

**Presentation to Budget Committee
January 11, 2016**

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Auditor General**

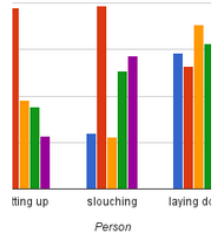
**Auditor General's Office
2016 Operating Budget Request and
2016-2025 Capital Request and Plan**

Presentation Outline



Mandate & Responsibilities

Effect of sitting position on a person:



Results



Value Proposition

s.131 COTA outlines City Council Oversight Duties

It is the role of City Council to...

- b) develop and **evaluate the policies and programs of the City**
- d) **ensure** that administrative policies, practices and procedures and controllership policies, **practices and procedures are in place to implement the decisions of council**
- e) to **ensure the accountability and transparency of the operations of the City**, including the activities of the senior management of the City
- f) to **maintain the financial integrity** of the City

2002 Report to the Mayor's Taskforce on the Establishment of an Independent Auditor General:

Serving Council and Citizens: Strengthening the Audit Function at the City of Toronto,

by Denis Desautels, Auditor General for Canada, 1991-2001

“A strong audit function to support Council is just as needed *if not more so* ...than in more structured federal or provincial environments”

“Councillors...must be able *to count upon* the work of an independent auditor in order *to fulfill their own oversight duties*”

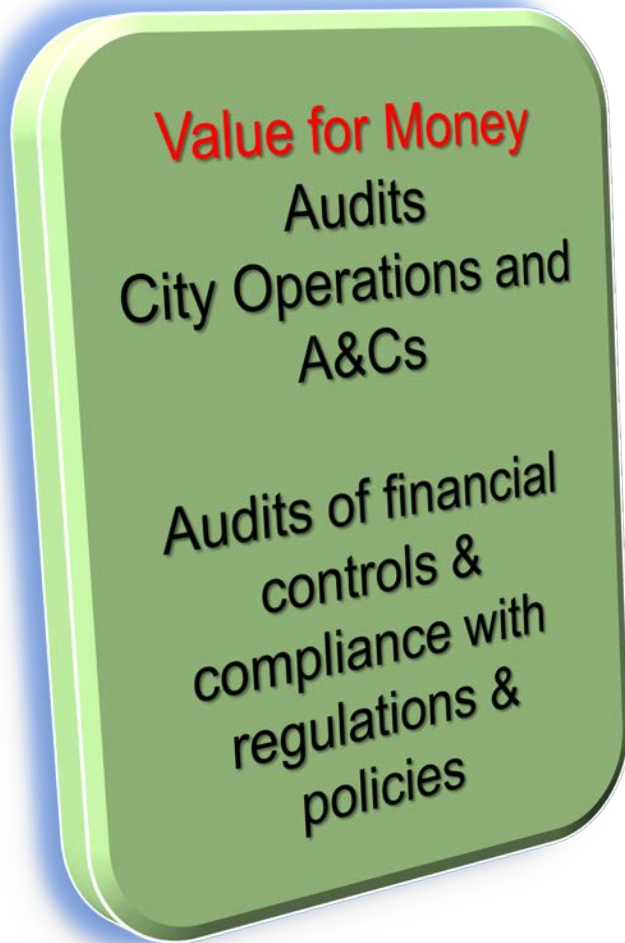
Mandate of the Auditor General

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
- the *achievement of value for money* in city operations

s.178(1) COTA

Three Lines of Business



Proactive assessment of all City policies, programs, systems, HR, IT, Agencies, Corporations

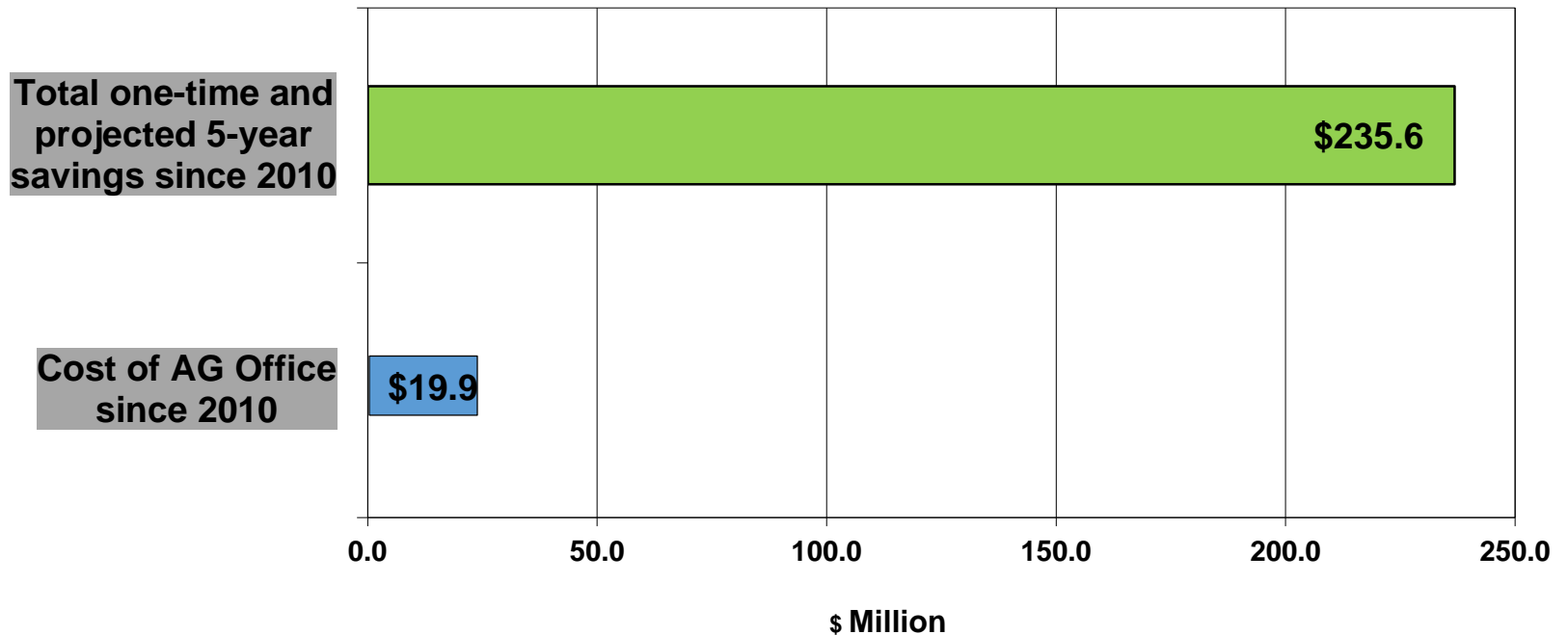


Investigations based mainly on complaints – 1,300 allegations per year



Results

Return on Investment 2010-2014



For every \$1 invested the return is \$11.80

‘Shining a light’

**also produces non-quantifiable benefits,
including:**

- improved internal controls & governance
- operational efficiencies
- better customer service
- deterrence
- enhanced protection of City Assets – and IT security
- effectiveness – ensuring mandates and Council Directives are being achieved

Results Reports Issued

2014

Total 26 reports:

- 11 Audit reports
- 3 Continuous Controls Monitoring reports
- 7 Annual reports
- 5 Other reports

2015

Total 33 reports:

- 11 Audit reports
- 5 Continuous Controls Monitoring reports
- 8 Annual reports
- 9 Other reports

Examples of Recent Audits Resulting In Significant Savings

Long Term Disability 2015	\$1.8 million cash recovered from billing errors Additional \$2.5 to \$5 million potential annual savings
Telecom 2014	Total \$3.4 million one-time and 5-year annual savings from cancellation, suspension and re-assignment of inactive or multiple phones
TCHC & subsidiary 2010-2012	Total \$62.2 million one-time and 5-year annual savings from improved procurement process and better controls of employee expenses
Police Paid Duty 2011	Total \$19.4 million 5-year savings from implementation of more effective permit criteria, and redeployment of 17 uniformed officers to policing duty by automating the manual paid duty distribution procedures
Parking Enforcement 2011	\$14 million 5-year revenue increase from reducing errors in parking tag issuance and delayed processing of parking tags, and enabling officers to enforce license renewal legislation

Sample of 2016 projects

Water

- Billing
- Collection

TTC

- Inventory
- Procurement

Paving Services

Police

- Level 3 and Level 4 searches of persons

Business Licence Issuance & Permit Enforcement

Employee Benefits

- Phase 2: Long Term Disability (LTD)
- Health and Dental Benefits

Affordable Housing Programs

Accounts Payable

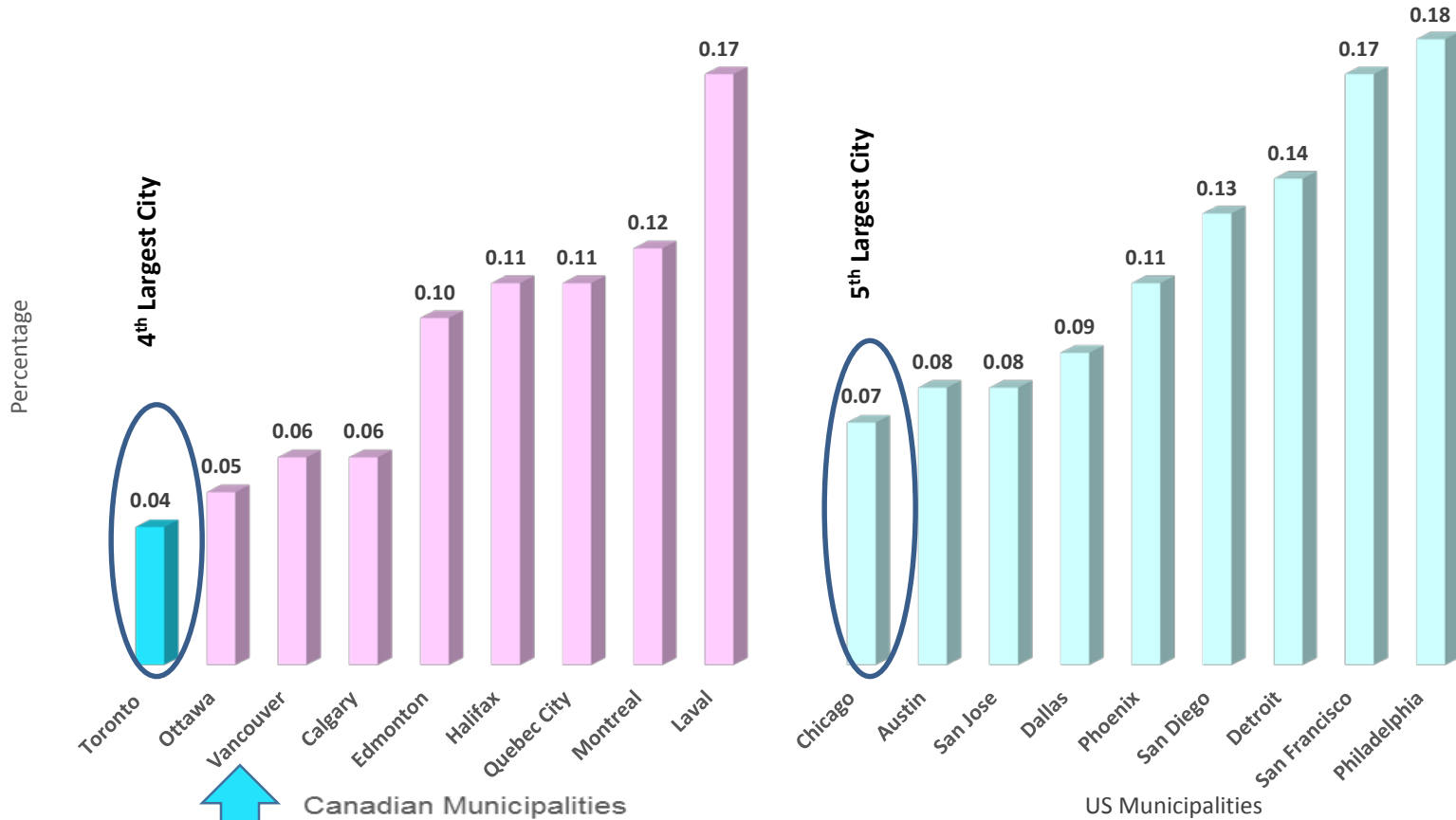
Information Technology

- Vulnerability Testing
- IT Project Management
- Data Centre Facilities

Procurement

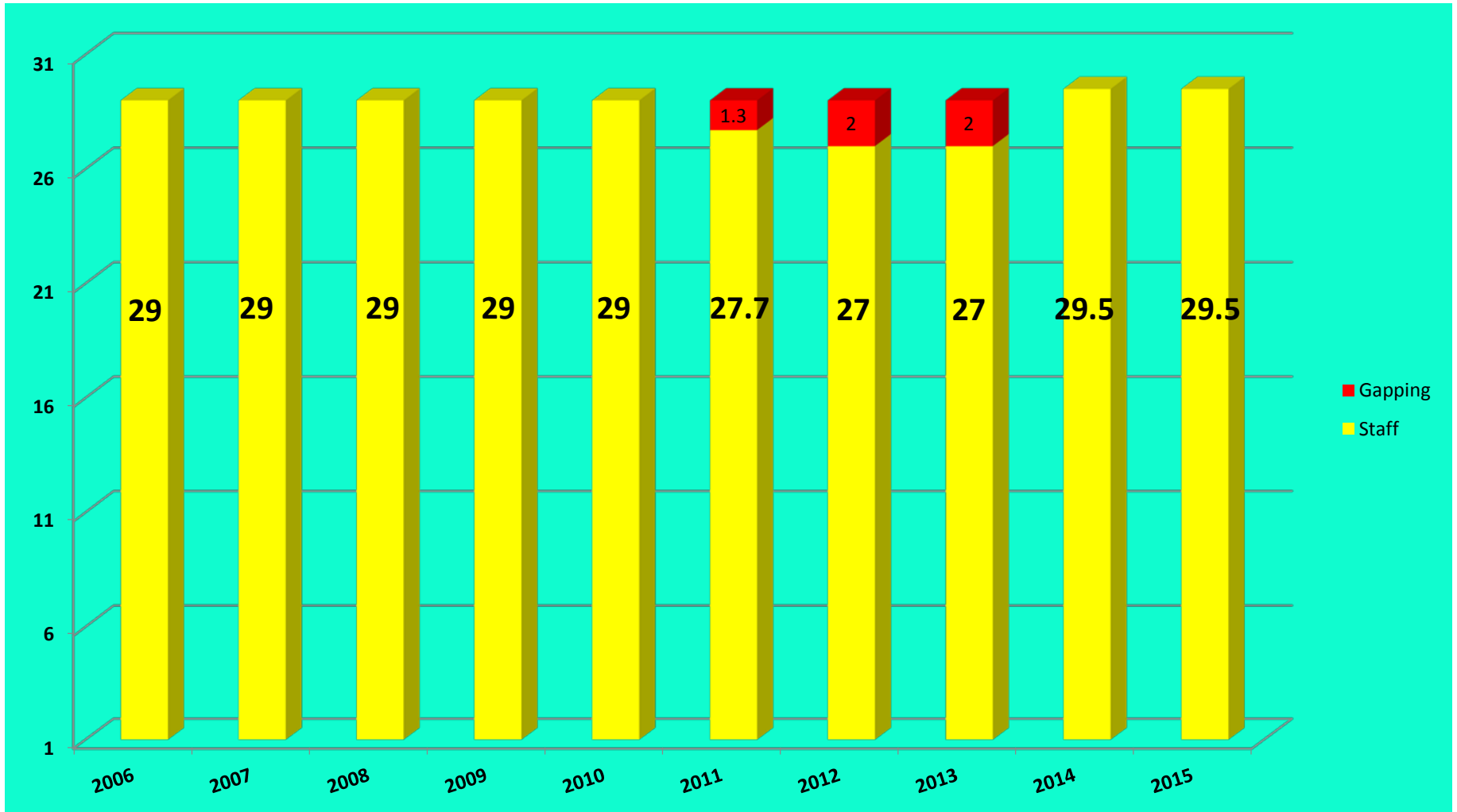
- Vendor Rosters

Audit Budget as a Percentage of Municipal Budget - 2015



With funding
budget will move
to just above .05%

Approved Positions 2006 to 2015



Impact of Underfunding

- Large backlog of projects - 55 high priority projects identified in the latest risk assessment
- 16 organizational areas not audited in the past 7 years
- Insufficient resources to lead investigations into allegations of fraud and waste

Examples of Projects Deferred until 2019 or Later

- TTC - major operations (e.g. subway and streetcar)
- TTC - IT project management
- TTC - real estate management
- TCHC - client care, dispatch and vendor management
- TCHC - rental revenue and rent subsidy program
- TCHC - commercial leasing revenues
- Urban forestry management
- Hostel system
- State of good repair of City facilities
- Single stream recyclable materials contracts
- City use of information technology professional services
- City preparedness for major emergencies and disaster

AGO Budget Underfunded

Former AG (since 2009)

“The level of staff in the Auditor General’s Office in relation to the audit work required is inadequate.”

Mayor’s Fiscal Review Panel (2008)

*“The City should increase the budget of the Auditor General’s Office to enable it to **complete more efficiency audits and drive more savings**”*

KPMG study for the City Manager (2013)

*“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.**”*

“If the Province of Quebec’s percentage formula of 0.11% is applied the Auditor General’s budget would be 10.3M.”

City Mgr Review of Accountability Offices (2015), Lorne Sossin, Dean Osgoode Law School

*“Based on the volume and complexity of these Offices and in light of their counterparts in other Canadian jurisdictions, Toronto’s **Accountability Offices are lean by any perspective.**”*

“Investments in Accountability Office functions give rise to the highest possible levels of service.”

“Given the current financial situation of the City and the very tight control over spending requests, any proposal to spend more on a service is likely to meet resistance. There is little doubt that strengthening the audit regime would cost more. However, **any additional spending would be based on the premise that it would produce benefits or savings in excess of incremental spending.**”

2002 Report to the Mayor’s Taskforce on the Establishment of an Independent Auditor General:

Serving Council and Citizens: Strengthening the Audit Function at the City of Toronto, Denis Desautels, Auditor General for Canada, 1991-2001

2016 Budget Request

	2016 Budget Request \$	Annualization Impact \$	Projected 12-month Impact \$
Base Budget	4,717,333		4,717,333
Normal Base Budget Changes (Performance Pay, Economic Factors, etc.)	45,233		45,233
Sub Total	4,762,566		4,762,566
New Budget Request			
External Professional Services, Software and Servers	217,620		217,620
New Staff Salaries, Benefits and Other Ongoing Costs (training, computer software, professional membership)	722,689	231,940	954,629
One-Time Non-Salary Cost for New Staff (Computers, Desks, etc.)	23,300		23,300
Sub Total	964,353	231,940	1,196,293
Total	5,726,919	231,940	5,958,859

2016 AGO Business Cases

Enhancement	Allocation	Increase (\$000)
Audit Function	3 new positions 1 student External professional services	\$370.7
Data Analytics IT Audits	1.5 new positions External IT professional services	\$201.7
Forensic Unit	2 new positions 1 student Contracted services (Intake) External professional services Computer software	\$392.0
Total		\$964.4

What will be the deliverables from the additional resources

- Six additional value-for-money or forensic audits per year
 - Audits scheduled for 2017-2018 workplan will be conducted earlier
 - Capacity to tackle the backlog of audits
- Impactful and specialized audits and investigations by using external professional services
- More efficient audit processes
- Ensuring timely processing of complaints
- Cost savings
- Higher level of assurance to City Council

2015-2024 Capital Budget

Previously Approved – Capital Budget (IT Projects)

	Previously Approved 2015 Budget (\$000)	2016 Plan (\$000)	Total Project Cost (\$000)
Complaint Management System	451	114	565
Working Paper Software		130	130
Total	\$451	\$244	\$695

Current 2016-2025 Capital Budget

	2015 Actual (\$000)	Previously Approved (\$000)	2016 Budget (\$000)	Total Project Cost (\$000)
<u>Combined Audit, Complaint and Investigation Management System</u>	\$99	\$352	\$244	\$695

Value Proposition – Options

Balancing frugality with producing “**benefits or savings in excess of incremental spending**”

2.5 Positions	4.5 Positions	6.5 Positions plus 2 students
<ul style="list-style-type: none">• 1 - 2 additional projects or forensic audits• Conservative ROI \$1:5• 2016 part year budget \$498K• 2017 annualization impact \$87K• Full year impact \$585K	<ul style="list-style-type: none">• 3 - 4 additional projects or forensic audits• Conservative ROI \$1:5• 2016 part year budget \$729K• 2017 annualization impact \$157K• Full year impact \$886K	<ul style="list-style-type: none">• 6 additional projects or forensic audits• Conservative ROI \$1:5• 2016 part year budget \$964K• 2017 annualization impact \$232K• Full year impact \$1.2 m

Recap

- **The AGO is delivering results**
 - Cost savings, efficiencies, better internal controls
- **The Office is underfunded**
 - Based on the size and complexity of the City there is insufficient funding to provide adequate audit coverage & assurance
- **There is an opportunity...**
 - an investment will **produce benefits or savings in excess of incremental spending**, increase audit assurance for Council, increase cost savings that may be redirected to Council priorities, increase efficiencies, improve effectiveness and deter fraud

Mayor's Fiscal Review Panel (2008)

*“The City should increase the budget of the Auditor General's Office to enable it to **complete more efficiency audits and drive more savings**”*