



**AUDITOR GENERAL'S
REPORT
ACTION REQUIRED**

Auditor General's Office – 2014 Budget

Date:	September 20, 2013
To:	Audit Committee
From:	Jeff Griffiths, Auditor General
Wards:	All
Reference Number:	

SUMMARY

This report provides information relating to the 2014 budget for the Auditor General's Office and a budget for approval by the Audit Committee.

An analysis of the budget request is as follows:

	2014 Budget Request	2013 Approved Budget	Increase	%
Budget	\$4,639,100	\$4,177,600	\$461,500	11.04

The budget request of the Auditor General for 2014 has increased by \$461,500 from the 2013 level. The increase in the Auditor General's budget from 2013 to 2014 is 11.04 per cent. This increase is due to the following:

- The filling of two approved positions previously gapped in order to meet prior years budget targets \$295,600
 - Cost of living and performance pay increases for existing staff \$137,600
 - Increase in benefit costs \$26,000
 - Increase related to "economic factors" \$2,300
-
- \$461,500

The increase in the Auditor General's budget from 2013 to 2014 excluding the filling of the two previously gapped positions would be \$165,900. This represents a four per cent increase over the 2013 approved budget.

The majority of the Auditor General’s 2014 budget request consists of salaries and benefits. The percentage of salaries and benefits to the total budget is just under 97 per cent.

RECOMENDATION

The Auditor General recommends that:

1. The Audit Committee approve the attached 2014 budget for the Auditor General’s Office and forward it to Budget Committee.

Financial Impact

The 2014 budget for the Auditor General’s Office is \$4,639,100 which is \$461,500 more than the 2013 final approved budget of \$4,177,600. This increase is due to the following:

• The filling of two approved positions previously gapped in order to meet prior years budget targets	\$295,600
• Cost of living and performance pay increases for existing staff	\$137,600
• Increase in benefit costs	\$26,000
• Increase related to “economic factors”	\$2,300
	\$461,500

The budget request is as follows:

	2014 Budget Request	2013 Approved Budget	Increase	%
Budget	\$4,639,100	\$4,177,600	\$461,500	11.04

The majority of the Auditor General’s 2014 budget request consists of salaries and benefits. Salaries and benefits comprise just under 97 per cent of the total budget.

The Auditor General’s Office currently has two vacancies which have been required to be gapped since 2011. The remainder of positions are filled.

Should the Auditor General’s Office be required to leave two positions vacant, this will impact the number of reports produced by the office and will increase the backlog of audit projects.

ISSUE BACKGROUND

In May 2002, City Council approved an independent Auditor General’s Office for the City of Toronto. *The City of Toronto Act, 2006* subsequently formalized the

establishment of the Auditor General. Section 177 of the Act requires that “The City shall appoint an Auditor General”.

The Auditor General is responsible for evaluating programs, activities and functions of Divisions, Agencies and Corporations, and the Offices of the Mayor and Members of Council. The Auditor General also manages the City’s Fraud and Waste Hotline Program.

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. The Auditor General’s budget is forwarded directly to Audit Committee without a detailed review by the City’s Financial Planning Division.

Detailed information relating to the 2014 budget is contained in the attached document, entitled “Auditor General’s Office – 2014 Budget” (Appendix 1).

COMMENTS

The majority of the increase in the Auditor General’s budget relates to the proposed filling of two positions which have remained vacant for the past two years. These positions have not been filled due to a requirement to meet previous budget guidelines. The filling of these two positions accounts for \$295,600 of the increase of \$461,500. The balance of the increase relates to salary increases relating to cost of living, performance pay and benefits.

During its deliberations of the 2013 budget request, City Council requested that “*the Auditor General report to the Budget Committee on the staffing needs to fulfill the work plan requirements.*” This report is available at <http://www.toronto.ca/legdocs/mmis/2013/au/bgrd/backgroundfile-55719.pdf>

Further, during its deliberation of the report, Audit Committee:

“Recommended to the Budget Committee that funding be considered as part of the 2014 Operating Budget Process, for an additional 0.5 full time equivalent employee to be added to the Auditor General’s Office.”

As outlined in Appendix 1 to this report, the current budget of the Auditor General’s Office is, proportionately, significantly less than all major cities in North America.

In addition, of significance in the comparison of audit costs between municipalities is current legislation in Quebec. The Quebec Cities and Towns Act in Section 107.5 requires that, “*The budget of the municipality shall include an appropriation to provide for payment of a sum to the chief auditor to cover the expenses relating to the exercise of the chief auditor’s duties.*”

The amount legislated for audit services in municipalities with a budget in excess of \$1 billion is 0.11 per cent of the total City budget. If the equivalent percentage of 0.11 per cent was applied to the City of Toronto, the City's total audit budget would be in the range of \$11 million.

The above analysis demonstrates that audit resources at the City are not excessive and likely should be increased to a level commensurate with the size of the City and complexity of government. Further comments in relation to this are provided in Appendix 1.

In terms of value for money the Auditor General's Office over the years has clearly demonstrated that the cost savings/revenue increases identified through its audit work are significantly in excess of its annual budget. Examples of estimated cost savings are included in Appendix 3.

The Auditor General's Office, as one of its responsibilities, operates the City's Fraud and Waste Hotline Program. The Hotline Program has helped reduce losses and protect City assets. The activities of the Fraud and Waste Hotline Program have shown an increasing trend since its inception in 2002.

The City of Toronto established the Hotline Program to promote an ethical culture and assist with the detection and prevention of wrongdoing involving City resources. However, it is becoming increasingly difficult to respond to issues and concerns on a timely basis due to the number of complaints received.

The City's by-law pertaining to whistleblower protection is an important step in ensuring that the Fraud and Waste Hotline is effective. The by-law serves no purpose if the level of staff available to manage the Hotline Program is inadequate. It is critically important that the hotline is appropriately resourced.

CONCLUSION

While appreciative of the financial constraints at the City, the current staffing under which the Office will be required to operate is inadequate for a City of the size and complexity of Toronto. A reversal of the extraordinary gapping of \$295,500 would allow the Office to hire two professional staff, bringing it back to its approved staff complement. This in turn will result in more reviews completed and ultimately more cost savings for the City.

Under all available yard sticks whether it be legislative requirements in other jurisdictions or comparisons with other municipalities, the level of staff in the Auditor General's Office in relation to the audit work required is inadequate. Based on the cost savings identified in this report, which are examples only, the return on the investment of funds in the Auditor General's Office is significant. The recent report dated January 22, 2013 entitled "Demonstrating the Value of the Auditor General's Office" indicates that for

each \$1 invested in audit resources, the return in relation to cost savings is approximately \$11.

Finally, in validation of the views of the Auditor General the previous Mayor's Fiscal Review Panel in its report entitled "Blueprint for Fiscal Stability and Economic Prosperity – a Call to Action", dated February 2008 independently stated that "the City should increase the budget for the Auditor General's Office to enable it to complete more efficiency audits and drive more savings."

This recommendation has not been acted upon.

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SIGNATURE

Jeff Griffiths, Auditor General

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ATTACHMENTS

- [Appendix 1](#) – Auditor General's Office – 2014 Budget
- [Appendix 2](#) – Auditor General's Office – Audit Reports Issued 2008-2013
- [Appendix 3](#) – Examples of Annual Cost Savings Identified as a Result of Various Audits
- [Appendix 4](#) – Toronto Community Housing Corporation – Estimated Cost Savings

AUDITOR GENERAL'S REPORT

**Auditor General's Office
2014 Budget**

September 20, 2013

Jeffrey Griffiths, CPA, CA, CFE
Auditor General



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Association of Local Government Auditors – External Quality Control Review of the City of Toronto Auditor General’s Office	Exhibit 2
Hilborn Ellis Grant LLP Chartered Accountants – Auditor General’s Office of the City of Toronto, Report on the Results of Applying Specified Auditing Procedures to Financial Information Other Than Financial Statements for the Year Ended December 31, 2012	Exhibit 3

THE AUDIT FRAMEWORK AT THE CITY OF TORONTO

City Council approved an independent Auditor General's Office in 2002

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 *City of Toronto Act, 2006* (the *Act*) subsequently formalized the establishment of the Auditor General. Section 177 of the *Act* requires that "The City shall appoint an Auditor General".

Audit framework established three levels of audit

The 2002 audit framework established three levels of audit services for the City of Toronto. This framework is consistent with best practices in most major cities.

Auditor General's Office

(1) The Auditor General's Office was created in order to report directly to and provide assurance strictly for City Council. The *Act* has not changed this requirement.

Internal Audit Division

(2) A separate Internal Audit Division reporting to the City Manager was established to provide assurance and management consulting advice for the City's Executive Management Team.

External Financial Auditor

(3) As required by the *Act*, an external auditor is appointed by City Council to perform the annual statutory audit of the City's financial statements including Agencies and Corporations and provide an opinion on the fairness of the information presented in these financial statements.

The Auditor General's Office

City of Toronto Act and the Auditor General

Chapter 3 of the Municipal Code sets out duties and responsibilities of the City's Accountability Officers. As indicated above, the *City of Toronto Act, 2006* mandates the appointment of an Auditor General who reports to City Council. Under Section 178 (1) of the *Act* "*the Auditor General is responsible for assisting City Council in holding itself and city administrators accountable for the quality of stewardship over public funds and for achievement of value for money in city operations.*"

The Internal Audit Division – City Manager’s Office

Internal audit function

The Internal Audit Division reports to the City Manager and is responsible for providing internal audit services and support to senior management in the City. The internal audit function provides consulting services designed to improve the administration of municipal operations and promote compliance with City policies and procedures.

External Financial Auditor

Annual audit of City’s financial statements

Under Section 139 of the *Act*, the City is required to appoint an external auditor licensed under the Public Accounting Act 2004. This auditor is responsible for annually auditing the accounts and transactions of the City and its Agencies and Corporations and expressing an opinion on the financial statements of these bodies based on the audit. Also in accordance with the *Act*, the auditor shall not be appointed for a term exceeding five years and shall not be a City employee or an employee of a local board of the City. The auditor reports to City Council.

Auditor General oversees external audit contract

PricewaterhouseCoopers, an external public accounting firm, is responsible for the annual statutory audit of the City’s financial statements under a five-year term contract starting January 1, 2010. The Auditor General is responsible for issuing the request for proposal to secure the external audit services required by the City and maintains an oversight role for these statutory audits.

Other financial statement audits

Separate external auditors have been appointed for the City Community Centres, City Arenas and a number of other City entities (Heritage Toronto, Yonge-Dundas Square Board of Management, the Toronto Atmospheric Fund and the Clean Air Partnership).

In November 2012, City Council approved a five year contract with Welch LLP, for the years 2013 to 2017 inclusive, to perform the financial statement audits for these entities.

Internal Audit Functions at the Toronto Transit Commission and the Toronto Police Service

Separate internal audit functions exist at both the Toronto Transit Commission and the Toronto Police Service. The internal audit function at the Toronto Transit Commission and the Toronto Police Service report directly to the Chief Executive Officer and Chief of Police respectively.

Internal Audit Function at the Toronto Community Housing Corporation

An independent internal audit function has recently been established at the Toronto Community Housing Corporation. The function reports to the Corporate Affairs and Audit Committee.

Coordination and Consultation with Other Audit Functions

Audit work at the City requires coordination with the City Manager's Internal Audit Division, as well as audit groups at the Toronto Transit Commission, the Toronto Police Service and the Toronto Community Housing Corporation.

The Auditor General meets with each of these groups on a regular basis in order to ensure that he is aware of any audit concerns and to ensure that there is no duplication of audit work.

The Auditor General also meets regularly with both the external auditor PricewaterhouseCoopers and the City's other Accountability Officers to discuss any issues of mutual concern.

Finally, the Auditor General meets with the City Manager periodically to discuss a wide range of issues, including the annual work plan, upcoming audit reports, internal audit work and issues of concern.

THE AUDITOR GENERAL'S OFFICE

As outlined under Section 178 of the *Act*, “*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 audit process is an independent, objective assurance activity

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.

Responsibilities of the Auditor General

Auditor General's independence, authority and reporting

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 City divisions, and those local boards provided for under the *Act* and such City-controlled corporations and grant recipients as City Council may specify. The Auditor General reports to Council through the Audit Committee.

Specific responsibilities of the Auditor General

Specific responsibilities of the Auditor General include:

1. Conduct audit projects identified by the Auditor General through the Auditor General's risk assessment process. Such projects are included in the Auditor General's annual work plan.
2. Conduct forensic investigations including those involving suspected fraudulent activities.
3. Conduct special assignments identified by the Auditor General, or approved by a two-thirds majority resolution of Council.
4. Manage the Fraud and Waste Hotline Program as well as the referral of certain concerns and issues to divisional management.
5. Oversee the work and the contract of the external auditors performing annual financial statement audits.
6. The follow up of recommendations contained in previous audit reports.

Professional Audit Standards

Audits conducted in compliance with Government Auditing Standards

The Auditor General's Office conducts its audit 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.

Staff bound by professional standards and ethics

Staff are also bound by the standards and ethics of their respective professional organizations, which include the Chartered Professional 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 Institute of Internal Auditors. All professional members of the Auditor General's Office have at least one professional designation. Details of staff qualifications are provided on the following web site:

http://www.toronto.ca/audit/about_audit.htm#staffing

Independent Quality Assurance Review of the Auditor General’s Office

Government Auditing Standards require an independent review

A requirement of Government Auditing Standards is that audit organizations undergo an external independent quality assurance review at least once every three years. The objective of a quality assurance review is to determine whether an audit organization’s internal quality control system is in place and operating effectively. A quality assurance review provides assurance that established policies and procedures and applicable auditing standards are being followed.

Auditor General’s Office received the highest rating possible in its third quality assurance review in 2012

The Auditor General’s Office underwent its third quality assurance review during August 2012. The Auditor General received an “unqualified opinion” for the review. An unqualified opinion is the highest rating possible and indicates that the audit work is conducted in accordance with Generally Accepted Government Auditing Standards.

A written opinion letter and a management letter were issued by representatives from the Association of Local Government Auditors (ALGA), an independent professional body which conducts a significant number of quality assurance reviews throughout the US. The reports issued by ALGA are attached to this report as Exhibit 2.

Annual Compliance Audit

Auditor General in compliance with all appropriate City policies

The Auditor General’s Office undergoes an annual compliance audit by a separate and independent external auditor, appointed by and reporting to City Council. The annual compliance audit provides Council assurance that the Auditor General’s Office is carrying out its operations within delegated authorities and in compliance with applicable City bylaws and policies. The annual compliance report for the year ended December 31, 2012 was presented to Audit Committee on May 29, 2013. The report issued by Hilborn Ellis Grant LLP the independent external auditor is attached to this report as Exhibit 3.

The report indicates that “*As a result of applying the above procedures, we found no exceptions to the adherence to the policies, procedures and delegated authorities as they applied to our test sample.*”

Staff Training

Auditor General's commitment to staff training

The Auditor General's Office is committed to ensuring that staff maintain professional proficiency through continuing professional education (CPE) in accordance with Government Auditing Standards. These standards require that each auditor complete 80 hours of CPE every two years with at least 24 hours directly related to government auditing, the government environment, or the specific or unique environment in which the audited entity operates. In the context of budget restrictions this requirement is becoming increasingly difficult.

Auditor General's staff training program

The Auditor General's Office establishes a training program each year to assist staff in meeting these requirements. An internal Training Committee oversees the training program of the Office. Staff are required to prepare an annual training plan outlining the courses or activities to be undertaken to meet the CPE hourly requirements described above, to retain professional certification, or to meet staff's professional needs. These plans are approved by senior management.

The Office maintains a record of each staff member's training in accordance with Government Auditing Standards.

THE AUDITOR GENERAL'S OFFICE – 2014 BUDGET REQUEST

2014 Budget Request

Details relating to the 2014 budget request for the Auditor General's Office are as follows:

	2014 Budget Request (\$000s)	2013 Approved Budget (\$000s)	2013 Projected Actual (\$000s)
Salaries	3,617.7	3,480.0	3,373.0
Employee Benefits	917.6	891.6	846.6
Gapping	(39.5)	(335.0)	(335.0)
Sub Total	4,495.8	4036.6	3,884.6
Services, Materials and Supplies	121.0	118.7	72.0
Interdepartmental Charges	22.3	22.3	22.0
Sub Total	143.3	141.0	94.0
Total	\$4,639.1	\$4,177.6	\$3,978.6

Budget request

The amount of \$4,639.1 is the Auditor General's budget request for 2014.

***11.04% increase
from 2013 to
2014 budget***

The budget request of the Auditor General for 2014 has increased by \$461.5 from the 2013 level. The increase in the Auditor General's budget from 2013 to 2014 is 11.04 per cent. This increase is due to the following:

• The filling of two approved positions previously gapped in order to meet prior years budget targets	\$295,600
• Cost of living and performance pay increases for existing staff	\$137,600
• Increase in benefit costs	\$26,000
• Increase related to “economic factors”	\$2,300
	\$461,500

The increase in the Auditor General's budget from 2013 to 2014 excluding the filling of the two positions is \$166,000. This represents a four per cent increase over the 2013 approved budget.

97% of budget is salaries and benefits

The majority of the Auditor General’s 2014 budget request consists of salaries and benefits. The percentage of salaries and benefits to the total budget is just under 97 per cent.

Reversal of gapping for Professional staff vacancies gapped since 2011

The Auditor General’s Office full staff complement consists of 29 staff positions comprised of four Senior Management, 22 professional, a supervisor administration and 2 administrative staff positions. During the 2011, 2012 and 2013 budget process, two professional staff positions were temporarily gapped to meet the City’s budget reduction targets. This gapping was in addition to regular gapping applied to all City divisions.

Reversal of the additional gapping will allow the Auditor General’s Office to fill the two staff positions bringing the staff complement back to the level it was in 2010. The filling of these vacancies will increase the effectiveness of the Auditor General’s Office and address various workload pressures. In addition, it will result in more reviews completed and ultimately more cost savings for the City.

***Management of
the City's Fraud
and Waste
Hotline***

The Auditor General's Office has been administering the Fraud and Waste Hotline Program since its inception in 2002. The Hotline Program is part of the City's strategy to manage the business risk of fraud and other wrongdoing. Prevention and detection remain key components in managing this business risk which results in direct financial losses and indirect costs such as additional management resources to investigate and correct wrongdoing.

***774 complaints
were received in
2012***

Since the inception of the Hotline Program, the number of complaints continues to increase. In 2012 the program received 774 complaints. It should be noted that many complaints contain more than one allegation. Approximately 35 per cent of complaints received in 2012 included at least two or more allegations. As a result, approximately 1,500 allegations were processed by the Hotline Program staff.

Financial Benefits Identified By the Office Are Significantly in Excess of its Budget

***Cost
savings/revenue
increases in
excess of the
annual budget***

In terms of value for money the Auditor General's Office over the years has clearly demonstrated that the cost savings/revenue increases identified through its audit work are significantly in excess of its annual budget.

***Reports issued
since 2008***

Appendix 2 attached to this report lists the audit reports issued by this office since 2008. Continued gapping to the budget of the Auditor General's Office will have a future impact on the number of reports produced by the Office and will increase the backlog of audit projects.

The Benchmarking of Audit Costs – Comparisons With Other Municipalities

The Auditor General’s Office has benchmarked 2013 City audit costs with those of major municipalities across Canada, as well as those of a number of municipalities in the United States.

Comparison of Audit Costs

	2013 Municipal Budget (in \$000s)	2013 Audit Costs (in \$000s)	Audit Costs as a % of Municipal Budget
	\$	\$	%
Canadian Jurisdictions			
Toronto	10,250,000	4,178	0.04
Ottawa	2,800,000	1,600	0.06
Vancouver	1,100,000	650	0.06
Calgary	2,937,000	2,041	0.07
Halifax	823,000	851	0.10
Edmonton	1,949,000	2,165	0.11
Quebec City	1,313,000	1,443	0.11
Montreal	4,874,000	5,961	0.12
Laval	735,000	1,068	0.15
U.S. Jurisdictions			
Chicago	8,347,000	5,769	0.07
Austin	3,145,000	2,709	0.09
Dallas	2,567,000	2,180	0.09
Los Angeles	7,246,000	7,321	0.10
Detroit	2,605,000	2,942	0.11
Phoenix	3,573,000	4,011	0.11
San Jose	2,640,000	3,180	0.12
San Diego	2,752,000	3,809	0.14
San Francisco	7,555,000	13,672	0.18

Audit costs are the lowest

Audit costs relating to the Auditor General’s Office as a percentage of the City’s municipal budget is in the range of 0.04 per cent. This percentage is the lowest of all major cities in Canada and the US.

This percentage is consistent with that reported in the City Manager’s recent report entitled “Results Arising from the Shared Services Study Related to Internal Audit and Jurisdictional Research Respecting Funding Models for Accountability Functions” adopted at City Council April 2013. This report included the following statement:

“The comparison demonstrates that Toronto allocates the lowest percentage of its operating budget (0.04%) to the auditor general function across all of the municipalities surveyed.”

Difficult to make exact comparisons

The benchmarking of audit costs is not a precise exercise due to the difficulties in obtaining comparative, accurate and complete information. We have endeavored to ensure that comparative information has been provided.

Toronto audit costs

The total costs of \$4,177.7 represent audit costs of the Auditor General’s Office only. The comparatives for other Canadian and US jurisdictions represent similar functions as those of the City’s Auditor General.

It is acknowledged that there are other audit functions throughout the City, although these functions are not independent as they report to management. Nevertheless, if the budgets of these entities were included in the total audit costs of the City, the percentage of audit costs to the City’s budget would still only be in the range of 0.07 per cent.

Predetermined Audit Costs in Certain Jurisdictions

Quebec legislation mandates audit resources be a set percentage of the total City budget

Of significance in the comparison of audit costs between municipalities is legislation in Quebec. The Quebec Cities and Towns Act in Section 107.5 requires that, *“The budget of the municipality shall include an appropriation to provide for payment of a sum to the chief auditor to cover the expenses relating to the exercise of the chief auditor’s duties.”*

The amount legislated for audit services in municipalities with a budget in excess of \$1 billion is 0.11 per cent of the total City budget. If the equivalent percentage of 0.11 per cent was applied to the City of Toronto, the City's total audit budget would be in the range of \$11 million.

***Quebec model
would increase
City audit budget
significantly***

Using the Quebec model as a guide, the audit budget at the City would increase significantly. We are not suggesting that such an increase be considered without significant additional deliberation or analysis, nor are we suggesting that these additional resources be exclusively allocated to the Auditor General's Office.

The above analysis does, however, demonstrate that audit resources at the City are not excessive and should be increased to a level commensurate with the size and complexity of the City.

***City Manager's
recent report on
funding models
for accountability
functions in the
City***

In April 2013 City Council adopted a report from the City Manager entitled "Results Arising from the Shared Services Study Related to Internal Audit and Jurisdictional Research Respecting Funding Models for Accountability Functions". This report included the following:

"If the Province of Quebec's percentage formula of 0.11% is applied the Auditor General's budget would be 10.3M. While if the City of San Francisco's percentage formula of 0.2% is applied, it would be \$18.8M. As previously noted, it is the view of the City Manager that the City's audit resources, including the Auditor General's Office, are lean relative to the size and complexity of Toronto's government."

"Should City Council wish to consider changes to this funding model or levels of resourcing for the Auditor General or Toronto's other accountability functions, including consideration of moving to a fixed percent funding model, further direction should be provided to Executive Committee who has carriage over the establishment and governance of Toronto's accountability functions. If City Council determines to move to a fixed percent funding model to fund some or all of its accountability functions, further analysis and research will be required in order to determine the appropriate percent."

Recognize the financial constraints

In submitting the 2014 budget request we recognize the financial constraints under which the City operates and over the past number of years our budget requests have reflected this reality. Nevertheless, it is important to recognize that the audit work conducted by this Office is not at a level commensurate with the size and complexity of the City. In order to address audit projects which have been deferred as well as to accommodate the increased volume of complaints received by the Fraud and Waste Hotline, it is anticipated that the two positions previously gapped should be filled and additional resources in the range of \$500,000 provided.

Our 2014 audit work plan is based on the resources available. There are a significant number of audits which continue to be deferred because of limited resources. In addition, the Auditor General is now at the stage where audits previously conducted should be the focus of a second review. Resources are not available to allow for this.

Additional Workload Pressures

Annual follow-up of audit recommendations

An extremely important component of any audit process is to follow-up on audit recommendations made. There is little benefit to an audit unless recommendations resulting from the audit are implemented. In order to address this issue, we have established an annual process to follow-up on all previously issued audit reports. The resources devoted to this process have been significant. However, such a process enables us to ensure that all previously approved recommendations have been implemented.

City-wide risk assessment due in 2014

The Auditor General's Office conducts a City-wide risk assessment every five years to identify organizational risk. The last risk assessment was completed in 2009. The Auditor General's Office will conduct a City-wide risk assessment in 2014. The results of this review will figure prominently in the development of the Auditor General's Office annual work plans over the next five years. A significant amount of audit resources will be dedicated to complete this process.

Increase in Fraud and Waste Hotline activity

In addition, the 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.

The activity of the Fraud and Waste Hotline Program since its inception has been as follows:

**Fraud and Waste Hotline Program
Number of Complaints by Year**

Fraud and Waste Hotline Program complaint volume since its inception

Year	Number of Individual Complaints
2002	157
2003	238
2004	347
2005	577
2006	503
2007	523
2008	619
2009	677
2010	570
2011	822
2012	774

Prevention and detection are key to managing risk of fraud and other wrongdoing

The Auditor General’s Office has administered the Fraud and Waste Hotline Program since its inception in 2002. The Hotline Program is part of the City’s strategy to manage the business risk of fraud and other wrongdoing. Prevention and detection remain key components in managing this business risk which results in direct financial losses and indirect costs such as additional management resources to investigate and correct wrongdoing.

774 complaints were received in 2012

In 2012, the Program received 774 complaints, a six per cent decrease from the number of complaints in 2011. Approximately 35 per cent of complaints received in 2012 included at least two or more allegations. As a result, approximately 1,500 allegations were processed by the Program staff.

Complaint activity may increase or decrease because of the dynamic nature of the hotline program and various other factors. For the most part, the decrease in complaint activity in 2012 related to a decrease in the number of complaints involving the Toronto Community Housing Corporation (TCHC). In 2011, the Hotline Program received 121 complaints regarding TCHC in response to various high profile audit reports issued by the Auditor General's Office, while in 2012 it received 57 complaints relating to TCHC.

Ultimately, the effectiveness of the Hotline Program does not depend on the number of complaints reported in any given year, but on the action taken to investigate, manage and reduce the risk of fraud.

It is becoming increasingly difficult to manage the high volume of complaints particularly while at the same time fulfilling our audit mandate. By necessity many complaints are being forwarded to management for review.

Benefits of an Effective Audit Process

An effective audit process results in significant payback to the City

An effective audit process can result in a significant payback to the City in terms of:

- increased revenues
- reduced costs
- improved internal controls
- operational efficiencies
- enhanced protection of City assets.

The costs savings generated by the Auditor General's Office since amalgamation, while difficult to quantify precisely, have been significant and far outweigh the costs to operate the office. Most of the savings generated represent on-going annual savings.

Cost savings on an annual or one time basis

Costs savings and/or revenue increases as a result of audit reports occur on an annual basis or on a one time basis. While the listing of reports on Appendix 2 specifically outlines reports issued from 2008 to 2013, the City continues to benefit from annual cost savings identified in reports from as far back as 2000.

Cost savings over last five years are in the range of \$209 million

In a report to the Audit Committee dated January 22, 2013 entitled "Demonstrating the Value of the Auditor General's Office", it was reported to Audit Committee that the actual potential net savings for the period 2008 to 2012 were in the range of \$209 million. The next annual report, updated for 2013 audits, will be tabled with the Committee at its first meeting in 2014.

\$11 dollar return for every \$1 invested

In simple terms for every \$1 invested in the Auditor General's Office the return has been approximately \$11.

Significant cost savings and other benefits

While certain audits have resulted in cost savings, other benefits related to the avoidance of future costs, improvements to internal controls as well as the protection of City assets have also occurred.

Recent examples of annual cost savings

More recent examples of annual cost savings identified as a result of various audits are listed on Appendix 3:

One-time cost savings are in addition to annual savings.

One time cost savings

As indicated in the recent report entitled "Demonstrating the Value of the Auditor General's Office", one-time cost savings have been as follows:

Year	One Time Cost Savings
2008	\$715,000
2009	\$338,000
2010	\$443,000
2011	\$798,000
2012	\$5,747,000

Other reports issued and the benefits

Other reports issued by the Auditor General have produced benefits which in many cases are difficult to quantify. These include:

- The Review of the Investigation of Sexual Assaults – A Decade Later
- Review of the SAP Competency Centre
- City Purchasing Card Program
- Managing the Recruitment of Non-Union Employees
- Review of Disposal of Surplus IT Equipment
- Audit of City Performance in Achieving Access, Equity and Human Rights Goals

Each one of these reviews has significant benefits which are not necessarily financially related.

The Impact of the *City of Toronto Act*

The *City of Toronto Act* has had an impact on the Auditor General's ability to audit certain of the City's local boards. Prior to the *Act*, the Auditor General had access to all records at each of the City's local boards and was able to conduct audit work based on his analysis of risk.

City of Toronto Act limits Auditor General's authority to audit "restricted" local boards

The *Act* states, in Section 178 (3) under Powers and Duties of the Auditor General that "*the Auditor General may exercise the powers and shall perform the duties as may be assigned to him or her by city council in respect of the City, its local boards (restricted definition) and such city controlled corporations and grant recipients as city council may specify.*"

Under the *Act*, "local boards (restricted definition)" is defined as a local board other than the Toronto Police Services Board, the Toronto Public Library and the Board of Health. In essence, the Auditor General of the City of Toronto has no authority under the legislation to access records or conduct audit work at those "restricted" local boards.

***Auditor General
working with
“restricted” local
boards***

The Auditor General met with both the City Manager and the City Solicitor to further address this matter. The City Solicitor has advised that Council may extend the mandate of the Auditor General to include audits of the “restricted” local boards based upon specific requests of these boards. City Council subsequently approved that the Auditor General, at his discretion, may undertake financial, (excluding attest) compliance and performance audits of the “restricted” local boards upon request by the boards. This arrangement has worked satisfactorily, particularly, in the case of the Toronto Police Services Board. Since January 1, 2006, the effective date of the *Act*, a significant amount of work has been conducted at the Toronto Police Service.

It is anticipated that the Province of Ontario will be requested to amend the *Act* to include the “restricted” boards in those entities subject to audit by the Auditor General.

The Auditor General’s Annual Audit Work Plan

The 2013 Audit Work Plan of the Auditor General was considered at Audit Committee on October 25, 2012 and was adopted at City Council on November 27, 2012. It is available at:
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2012.AU9.4>

The 2014 Audit Work Plan will be tabled at the October 2013 Audit Committee meeting.

Conclusion

The budget to operate the Auditor General’s Office for 2014 is projected to be \$4,639,100. As indicated previously, 97 per cent of the Auditor General’s budget request consists of salaries and benefits.

***\$11 dollar return
for every \$1
invested***

Measured by all available yard sticks, whether it be legislative requirements in other jurisdictions or comparisons with other municipalities, the budget of the Auditor General's Office is inadequate in relation to the audit work required in the City.

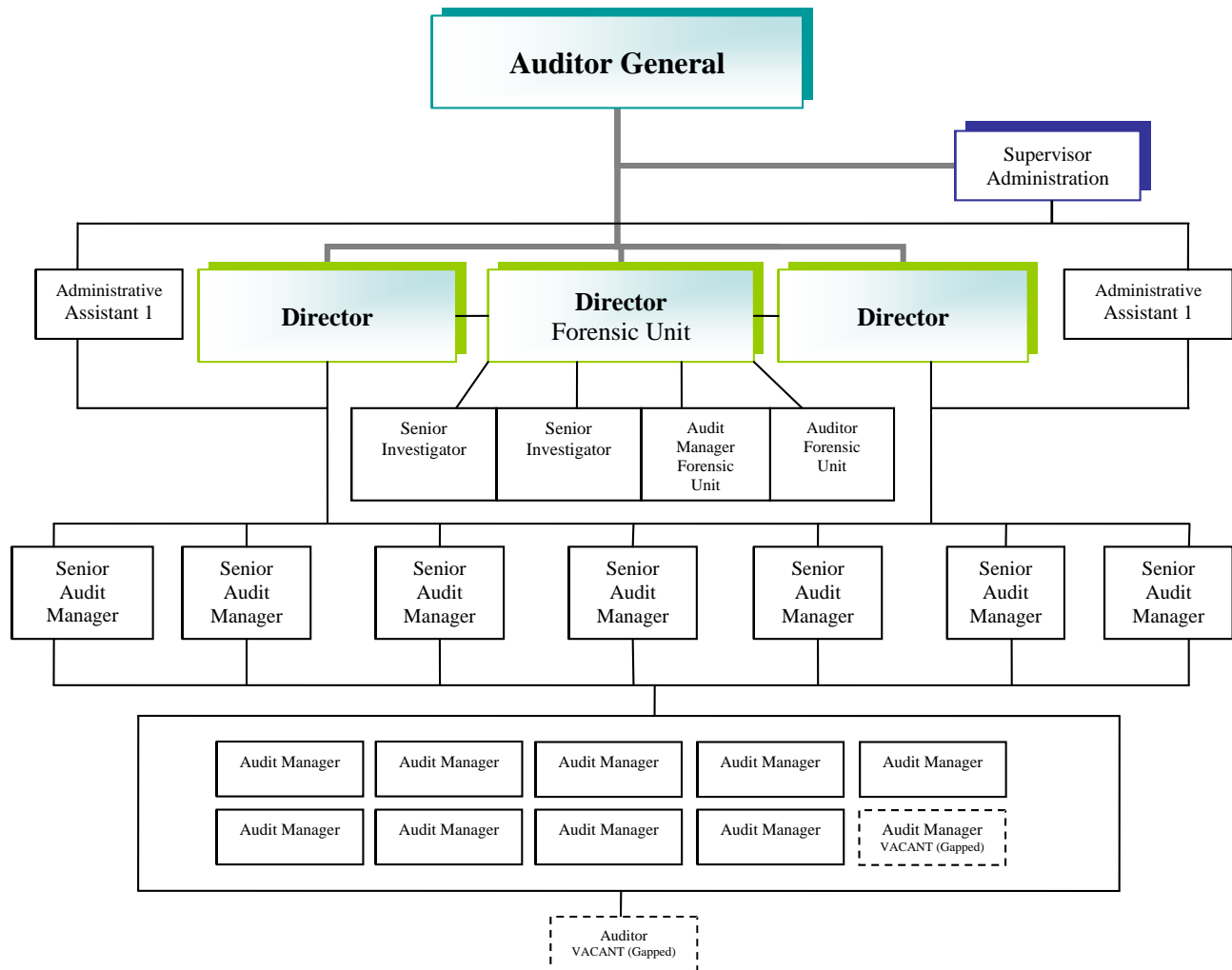
Based on the cost savings identified in this report, which are examples only, the return on the investment of funds in the Auditor General's Office is significant. The report entitled "Demonstrating the Value of the Auditor General's Office" indicates that for each \$1 invested in audit, the return is approximately \$11.

***More efficiency
audits can drive
more savings***

Finally, in validation of the views of the Auditor General the previous Mayor's Fiscal Review Panel in its report entitled "Blueprint for Fiscal Stability and Economic Prosperity- a Call to Action", dated February 2008 independently recommended that "the City should increase the budget for the Auditor General's Office to enable it to complete more efficiency audits and drive more savings". This recommendation has not been acted upon.

**THE AUDITOR GENERAL'S OFFICE –
ORGANIZATIONAL CHART AND WORKFORCE**

As at December 31, 2013





Association of Local Government Auditors

August 24, 2012

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Audit Services Director
Portland, OR

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Mr. Jeffrey Griffiths
Auditor General
City of Toronto
9th floor, Metro Hall
55 John St.
Toronto, ON M5V 3C6

Dear Mr. Griffiths:

We have completed a peer review of the City of Toronto Auditor General's Office for the period January 1, 2009 through December 31, 2011. In conducting our review, we followed the standards and guidelines contained in the *Peer Review Guide* published by the Association of Local Government Auditors (ALGA).

We reviewed the internal quality control system of your audit organization and conducted tests in order to determine if your internal quality control system operated to provide reasonable assurance of compliance with *Government Auditing Standards*. Due to variances in individual performance and judgment, compliance does not imply adherence to standards in every case, but does imply adherence in most situations.

Based on the results of our review, it is our opinion that the City of Toronto Auditor General's Office internal quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with *Government Auditing Standards* for audits and attestation engagements during January 1, 2009 through December 31, 2011.

We have prepared a separate letter offering one observation and suggestion to further strengthen your internal quality control system.

Sincerely

Beth Breier
City of Tallahassee, FL

Bill Greene
City of Phoenix, AZ



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August 24, 2012

Mr. Jeffrey Griffiths
Auditor General
City of Toronto
9th floor, Metro Hall
55 John St.
Toronto, ON M5V 3C6

Dear Mr. Griffiths:

We have completed a peer review of the City of Toronto Auditor General's Office (Office) for the period January 1, 2009 through December 31, 2011, and issued our report thereon dated August 24, 2012. We are issuing this companion letter to offer certain observations and suggestions stemming from our peer review.

We would like to mention some of the areas in which we believe your Office excels:

- The extensive Risk Assessment process the Office conducts to develop the five-year risk assessment and annual audit plans. The process includes: detailed analyses of the major City divisions, Agencies, Commissions, and Corporations and an extensive use of criteria and overall consideration of past audit work.
- The audit staff has a strong set of certifications and qualifications and tackles complex audit topics.
- The organization of audit workpapers and well-developed quality control process, including checklists and supervisory review at various steps help ensure audit standards are followed and audit quality is achieved.
- The Issue Development Worksheet is a good tool to develop the report issues and be more efficient in the report writing phase.
- Audit planning steps culminating with the issuance of a Terms of Reference letter is an effective way to communicate the results of the preliminary assessment, the audit objectives, scope, and methodology to management staff and assist in the development of the fieldwork audit program.
- The administrative staff were very efficient and gracious, and we observed how their organizational skills benefited your audit work.

We offer the following one observation and suggestion to enhance your organization's demonstrated adherence to *Government Auditing Standards*:

- Government Auditing Standards 1.25 states that performance audits provide objective analysis so that management and those charged with governance and oversight can use the information to improve program performance and operations, reduce costs, and facilitate decision making. Generally, when an audit organization reports information without following Generally Accepted Government Auditing Standards, the work product is categorized as nonaudit service instead of a performance audit.

While reviewing the various engagements and work performed in your Office, we noted 1 out of 50 reports was classified as administrative in nature when it should probably have been classified as an audit or nonaudit. This written report included analytics and audit procedures and was provided to management and Council to assist in reducing costs and facilitating decision making and was posted to the Office website for public use.

We suggest that for similar future projects the Office evaluate the classification of this work (i.e. either performance audit or nonaudit services) and apply the appropriate standards.

We extend our thanks to you, your staff and the other city officials we met for the hospitality and cooperation extended to us during our review.

Sincerely

Beth Breier
City of Tallahassee, FL

Bill Greene
City of Phoenix, AZ



Auditor General's Office

Jeff Griffiths, C.A., C.F.E.
Auditor General

Metro Hall
55 John St. 9th Floor
Toronto, Ontario M5V 3C6

Tel: 416-392-8461
Fax: 416-392-3754

August 24, 2012

Beth Breier
Audit Manager
300 South Adams Street, Box A-22
Tallahassee, FL 32301

Dear Ms. Breier,

Thank you for participating in the External Quality Control Review of the City of Toronto Auditor General's Office. Your review is a valuable part of our continuing efforts to improve the quality of audits, and we are pleased you found that audits performed by the Toronto Auditor General's Office comply with *Government Auditing Standards*.

The Auditor General's Office is committed to continuously improving the quality of our audit work. We appreciate your thoughtful comments regarding the areas where you found our Office excels including your acknowledgement of the Auditor General's Risk Assessment Process, quality of professional and administrative staff and audit working papers among other elements of the audit process.

We appreciate your observation related to the one report we classified as administrative and will consider the classification and handling of audit versus non-audit services and reports in the future.

Our entire office found the peer review to be a valuable and constructive process. We appreciate the professionalism with which you carried out your responsibilities as peer reviewers, as well as the insights gained from your own organizations.

I would like to extend my personal thanks to you and Bill Greene for taking the time to review our operations, and for your participation in the ALGA peer review program.

Sincerely,

Jeff Griffiths, CA, CFE
Auditor General
Toronto, ON

**AUDITOR GENERAL'S OFFICE
AUDIT REPORTS ISSUED
2008-2013**

2013:

- Emergency Medical Services – Payroll and Scheduling Processes Require Strengthening – October 3, 2013
- Toronto Employment and Social Services – Review of Employment Services Contracts – September 30, 2013
- Local Road Resurfacing – Improvements to Inspection Process Required to Minimize Incorrect Payments to Contractors – September 25, 2013
- IT Service Desk Unit – Opportunities for Improving Service and Cost-Effectiveness – September 18, 2013
- Toronto Fire Services – Improving the Administration and Effectiveness of Firefighter Training and Recruitment – September 16, 2013
- Auditor General's Hotline Investigation Report: Fleet Services Division – Review of Various Equipment Maintenance Practices – August 31, 2013
- Continuous Controls Monitoring Program, Toronto Transit Commission, Six-month Review of Employees Overtime and Related Expenses – August 27, 2013
- Continuous Controls Monitoring Program – Six-month Review of City Staff Absenteeism – August 12, 2013
- Continuous Controls Monitoring Program – Six-month Review of City Overtime and Mileage Expenses, 2013 – August 6, 2013
- Auditor General's Office - Status Report on Outstanding Audit Recommendations for City Agencies and Corporations – June 11, 2013
- Auditor General's Office - Status Report on Outstanding Audit Recommendations for City Divisions – June 7, 2013
- Auditor General's Office - Forensic Unit Status Reports on Outstanding Recommendations – June 5, 2013
- Local Road Resurfacing – Contract Management Issues – May 10, 2013
- Toronto Water – Review of Construction Contracts – May 7, 2013
- Financial Planning Analysis and Reporting System (FPARS) - A Large Scale Business Transformation/Information Technology Project – May 2, 2013
- Reliable Data is Needed for Effective Fleet Management – April 18, 2013
- Municipal Licensing and Standards, Investigation Services Unit – Efficiencies Through Enhanced Oversight – January 30, 2013

- 2012 Annual Report on Fraud Including the Operations of the Fraud and Waste Hotline – January 28, 2013
- Appraisal Services Unit - Opportunities for Improving Economy, Efficiency and Effectiveness – January 25, 2013
- 2012 Annual Report Requested by the Audit Committee – Demonstrating the Value of the Auditor General’s Office – January 22, 2013
- Municipal Grants – Improving the Community Partnership and Investment Program – January 21, 2013
- City Accounts Payable – Payment Controls and Monitoring Require Improvement – January 17, 2013
- Electronic Data – Standardizing Data Formats Across City Information Systems – January 9, 2013

2008 – 2012:

- Auditor General's Office - Annual Status Reports on Outstanding Audit Recommendations for City Divisions
- Auditor General's Office – Annual Status Reports on Outstanding Audit Recommendations for City Agencies, Boards, Commissions and Corporations
- Auditor General's Office - Forensic Unit, Annual Status Reports on Outstanding Recommendations
- Auditor General's Office - Annual Reports on Fraud Including the Operations of the Fraud and Waste Hotline
- Annual Reports Requested by the Audit Committee - Demonstrating the Value of the Auditor General's Office
- Review of Wheel-Trans Services – Sustaining Level and Quality of Service Requires Changes to the Program – December 6, 2012
- Parks, Forestry and Recreation Division - Review of the Management of the City's Golf Courses – August 24, 2012
- Toronto Employment and Social Services – Income Verification Procedures Can Be Improved – August 24, 2012
- A Mid-Term Review of the Union Station Revitalization: Managing Risks in a Highly Complex Multi-Year, Multi-Stage, Multi-Million Dollar Project – August 15, 2012
- City Stores: Maximize Operating Capacity to Be More Efficient – August 1, 2012
- Continuous Controls Monitoring Program – Review of City Overtime and Mileage Expenses – September 10, 2012
- eCity Initiative – Improvements Needed in Governance, Management and Accountability – September 5, 2012

- Toronto Transit Commission Employees Overtime and Related Expenses - Continuous Controls Monitoring - July 12, 2012
- Procurement of 311 Toronto's Information Technology System - Lessons for Future Procurement Processes - June 13, 2012
- Improving Reporting and Monitoring of Employee Benefits - June 12, 2012
- Review of Reporting on Use of Consultants - May 31, 2012
- Inventory Controls Over Traffic Control Devices in Transportation Services Need to be Improved - April 25, 2012
- Review of the Management of the City's Divisional Accounts Receivable - April 12, 2012
- Review of the Energy Retrofit Program at Community Centres and Arenas - March 26, 2012
- Front Yard and Boulevard Parking - Improvements Needed to Enhance Program Effectiveness - February 7, 2012
- Continuous Controls Monitoring - Review of Employee Overtime and Mileage Reimbursements - February 7, 2012
- Toronto Community Housing Corporation Fleet Management - Lack of Oversight Has Led to Control Deficiencies - February 6, 2012
- Review of Coordinated Street Furniture Contract - Public Realm Section, Transportation Services Division - February 3, 2012
- Toronto Community Housing Corporation - The City and Toronto Community Housing Corporation Needs to Strengthen its Oversight of Subsidiaries and Other Business Interests - February 2, 2012
- Review of Controls Over Procurement and Payment Functions at TCHC Subsidiary: Housing Services Inc. - February 2, 2012
- Toronto Building Division - Building Permit Fees, Improving Controls and Reporting - January 23, 2012
- 311 Toronto - Full Potential For Improving Customer Service Has Yet To Be Realized - October 17, 2011
- The Deep Lake Water Cooling Project - Total City Costs and Benefits Need to Be Reported - October 10, 2011
- Toronto Animal Services - Licence Compliance Targets Need To Be More Aggressive - October 5, 2011
- Review of Infrastructure Stimulus Funding - Opportunities Exist to Improve Controls over Construction Projects - October 5, 2011
- Toronto Police Service, Parking Enforcement Review - October 3, 2011
- Remote Access to the City's Computer Network - The Management of the Process Requires Improvement - September 8, 2011

- Toronto Police Service - Review of Integrated Records and Information System - August 26, 2011
- Red Light Camera Program - August 25, 2011
- Disposal of Digital Photocopiers - Protection of Sensitive and Confidential Data Needs Strengthening - June 16, 2011
- Transportation Services - Review of Winter Maintenance Services - April 26, 2011
- City Planning Division - Community Benefits Secured Under Section 37 or 45 of the Planning Act - March 31, 2011
- Toronto Police Service, Police Paid Duty - Balancing Cost Effectiveness and Public Safety - March 23, 2011
- Facilities Management Division Energy Efficiency Office - Management of Energy Loans and Grants Funded by the Ontario Power Authority - March 4, 2011
- Toronto Community Housing Corporation - Controls Over Employee Expenses Are Ineffective - February 25, 2011
- Toronto Community Housing Corporation - Procurement Policies and Procedures Are Not Being Followed - February 25, 2011
- Review of the Management and Funding for Inactive Landfill Sites - February 3, 2011
- Parks, Forestry and Recreation Division - Concession Agreements Review - January 19, 2011
- Toronto Environment Office - Review of Administration of Environmental Grants - January 17, 2011
- Governance and Management of City Computer Software Needs Improvement - January 7, 2011
- Administration of Development Funds, Parkland Levies and Education Development Charges - June 16, 2010
- Administration of Municipal Land Transfer Tax, Revenue Services Division - June 16, 2010
- Review of the City SAP Competency Centre - June 15, 2010
- Police Training, Opportunities for Improvement, Toronto Police Service - Follow-up Review - June 1, 2010
- Management of Capital Project 129 Peter Street – Shelter, Support and Housing Administration, Facilities Management and Real Estate Divisions - May 31, 2010
- Parks, Forestry and Recreation - Review of Internal Controls at the East York Curling Club - April 27, 2010
- Insurance and Risk Management - April 26, 2010
- Parks, Forestry and Recreation Division - Controls Over Ferry Service Revenue Need Strengthening - April 26, 2010

- Governance and Management of City Wireless Technology Needs Improvement - April 20, 2010
- The Review of the Investigation of Sexual Assaults – A Decade Later, Toronto Police Service - April 14, 2010
- The Auditor General's Second Follow-up Review on the Police Investigation of Sexual Assaults - April 9, 2010
- Toronto Zoo Construction Contracts Review – Tundra Project - March 29, 2010
- Controls Over Parking Tags Needs Strengthening - January 27, 2010
- Payment of Utility Charges - November 12, 2009
- Review of Information Technology Training - November 5, 2009
- City Purchasing Card (PCard) Program - Improving Controls Before Expanding the Program - October 27, 2009
- Effectively Managing the Recruitment of Non-Union Employees in the Toronto Public Service - June 19, 2009
- Process for Non-Competitive Procurement (Sole Sourcing) Needs Improvement - May 22, 2009
- Toronto Parking Authority Pay and Display Parking Operations - Review of Revenue, Expenditures and Procurement Practices - May 15, 2009
- Review of Disposal of Surplus IT Equipment - Security, Environmental and Financial Risks - May 4, 2009
- Parks, Forestry and Recreation - Capital Program - The Backlog in Needed Repairs Continues to Grow - January 23, 2009
- Review of Management and Oversight of the Integrated Business Management System (IBMS) - January 16, 2009
- Managing Employee Attendance - October 15, 2008
- Audit of City Performance in Achieving Access, Equity and Human Rights Goals - October 14, 2008
- Protecting Water Quality and Preventing Pollution - Assessing the Effectiveness of the City's Sewer Use By-Law, Toronto Water - October 10, 2008
- Follow-Up Audit on the Review of the Investigation of Sexual Assaults - Toronto Police Service - September 29, 2008
- Fleet Review - Toronto Police Service - September 26, 2008
- Review of Court Services, Toronto Police Service - June 12, 2008
- Review of Affordable Housing Project at 2350 Finch Avenue West - May 28, 2008
- Managing the Risk of Overpayments in the Administration of Social Assistance, Toronto Social Services - May 13, 2008

- Disaster Recovery Planning for City Computer Facilities - April 3, 2008
- The Management of Information Technology Projects - Opportunities for Improvement, Toronto Transit Commission - January 14, 2008

**EXAMPLES OF ANNUAL COST SAVINGS
IDENTIFIED AS A RESULT
OF VARIOUS AUDITS**

Audit Report	Annual Cost Savings
Continuous Controls Monitoring, 2012	\$3,500,000**
Procurement Policies and Procedures, Toronto Community Housing, 2012	\$10,000,000*
Fleet Management, Toronto Community Housing, 2012	900,000*
Employee Expenses, Toronto Community Housing, 2011	\$1,200,000*
Police Paid Duty, 2011	\$1,800,000
Toronto Animal Services Review, 2011	\$1,300,000
Parking Enforcement Review, 2011	\$2,890,000
Red Light Camera Program, 2011	\$1,400,000
Insurance and Risk Management, 2011	\$486,000
Sewer Use By-law, 2011	\$740,000
Court Services Review, 2011	\$900,000
Management of various construction contracts, 2006 - 2008	\$2,700,000
Management of Information Technology Projects – TTC, 2008	\$1,700,000
Employee Benefits Review, 2007	\$10,800,000
Review of Wastewater Treatment Program, 2007	\$740,000
Internet Usage Review, 2007	\$1,900,000
Review of Police Training, 2006	\$1,200,000
Review of Administration of Leases, 2006	\$1,000,000
Operational Review – Toronto Fire Services, 2006	\$2,000,000
Recovery Retail Sales Tax – MFP Sale / Leaseback City Computer Equipment, 2005	\$1,100,000
Hostels Operations Review, 2004	\$810,000
Review of SAP Implementation – In Camera, 2003	\$670,000
Toronto Parking Authority, 2002	\$1,900,000
Selection and Hiring of Consultants, 2001	\$2,000,000

*An analysis of the calculation of the savings generated from the audit of the Toronto Community Housing Corporation are provided on Appendix 4 to this report.

**Overtime since December 2010 has decreased by approximately \$7.0 million. Difficult to determine how much is due to Continuous Controls Monitoring but say 50 per cent is 3.5 million.

**TORONTO COMMUNITY HOUSING CORPORATION –
ESTIMATED COST SAVINGS**

The February 2011 report on purchasing policies and procedures at Toronto Community Housing Corporation (TCHC) estimated that annual savings of between \$4 and \$10 million could be realized by improving purchasing procedures. The estimate was based, in large part, on actual savings realized as a result of our 2007 report, “Toronto Water Division, Review of Wastewater Treatment Program – Phase Two”. As a result of implementing recommendations in that report the City’s Purchasing and Materials Management Division advised us that establishing blanket contracts for repetitive purchases resulted in actual discounts ranging from 10 to 25 per cent.

TCHC procures approximately \$200 million per year in goods and services. Of that total, only 10 per cent, or \$20 million follow a normal competitive procurement process. In addition, annual purchases of \$80 million in purchases are considered “low value” and generally not subject to a competitive bid process. For purposes of estimating savings we assessed the nature of TCHC’s operations and assumed that \$60 million of these purchases could be made through blanket contracts. Assuming savings in the 10 – 25 per cent range were achieved by the City, estimated savings would be between \$6 and \$15 million.

We have not attributed any savings to TCHC’s remaining \$100 million in purchasing that does not follow normal purchasing procedures. Many of these purchases are sole sourced. In our opinion it would not be unreasonable to assume that more competitive purchasing practices could achieve savings of five per cent at a minimum. This would yield a further \$5 million in savings.

During the 2012 Auditor General's Office annual follow up process to outstanding audit recommendations, TCHC reported annual savings of \$5 - \$7 million from working with City Stores. This is an annual incremental savings, to the cost savings previously estimated.

In summary, we originally estimated that cost savings as a result of increased competition pertaining to the procurement process could be anywhere from \$4 million to \$10 million. The Board approved a new enterprise-wide Procurement Policy, Procedures and Protocols in October 2012. As a result of the new Procurement Policy, Procedures and Protocols adopted by TCHC in October 2012, and based on preliminary TCHC staff reports, that actual savings are anticipated to be at the upper end of the range initially reported.

We also indicated that additional savings were likely possible through increased coordination of operations between the TCHC and the City. In this regard, the transfer of ownership and management of TCHC fleet to the City are estimated to result in savings of \$2.6 million over a five-year period, or \$520,000 annualized savings. In addition, following a fleet needs analysis, TCHC decided to reduce its fleet by 30 vehicles, and we estimate that this will result in approximately \$380,000 annual savings in operating and capital expenses.

Finally, a revised Employee Expense Policy was approved by the Board in December 2012 which aims to provide for improved controls and closer scrutiny of employee expenses. During our recommendation follow-up in 2012, we determined that closer scrutiny of employee expenses as well as improved controls had resulted in additional savings of approximately \$1 million annually as compared to prior years. With the revised Employee Expense Policy taking effect in late 2012, we are not in a position to quantify the extent of any subsequent additional savings at this time.