

**Analyst Briefing Notes**  
**Budget Committee**  
**(February 10, 2009)**

**PART I: 2009 OPERATING BUDGET**

Executive Summary .....2  
 2009 Operating Budget.....4

**PART II: 3-YEAR SERVICE OVERVIEW AND PLAN**

Service Challenges and Opportunities .....6  
 Service Objectives .....7  
 Priority Actions.....8

**PART III: 2008 BUDGET VARIANCE ANALYSIS**

2008 Experience .....9  
 Impact of 2008 Operating Variance on the 2009 Budget .....9

**PART IV: 2009 BASE BUDGET**

2009 Base Budget .....10  
 2009 Key Cost Drivers and Reduction Strategies.....11

**PART V: NEW/ENHANCED SERVICE PRIORITY ACTIONS**

2009 New/Enhanced Service Priority Actions .....N/A

**PART VI: ISSUES FOR DISCUSSION**

2009 Budget Issues .....12  
 Issues Referred to the 2009 Operating Budget Process .....N/A

**Appendix A:** 2009 Base Budget Changes vs. 2008 Approved Budget .....13

**Appendix B:** Summary of Service Level Adjustments.....N/A

**Appendix C:** Summary of 2009 New/Enhanced Service Priority Actions.....N/A

**Appendix D:** Program Summary by Expenditure Category .....14

**Appendix E:** Inflows/Outflows to/from Reserves and Reserve Funds.....15

Contacts: Judy Broughton  
 Manger, Financial Planning  
 Tel: (416) 392-8393

Tom Perdikis  
 Financial Planning Analyst  
 Tel: (416) 397-448

## Executive Summary

- 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. In carrying out its audit activities, the Auditor General's Office has the authority to conduct financial, operational, compliance, forensic and other special reviews of City divisions; those local boards provided for under the *City of Toronto Act; 2006*; City-controlled corporations; and grant recipients that City Council may specify.
- Challenges for the Auditor General's Office over the next 3 years include:
  - Allocating appropriate resources to perform audits for the City;
  - Following up on previous audit recommendations;
  - Managing the hotline complaint activity and allocating appropriate resources to manage the hotline; and
  - Conducting various investigations or reviews.
- The service objectives for the Auditor General's Office focus on directing the appropriate audit resources to the areas which have the greatest risk and greatest amount of return to the City. The following summarizes the Auditor General's 3-year service objectives:
  - Auditing high risk areas that provide the greatest return to the City;
  - Completing a formal follow-up process on all recommendations provided in prior audit reports for City programs and local boards;
  - Supporting the yearly increase in activity for the Fraud and Waste Hotline;
  - Improving internal controls; and
  - Increasing management's awareness relating to the detection and prevention of fraud.
- The 2009 Operating Budget provides base funding of \$4.338 million. The budget will support the following service priority actions to address the Auditor General Office's challenges and service objectives:
  - Completing a comprehensive City-wide risk assessment which will assist the Auditor General in prioritizing potential audits and allocating audit resources; and
  - Implementing proactive initiatives to assist in identifying areas of risk, with a view to preventing and detecting instances of fraud and other wrongdoing.
- For 2008, the Auditor General is projecting a year-end net expenditure of \$4.187 million which will be \$0.083 million or 1.9% below the 2008 Approved Budget of \$4.270 million. The projected year-end favourable variance is mainly due to the delay in filling two vacant positions.

**Table 1: 2009 Operating Budget**

	2008		2009 Operating Budget			Change - 2009 Operating Budget v. 2008 Appvd. Budget		FY Incremental Outlook	
	2008 Appvd. Budget	2008 Projected Actual	2009 Base	2009 New/ Enhanced	2009 Operating Budget			2010	2011
	\$	\$	\$	\$	\$	\$	%	\$	\$
<b>GROSS EXP.</b>	4,269.6	4,186.5	4,338.4	0.0	4,338.4	68.8	1.6	45.7	46.4
<b>REVENUE</b>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>NET EXP.</b>	4,269.6	4,186.5	4,338.4	0.0	4,338.4	68.8	1.6	45.7	46.4
<b>Approved Positions</b>	29.0	29.0	29.0	0.0	29.0	0.0	0.0	0.0	0.0
<b>TARGET</b>			<b>4,184.2</b>		<b>4,184.2</b>				
<b>\$ Over / (Under) Program Target</b>			<b>154.2</b>		<b>154.2</b>				
<b>% Over / (Under) Program Target</b>			<b>3.7%</b>		<b>3.7%</b>				

- The 2009 Operating Budget for the Auditor General's Office is \$4.338 million net and is \$0.154 million or 3.7% above the 2009 target of \$4.184 million. The amount of \$4.184 million is 2% below the 2008 Approved Operating Budget of \$4.270 million net.
- The 2009 Operating Budget of \$4.338 million net is comprised of base funding of \$4.338 million and no funding for new/enhanced service priorities.
  - The 2010 and 2011 Outlook net increases of \$0.046 million or 2.0% and \$0.046 million or 1.5%, respectively, include ongoing merit and step increases. The Outlooks for 2010 and 2011 do not include a provision for cost of living adjustments (COLA), as any increases are subject to future negotiations.
- The 2009 Operating Base Budget incorporates the Program's key cost drivers which include the annualization of 2008 COLA, merit and step increases and the reversal of funding of one extra day in 2008 that total \$0.069 million.
- The 2009 Operating Base Budget provides funding to maintain the same level of service as in 2008. The Auditor General's Office will continue to conduct operational audits, conduct forensic investigations and manage and support the Fraud and Waste Hotline. Included in this budget is an amount of \$0.441 million which relates to costs for conducting the external audit by Ernst and Young. The Auditor General has no control over this amount.
- The 2009 Operating Base Budget provides funding for 14 audits that are currently in progress, a minimum of 11 new audit projects, following up on outstanding audit recommendations, fraud related investigations, coordinating external audits and preparing reports requested by City Council. These are all identified in the Auditor General's 2009 Work Plan. The audits that are currently in progress include the Toronto Police Service – Fleet Operations, the Integrated Business Management System – Municipal Licensing and Standards and the review of the Major City Revenue Streams.

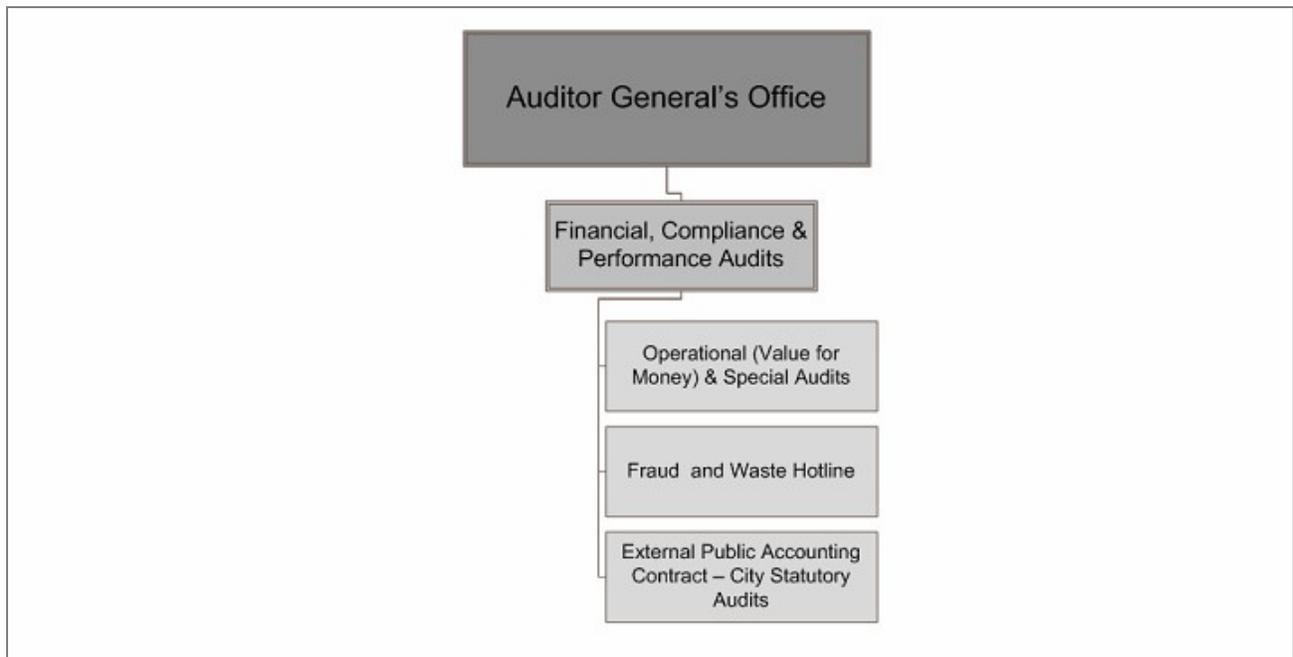
**2009 Operating Budget**

- 1. Council approve the 2009 Operating Budget for the Auditor General's Office of \$4.338 million gross and \$4.338 million net, comprised of the following services:

<u>Service:</u>	Gross <u>(\$000s)</u>	Net <u>(\$000s)</u>
Audit Services	4,338.4	4,338.4
Total Program Budget	4,338.4	4,338.4

The Auditor General's Office is responsible for carrying out financial, compliance and performance audits of all programs, activities and functions of all City divisions, the offices of the Mayor and Members of Council, local boards and City-controlled Corporations. The Auditor General's Office delivers one key service, comprised of three activities, as identified in the following Program Map:

### Program Map



**Service Challenges and Opportunities****Service Demand****Audit Requests**

The Auditor General allocates resources to ensure that the appropriate level of auditing is conducted for the City given the resources available. This includes special requests approved by Council and reviews of City agencies. The *City of Toronto Act* specifically restricts the Auditor General from conducting audits at the Toronto Police Service, the Toronto Public Library and the Toronto Board of Health. The Auditor General conducts audits at these entities at the request of the respective Boards.

**Fraud and Waste Hotline**

The Fraud and Waste Hotline activity has increased significantly since its inception in 2002 requiring an increase in administrative and audit resources to manage the hotline complaint activity and conduct investigations or reviews.

The investigations or reviews have resulted in improved internal controls which will likely mitigate the loss of further funds. Additional proactive initiatives are also being implemented to assist in identifying areas of risk, with a view to preventing and detecting instances of fraud and other wrongdoing.

**Following Up on Past Audit Recommendations**

This is an extremely important component to the audit process. An annual formal process exists to ensure that past audit recommendations are being implemented. Resources are being devoted to the follow-up process to ensure that the recommendations were implemented.

**Human Resources**

Annual work plans are developed based on a Corporate-wide risk assessment and priority setting exercise. The risk 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.

## **Service Objectives**

The service objectives for the Auditor General's Office address the challenges and opportunities outlined above, and primarily reflect the need to allocate the appropriate resources to conduct audits and support the Fraud and Waste Hotline. The following section provides the Auditor General's service objective targets.

### **Audits**

- Ensure that adequate organizational supports and quality assurance measures are in place for ongoing auditing reviews.
- Complete the projects that have been identified in the Auditor General's annual work plan.
- Increase the use of information technology which includes the use of the data extraction program called Audit Command Language (ACL).
- Ensure that all staff have the necessary technical tools and management skills to effectively carry out their duties and responsibilities.
- Complete a formalized follow-up process related to recommendations made in prior audit reports with respect to City operations as well as Agencies, Boards and Commissions and report on the accomplishments on an annual basis.

### **External Audits**

- 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.
- Establish and maintain links and associations with various municipal audit administrators within Canada and throughout the United States.

### **Fraud and Waste Hotline**

- Implement proactive initiatives to assist in identifying areas of risk, with a view to preventing and detecting instances of fraud and other wrongdoing.
- Communicate and distribute an information package designed to provide guidance to management in conducting and reporting investigations into hotline complaints forwarded by the Auditor General.

### **Coordination With Other Accountability Officers**

The Auditor General meets regularly with the Ombudsman, Integrity Commissioner and the Lobbyist Registrar. The Ombudsman and the Lobbyist Registrar have been provided significant information in regard to the Auditor General's complaint intake management information system. Based on the review of the database by the Ombudsman and the Lobbyist Registrar, it is anticipated that the database will be adapted for their use. Protocols have been established with the Integrity Commissioner in connection with specific complaints. In addition, the coordination of the complaints process with the Ombudsman is ongoing.

**Priority Actions**

The 2009 Operating Budget provides approximately \$4.338 million in base funding for auditing services and managing the Fraud and Waste Hotline. The Auditor General's 2009 priorities include:

- Strengthening the Auditor General's Office to enable it to complete more efficiency audits and identify more savings. This is consistent with the Mayor's Fiscal Review Panel recommendations.
- Completing a comprehensive City-wide risk assessment. This is a significant exercise that is done, in detail, every five years. The exercise will assist the Auditor General in prioritizing potential audits, assessing the level of risk and evaluating the liabilities to the City. The assessment will provide the Auditor General the ability to allocate audit resources and ensure that the level of auditing is appropriate for the City given the resources available.
- Implementing proactive initiative to assist in identifying areas of risk, with a view to preventing and detecting instances of fraud and other wrongdoing.
- The Auditor General continues to conduct investigations and reviews in suspected incidents of fraud, waste and other wrongdoing. The Auditor General is reviewing resources to maintain the current and future demands relating to the increase in activity of the Fraud and Waste Hotline.
- Allocating the appropriate audit resources in the areas which are the highest risk or provide the greatest return to the City. This includes evaluating the adequacy of the City's policies and systems of internal control, from a financial and an operational perspective.
- Completing the annual formal follow-up process for audit recommendations from prior audit reports for the City's local boards and for City programs.



**Table 2: 2008 Budget Variance Review**

(In \$000s)	2007 Actuals	2008 Approved Budget	2008 Projected Actuals*	2008 Appvd. Budget vs Projected Actuals Variance	
	\$	\$	\$	\$	%
<b>GROSS EXP.</b>	3,902.4	4,269.6	4,186.5	(83.1)	(1.9)
<b>REVENUES</b>	0.0	0.0	0.0	0.0	0.0
<b>NET EXP.</b>	3,902.4	4,269.6	4,186.5	(83.1)	(1.9)
<b>Approved Positions</b>	29.0	29.0	29.0	0.0	0.0

\* Note: Source is the Auditor General's Office 2008 Third Quarter Operating Budget Variance Report.

**2008 Experience**

The Auditor General's Office's projection to year end is \$4.187 million based on the third quarter variance report. This represents a favourable variance of \$0.083 million or 1.9% under the 2008 Approved Operating Budget and the under expenditures are attributed to savings from delay in filling two vacancies and savings in staff training.

**Impact of 2008 Operating Variance on the 2009 Budget**

There are no impacts of the 2008 Operating Variance on the 2009 Budget. The two vacancies were filled in late 2008.



**Table 3: 2009 Base Budget**

(In \$000s)	2008 Appvd. Budget	2009 Operating Base	Change 2009 Base v. 2008 Appvd. Budget		FY Incremental Outlook	
					2010	2011
	\$	\$	\$	%	\$	\$
<b>GROSS EXP.</b>	4,269.6	4,338.4	68.8	1.6	45.7	46.4
<b>REVENUE</b>	0.0	0.0	0.0	0.0	0.0	0.0
<b>NET EXP.</b>	4,269.6	4,338.4	68.8	1.6	45.7	46.4
<b>Approved Positions</b>	29.0	29.0	0.0	0.0	0.0	0.0
<b>NET TARGET</b>		<b>4,184.2</b>				
<b>\$ Over / (Under) Program Target</b>		<b>154.2</b>				
<b>% Over / (Under) Program Target</b>		<b>3.7%</b>				

**2009 Base Budget**

The 2009 Base Budget for the Auditor General’s Office is \$4.338 million gross and net which is \$0.154 million or 3.7% over the 2009 target of \$4.184 million net which is 2% under the 2008 Approved Operating Budget of \$4.270 million.

The 2009 Base Budget of \$4.338 million represents an increase of \$0.069 million or 1.6% compared to the 2008 Approved Operating Budget of \$4.270 million. The additional funding is required for the annualized 2008 cost of living allowance (COLA) and merit increases, non-salary economic factors and other base changes required to maintain the same level of service as 2008. Included in the base budget is an amount of \$0.441 million which relates to costs for conducting the external audit by Ernst and Young. The Auditor General has no control over this amount.

The 2009 Base Budget includes 29 approved positions, reflecting no position change to the 2008 Approved complement.

**2009 Key Cost Drivers and Reduction Strategies**

The 2009 Base Budget provides funding for the following key cost drivers:

- Annualization of 2008 Cost-of-Living-Adjustment (COLA) of \$0.022 million.
- Merit increases of \$0.045 million.
- Fringe Benefit increases of \$0.015 million.
- Economic Factors of \$0.003 million.

The cost drivers noted above will be partially offset by savings included in the 2009 Base Budget. These include inter-departmental charges, gapping and adjustments to non-salary expenditures totaling \$0.005 million.

There has been a significant increase in demand for the auditing services that have been provided by the Auditor General's Office, along with an increase in activity in the Fraud and Waste Hotline, without an increase in the staffing complement to support these services. In fact, the Mayor's Fiscal Review Panel report recommended that the Auditor General's Office needed to be strengthened and that their budget be increased to enable them to complete more efficiency audits and drive more savings. Due to budget constraints, the Auditor General has not requested any increase in the staffing complement.

**2010 and 2011 Outlook: Net Incremental Impact**

The 2010 Outlook estimate of \$0.046 million and 2011 Outlook estimate of \$0.046 million include merit increases in both years. The Outlooks for 2010 and 2011 do not include a provision for cost of living adjustments (COLA), as the increase is subject to future negotiations or decisions.

  
**2009 Budget Issues****2009 Operating Budget vs. Guideline**

The 2009 Operating Budget for the Auditor General's Office of \$4.338 million net is \$0.154 million or 3.7% over the 2009 target of \$4.184 million net (2% less than the 2008 Approved Operating Budget of \$4.270 million).

The Auditor General's 2009 Operating Budget of \$4.338 million is required to support the increase in activity relating to the Fraud and Waste Hotline, support the 14 ongoing audits and 11 new audits, and to follow up on all outstanding audit recommendations. Any service reductions to bring their budget closer to the 2009 budget target will impact the Auditor General's ability to maintain ongoing work and support the new service requests. It should be noted that the Mayor's Fiscal Review Panel recommended, in their February 21, 2008 report, that the Auditor General's Office Budget needed to be strengthened and that their budget should be increased to provide more efficiency audits to increase savings. It should be noted that due to budget constraints, the Auditor General has not requested any increase in his staffing complement. The budget maintains the 2008 service levels.

Appendix A

2009 Operating Base Budget Changes vs. 2008 Approved Budget

(In \$000s)	Summary of 2009 Operating Base Budget Adjustments				Net Incremental Outlook	
	Approved Positions	Gross Expenditures	Revenues	Net	2010	2011
		\$	\$	\$	\$	\$
<b>2008 Council Approved Operating Budget</b>	<b>29.0</b>	<b>4,147.3</b>	<b>0.0</b>	<b>4,147.3</b>	<b>0.0</b>	<b>0.0</b>
Ernst & Young Contract Extension		120.0		120.0		
Insurance Reallocation		2.3		2.3		
<b>2008 Approved Operating Budget</b>	<b>29.0</b>	<b>4,269.6</b>	<b>0.0</b>	<b>4,269.6</b>	<b>0.0</b>	<b>0.0</b>
Prior year impacts		55.6		55.6	45.7	46.4
Zero base items						
Economic factors		17.6		17.6		
<b>Adjusted Base Budget</b>	<b>29.0</b>	<b>4,342.8</b>	<b>0.0</b>	<b>4,342.8</b>	<b>45.7</b>	<b>46.4</b>
Other base changes		(4.4)		(4.4)		
Base revenue changes						
Service Level Adjustments:						
Base changes						
Service efficiencies						
Revenue adjustments						
Minor service impact						
Major service impact						
<b>Total Base Adjustments</b>	<b>0.0</b>	<b>(4.4)</b>	<b>0.0</b>	<b>(4.4)</b>	<b>0.0</b>	<b>0.0</b>
<b>2009 Base Budget</b>	<b>29.0</b>	<b>4,338.4</b>	<b>0.0</b>	<b>4,338.4</b>	<b>45.7</b>	<b>46.4</b>
<b>2009 Program Operating Target</b>				<b>4,184.2</b>		
<b>% Over (Under) Program Target</b>				<b>3.7%</b>		
<b>% Over (Under) 2008 Appvd. Budget</b>				<b>1.6%</b>		

Appendix D

Program Summary by Expenditure Category

CLUSTER: ACCOUNTABILITY OFFICES PROGRAM: AUDITORT GENERAL'S OFFICE							
	2008 Approved Budget	2008 Projected Actuals	2009 Operating Budget	Change from 2008 Approved Budget		2010 Outlook	2011 Outlook
	\$	\$	\$	\$	%	\$	\$
Salaries and Benefits	3,690.2	3,597.1	3,759.8	69.6	1.9%	3,805.5	3,851.9
Materials and Supplies	14.8	12.6	15.3	0.5	3.4%	15.3	15.3
Equipment	8.3	6.7	8.4	0.1	1.2%	8.4	8.4
Services & Rents	525.6	540.2	524.8	(0.8)	(0.2%)	524.8	524.8
Contributions to Capital	8.0	8.0	8.0	0.0	0.0%	8.0	8.0
Contributions to Reserve/Res Funds				0.0	n/a		
Other Expenditures				0.0	n/a		
Interdivisional Charges	22.7	21.9	22.1	(0.6)	(2.6%)	22.1	22.1
<b>TOTAL GROSS EXPENDITURES</b>	<b>4,269.6</b>	<b>4,186.5</b>	<b>4338.4</b>	<b>68.8</b>	<b>1.6%</b>	<b>4,384.1</b>	<b>4,430.5</b>
Interdivisional Recoveries							
Provincial Subsidies							
Federal Subsidies							
Other Subsidies							
User Fees & Donations							
Transfers from Capital Fund							
Contribution from Reserve Funds							
Contribution from Reserve							
Sundry Revenues							
<b>TOTAL REVENUE</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>n/a</b>	<b>0.0</b>	<b>0.0</b>
<b>TOTAL NET EXPENDITURES</b>	<b>4,269.6</b>	<b>4,186.5</b>	<b>4,338.4</b>	<b>68.8</b>	<b>1.6%</b>	<b>4,384.1</b>	<b>4,430.5</b>
<b>APPROVED POSITIONS</b>	<b>29.0</b>	<b>29.0</b>	<b>29.0</b>	<b>0.0</b>	<b>0.0%</b>	<b>29.0</b>	<b>29.0</b>

Appendix E

Inflows / Outflows to / from Reserves & Reserve Funds

Reserve / Reserve Fund Name (In \$000s)	Reserve / Reserve Fund Number	Balance as of	Proposed Withdrawals (-) / Contributions (+)		
		December	2009	2010	2011
		2008			
		\$	\$	\$	\$
Insurance Reserve Fund	XR1010	20,611.4	8.0		
<b>Total Reserve / Reserve Fund Draws / Contributions</b>			<b>8.0</b>	<b>0.0</b>	<b>0.0</b>