complement up to 25 auditors. One of the additional staff will likely be assigned to the operation of the fraud and waste hotline in order to accommodate the 50 per cent increase in activity which has occurred during the year. The other auditor will be assigned to those projects representing the highest risk to the City as determined by the Auditor General and his senior staff.

As indicated previously, an effective audit process can result in a significant pay back to the City in terms of:

- Increased revenues
- Reduced costs
- Improved internal controls
- Enhanced Protection of City Assets

The costs savings generated by the Auditor Generals Office since amalgamation, while difficult to quantify precisely, have been significant and far outweigh the costs to operate the office. Many of the savings generated are not one-time savings as in many cases they represent ongoing annual savings.

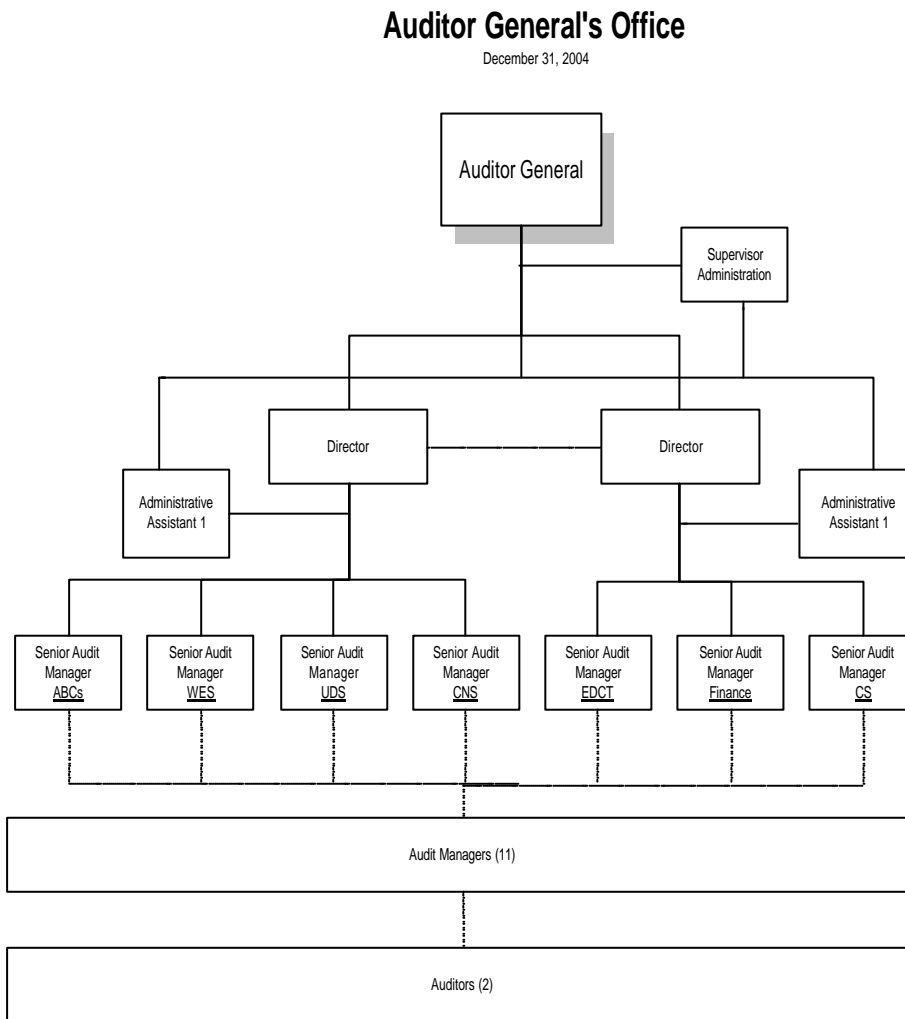
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**THE AUDITOR GENERAL'S OFFICE**

**ORGANIZATION CHARTS AND WORKFORCE**

Organizational Chart as of December 31, 2004.



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**ORGANIZATION CHARTS AND WORKFORCE**

**Proposed Organizational Chart as of December 31, 2005.**

