



## STAFF REPORT INFORMATION ONLY

### The Feasibility of Creating a Reserve Fund for the Recovery of Funds from the Activities of the Auditor General's Office

<b>Date:</b>	November 1, 2007
<b>To:</b>	Audit Committee
<b>From:</b>	City Manager
<b>Wards:</b>	All
<b>Reference Number:</b>	P:\2007\Internal Services\Cf\au07049Cf – et (AFS #4884)

#### **SUMMARY**

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This report responds to a request from the Audit Committee to explore the feasibility of creating a reserve fund from recoveries resulting from the activities of the Auditor General's Office which would be used to enhance the activities of the Office. No changes to existing practices are recommended, that is, any such recoveries would continue to accrue to the accounts from which the funds originated and any enhancements to the budget of the Auditor General's Office would be considered part of the annual budget process.

#### **Financial Impact**

In cases where the City has lost funds through contract overpayments, fraud or other reasons and is successful in recovering some or all of those funds, the recovered moneys are currently allocated to the operating or capital accounts, depending on the original source of the funds. Since this report does not recommend the creation of such a reserve fund, there are no financial implications.

## **DECISION HISTORY**

The Audit Committee at its meeting of April 13, 2007 had before it Report No. 2 Clause 2, a report (March 8, 2007) from the Auditor General entitled ‘Annual Report on the Status of Fraud and Related Matters, Including Operation of the Fraud and Waste Hotline Program’. The Committee adopted the report and “requested the City Manager, in consultation with the Auditor General, to submit a report to the Audit Committee on the feasibility of allocating any funds recovered through the Auditor General’s investigations into a reserve account, accessible by the Auditor General for the investigation of further fraudulent activities.”

<http://www.toronto.ca/legdocs/mmis/2007/au/bgrd/backgroundfile-2634.pdf>

## **COMMENTS**

### **(A) Role of the Office of the Auditor General**

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 (City of Toronto Act, 2006, c.11, Sched. A, s.178(1)). As part of its responsibilities, the Office of the Auditor General administers and monitors the fraud and waste hotline program as well as undertakes investigations as part of the program. The results of the operations and activities are reported annually to the Audit Committee.

The focus of the Office is to protect the interests of the taxpayer. Most of the work of the Office is focused on improving internal controls rather than the recovery of funds. Given the volume of hotline activity, in certain cases, Programs are referred complaints for review and investigation including overseeing the recovery of funds. Generally, for investigations conducted by the Auditor General staff, Programs are also requested to co-ordinate the recovery of funds.

### **(B) Recoveries of Funds**

As noted in the original above noted report, the identification by the Office of fraud or other loss of funds through, for example, overpayment of contracts, does not necessarily result in a recovery of funds. In certain rare cases, the funds so recovered do not necessarily revert to the City. In one of the cases noted in the report, the funds were returned to registrants of a recreation program.

In cases where the recovered funds are the property of the City, it should be noted that the funds were originally contained within the budget of a specific Program. There are two scenarios with respect to the nature of the recovery vis-à-vis those budgets:

- (1) if the nature of the loss of funds impacts on a capital project, recovered funds would normally be returned to that capital project; and
- (2) if the nature of the loss impacts the operating budget but the recovery is in a subsequent year, the recoveries would accrue to Non-program revenues.

In scenario (1), should the capital project be closed by the time that recovered funds have been received, then Accounting Services would return the funds to the capital project's original funding source(s).

In scenario (2), the funds become a corporate resource and would be applied either in the year of receipt or the next year. Transferring any recovered funds from operating accounts to a reserve fund would create an operating budget impact for Programs so affected.

(C) Office of the Auditor General's Budget

The Auditor General annually prepares his operating budget in accordance with guidelines and targets set out by the Budget Committee and Council and taking into consideration the Office's long term workplan. Should the Auditor General determine that he needs additional resources to carry out his mandate, including investigations for fraud and other potential loss of funds, he would prepare a business case and present it for approval to the Budget Committee as part of the annual operating budget process. It is the responsibility of the Budget Committee reviewing all such requests from programs and agencies, boards and commissions to make a recommendation to the Executive Committee as to whether the budget for the Office of the Auditor General should be augmented. As well, most of the activities of the Office are ongoing and are therefore most appropriately funded from property taxes, rather than from one-time revenues such as reserves.

## **CONCLUSION**

The operating budget of the Office of the Auditor General should most appropriately be set based on the resources required to deliver the Office's workplan in the context of other City spending priorities and should not be influenced by one-time revenues that might accrue from recoveries due to the work of the Office. As such, no changes to the existing practices with respect to the application of recoveries from the work of the Office are recommended.

The Auditor General was consulted in the preparation of this report.

## **CONTACT**

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## **SIGNATURE**

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