

2020 Budget Notes

**AUDITOR
GENERAL
TORONTO**

Office of the Auditor General

Budget submissions from the Accountability Officers (Auditor General, Integrity Commissioner, Lobbyist Registrar and Ombudsman) have not been the subject of an administrative review and have not been submitted to the City Manager or Chief Financial Officer and Treasurer for review, approval or recommendation prior to submission to the Budget Committee as set out in Chapter 3 of the Toronto Municipal Code, "Accountability Officers".

While we aim to provide fully accessible content, there is no text alternative available for some of the content within these pages. If you require alternate formats or need assistance understanding our charts, graphs, or any other content, please contact us at 416-392-8030.

What we do & Who we serve

Pursuant to the *City of Toronto Act, 2006*, the "Auditor General is appointed to assist City Council in holding itself and its administration accountable for the **quality of stewardship over public funds** and for the **achievement of value for money in City operations**."

The Auditor General conducts financial, operational, compliance, information systems, forensic and other special reviews.

Why we do it

Under the *City of Toronto Act*, **City Council's role** includes ensuring the City's *practices and procedures are in place to implement the decisions of council* and that the City maintains *accountability, transparency and financial integrity* in City operations.

The **Auditor General supports City Council** in fulfilling its due diligence responsibilities by independently providing transparent information on whether City programs are run effectively and Torontonians' tax dollars are spent as intended by City Council.

Mandated responsibilities

Specific responsibilities of the Auditor General are set out in Chapter 3 of the Toronto Municipal Code, including:

- Reporting to City Council on annual Office activities, including savings achieved
- Conducting audit projects identified by the Auditor General, or approved by a two-thirds majority resolution of City Council
- Undertaking financial (excluding attest), compliance and performance audits and making recommendations for improvement
- Undertaking financial (excluding attest), compliance and performance audits and provide recommendations upon request by the Toronto Police Services Board, Toronto Public Library Board and the Toronto Board of Health.

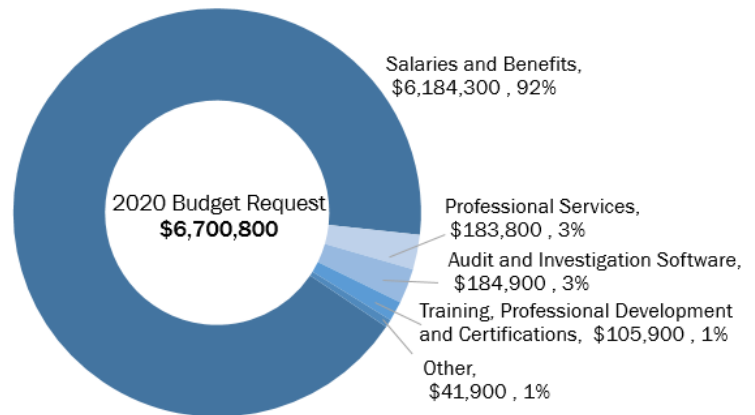
The Auditor General also has an independent oversight role in the investigation of reported wrongdoing. The Auditor General's responsibilities for investigating complaints and alleged wrongdoing are set out in Chapter 192 of the Toronto Municipal Code and include:

- Operating the Fraud and Waste Hotline Program, including the referral of issues to divisional management
- Conducting investigations into fraud and other wrongdoing, as well as allegations of employee reprisals

The Auditor General's Office also performs other duties consistent with the audit framework policy approved by City Council, including coordinating activities with the City's three other Accountability Officers, managing the contract of the external auditors performing financial statement audits of the City and its local boards, and coordinating audit activities with the City's Internal Audit Division to ensure the efficient and effective use of audit resources.

Budget at a glance

AUDITOR GENERAL-RECOMMENDED OPERATING BUDGET			
\$ Million	2020	2021	2022
Revenues	\$0.0	\$0.0	\$0.0
Gross Expenditures	\$6.7	\$6.8	\$6.9
Net Expenditures	\$6.7	\$6.8	\$6.9
Approved Positions	36.0	36.0	36.0



Key service outcomes

Outcomes	Description
Independent, transparent information	The Auditor General supports Council with independent, transparent information to hold the administration accountable for the quality of stewardship over public funds and for the achievement of value for money in City operations.
Greater efficiency and savings in City operations (financial benefits)	The purpose of any audit process is not specifically to identify cost reductions or revenue increases, although many of the Auditor General's audits have resulted in financial benefits. Different types of financial benefits or savings can arise from management's implementation of our recommendations. These include increased revenues, development of new revenue streams, operating cost reductions, cost avoidance, better management or use of City funds or resources including personnel, property and equipment, and the elimination of inefficiencies.
Improved governance, risk management, policies, procedures and internal controls (non-financial benefits)	Our recommendations help City management to improve their practices and focus on key issues they must address to ensure Torontonians keep receiving the best value for their tax dollars, and to help ensure programs are functioning as intended. The identification of cost savings and increased revenue is only one component of the Auditor General's mandate. Equally important is the ongoing evaluation of governance, risk management and internal controls. The Auditor General also helps to promote the safety and security of City information and operations. Although these benefits add significant value to City operations and services, the monetary value may not always be quantifiable.

Goals and metrics

Planned Activities to Achieve Outcomes

In accordance with Chapter 3 of the Toronto Municipal Code, the Auditor General submitted her 2020 Annual Work Plan for the Audit Committee's consideration on October 25, 2019. It was adopted by City Council on October 29, 2019. The Auditor General's Office 2020 Work Plan can be found at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.AU4.9>

Demonstrating the Value of the Auditor General's Office

In accordance with Chapter 3 of the Toronto Municipal Code, the Auditor General will submit her 2019 Annual Report demonstrating the value of the Auditor General's Office for consideration by the Audit Committee at its meeting on February 10, 2020. The 2018 Annual Report can be found at:

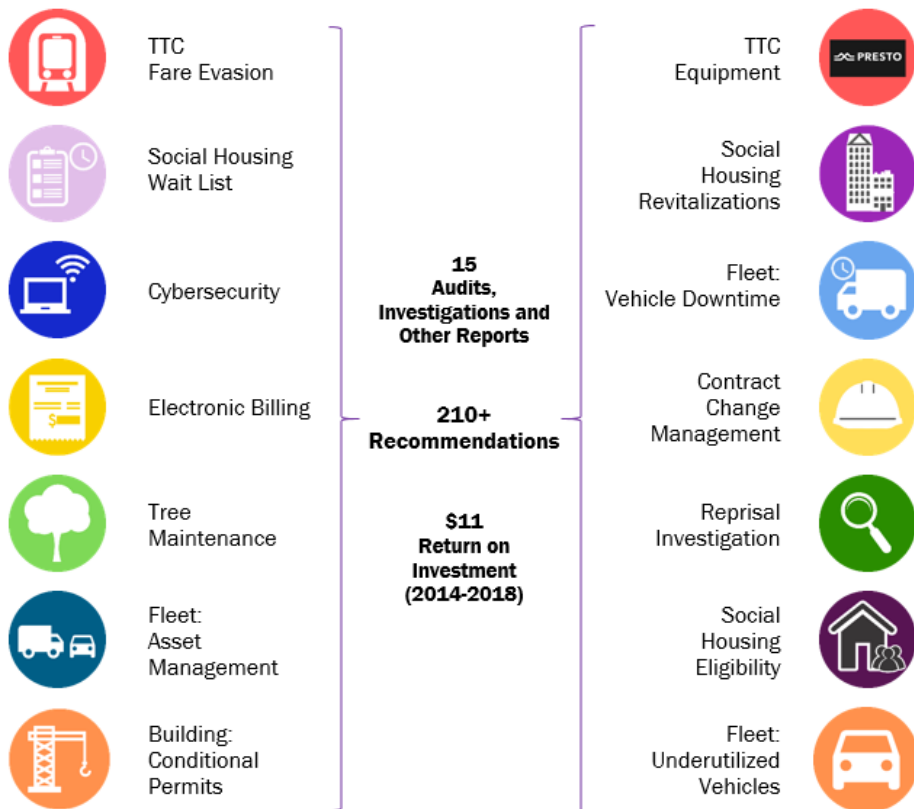
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.AU1.4>

Our experience and success

We are committed to assisting City Council and the Toronto Public Service achieve their goals of providing the best possible service to our world-class City.

In 2019, we did this by conducting independent audits and investigations and making recommendations aimed at reducing fare evasion on the TTC, ensuring value for tree maintenance services, helping the City maintain an effective social housing wait list, assessing how the City is addressing its top priorities like building new affordable housing, and ensuring the City has a robust, agile cybersecurity program in place.

The 2019 Annual Report demonstrating the value of the Auditor General's Office will be presented to Audit Committee on February 10, 2020.



Key challenges and risks

The Auditor General's recommended 2020 base budget for the Office of \$6.701 million is 1/20th of one per cent (.05%) of the City's 2019 Approved Adjusted Budget. It is the Auditor General's view that this is the minimum needed to allow the Office to keep up with the complexity of audits and investigations, the size of our mandate, and our operating context. The Office also needs to be able to address emerging risks that require immediate attention.

1. For the City's size and complexity, the Forensic Unit is small. A number of high-risk complaints are waiting to be addressed. Delays are primarily due to resource constraints.
2. Municipalities are increasingly becoming targets for cyberattacks. In order to quickly respond to these kinds of information technology risks, the Auditor General has needed to delay audits included in her Annual Work Plan.
3. Experts with specialized skills and tools are sometimes needed and required by audit standards to supplement the work performed by the Auditor General's staff, such as in the information technology area.

Priority actions

- Flexibility within the Auditor General's approved budget and staffing is needed to be able to leverage the use of experts and specialized tools to address emerging risk areas.
- Considering the risks facing the City, it is the Auditor General's view that an additional \$0.675 million in temporary funding is the minimum needed for resources to help provide assurance that emerging information technology risks and high-risk fraud and waste complaints are being promptly addressed. This would bring the Auditor General's 2020 budget up to 0.055% of the City's Operating Budget.
- Over the longer term, City Council should consider setting the Auditor General's budget as a fixed percentage of the municipal budget to support the Office's independence. The Office continues to be lean relative to the size and complexity of Toronto's Government. Our budget, relative to the size of the City's budget, remains among the lowest of major municipalities across Canada, as well as those of a number of municipalities in the United States.

Key Budget Facts



Total AG Base Budget Request: \$6.701M (0.05% of City Budget)



\$0.675 million in temporary funding is needed to address cybersecurity risks and Fraud and Waste Hotline backlog



92% of budget is for salaries & benefits

RECOMMENDATIONS

The Auditor General recommends that:

1. City Council approve the 2020 Operating Budget for the Auditor General's Office of \$6.701 million gross and net.

	Gross (\$000s)	Revenue (\$000s)	Net (\$000s)
Total Office Budget	6,700.8	0.0	6,700.8

2. City Council approve the 2020 staff complement for the Auditor General's Office of 36.0 positions.
3. City Council approve the retention of the service level over the past three years on a permanent basis as a result of the Council-approved 2017 to 2019 time-limited budget increases to undertake value for money audits and investigations.

4. City Council provide an additional \$0.675 million in temporary funding in order to address emerging cybersecurity risks and high-risk fraud and waste complaints.

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Auditor General

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2020 AUDITOR GENERAL
RECOMMENDED
OPERATING BUDGET

2020 OPERATING BUDGET OVERVIEW

Table 1: 2020 Auditor General-Recommended Operating Budget

(\$000s)	2018 Actual	2019 Projected Actual	2020 Base Budget	2020 New / Enhanced	2020 Auditor General Rec'd Budget	Change v. 2019 Projected Actual	
						\$	%
By Service	\$	\$	\$	\$	\$	\$	%
Revenues							
Auditor General's Office	0.2				0.0	0.0	
Total Revenues	0.2	0.0	0.0	0.0	0.0	0.0	
Expenditures							
Auditor General's Office	6,243.9	6,618.8	6,700.8		6,700.8	82.0	1.2%
Total Gross Expenditures	6,243.9	6,618.8	6,700.8	0.0	6,700.8	82.0	1.2%
Net Expenditures	6,243.7	6,618.8	6,700.8	0.0	6,700.8	82.0	1.2%
Approved Positions	33.0	36.0	36.0		36.0	0.0	

*2019 Budget and Actuals (based on Q3 2019) adjusted retroactively to remove interdepartmental charges and recoveries.

COSTS TO MAINTAIN EXISTING SERVICES

Total 2020 Base Budget of \$6.701 million gross and net reflecting an increase of \$0.082 million in spending above 2019 projected year-end actuals, predominantly arising from:

- Salary & benefit adjustments of \$0.069 million related to progression pay, one additional working day in 2020 and benefit adjustments
- Ongoing annual licensing costs of \$0.123 million for electronic audit working paper, Fraud & Waste Hotline, and data analytics software

The recommended budget supports the Auditor General providing the same level of capacity to undertake value for money audits and investigations as in 2019. It is recommended that the time-limited budget increases approved by City Council in 2017 to 2019 be retained permanently to preserve the level of service provided over the last three years.

EQUITY IMPACTS OF BUDGET CHANGES

Equity impacts are not determinable at this time: The Auditor General's 2020 Annual Work Plan adopted by City Council on October 29, 2019 includes audits where there may be equity impacts resulting from findings and recommendations (e.g. Audit of Shelter, Support and Housing Administration - Emergency Shelter Operations; Audit of Affordable Housing). Any changes to the Auditor General's Recommended Budget may impact the 2020 Annual Work Plan adopted by Council on October 29, 2019.

The Auditor General's Office 2020 Work Plan can be found at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.AU4.9>.

2020 AUDITOR GENERAL-RECOMMENDED OPERATING BUDGET KEY DRIVERS

The 2020 Auditor General-Recommended Operating Budget for the Auditor General's Office is \$6.701 million gross and net or 1.2% higher than the 2019 Projected Actuals. Table 2a below summarizes the key cost drivers for the base budget.

Table 2a: 2020 Key Drivers – Base Budget

Key Cost Drivers (\$000)	2018 Actuals	2019 Proj. Actuals	2020 Auditor General Rec'd Base Budget	Year over Year Changes	
				\$	%
Expenditures					
1 Salaries and Benefits	5,628.6	5,463.1	6,184.3	721.2	13.2%
2 Materials & Supplies	6.4	13.0	7.7	(5.3)	-40.8%
3 Equipment	188.9	241.8	65.9	(175.9)	-72.7%
4 Service and Rent	411.8	890.3	432.2	(458.1)	-51.5%
5 Contribution To Capital					
6 Contribution To Reserves	8.2	10.6	10.6		
7 Other Expenditures					
Total Expenditures	6,243.9	6,618.8	6,700.8	82.0	1.2%
Revenues					
1 Provincial Subsidies					
2 Federal Subsidies					
3 User Fees & Donations					
4 Transfers From Capital					
5 Other Revenues	0.2				
Total Revenues	0.2				
Net Expenditures	6,243.7	6,618.8	6,700.8	82.0	1.2%

*2019 Q3 Proj Actuals and 2018 Actuals adjusted retroactively to remove interdepartmental charges and recoveries

Salaries & Benefits:

- Salary & benefit adjustments related to progression pay, one additional working day in 2020 and benefit adjustments.
- In accordance with auditing standards, the Auditor General must determine the appropriate staffing for audit and investigations. This requires the Auditor General to have some flexibility within the Office's approved budget to choose between hiring staff and contracting external specialists. For example, information technology specialists are used to help assess cyber-security risks and forensic experts are used to support some investigations. For the purposes of the budget, the funds needed to carry out the Annual Work Plan are allocated to salaries and benefits for permanent and temporary staff. However, on a project-by-project basis (as was the case in 2019), the Auditor General may need to re-allocate funding within the Office's approved budget to "Services and Rent" to instead leverage contracted specialists.

Equipment:

- Decrease in software budget to reflect expected level of new software required in 2020.

Service and Rent:

- Increase in electronic audit working paper, Fraud & Waste Hotline, and data analytics software licences, annual support and maintenance costs.
- For the purposes of the budget, the funds needed to carry out the Annual Work Plan are allocated to salaries and benefits for permanent and temporary staff. However, on a project-by-project basis (as was the case in 2019), the Auditor General may need to re-allocate funding within the Office's approved budget to "Services and Rent" to instead leverage contracted specialists.

2021 & 2022 OUTLOOKS

Table 3: 2021 and 2022 Outlooks

(\$000s)	2019 Projected Actual	2020 Auditor General-Rec'd Budget	2021 Outlook	2022 Outlook
	\$	\$	\$	\$
Revenues				
Gross Expenditures	6,618.8	6,700.8	6,794.4	6,873.6
Net Expenditures	6,618.8	6,700.8	6,794.4	6,873.6
Approved Positions	36.0	36.0	36.0	36.0

*2019 Q3 Projected Actuals adjusted retroactively to remove interdepartmental charges and recoveries

Key 2021 drivers

Salaries and Benefits

- Progression and benefit adjustments

Inflationary Impact

- Economic factor adjustments for non-payroll items

Key 2022 drivers

Salaries and Benefits

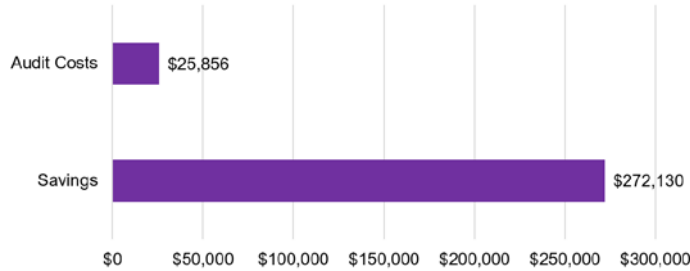
- Progression and benefit adjustments

Inflationary Impact

- Economic factor adjustments for non-payroll items

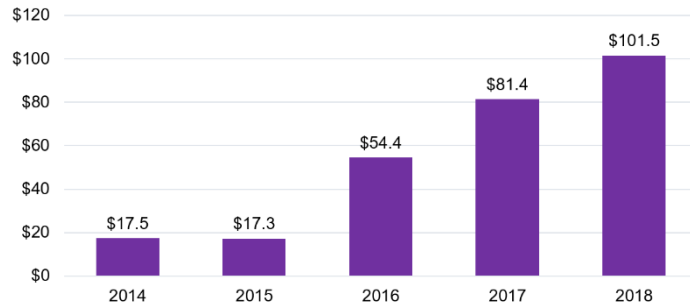
Value of the Auditor General's Office

Audit costs vs. savings (in 000s) over 5 years (ROI)*



- Savings identified through the Auditor General's audits and investigations far outweigh the costs to operate the Office.
- The Office's expenditures of approximately \$25.9 million over five years have generated \$272 million in savings and revenue increases for the City once our audit recommendations were implemented.
- For every \$1 invested in our Office, the City achieves a return of over \$10 by implementing our audit recommendations. This is an 18% increase from our 2017 return on investment (ROI) of \$8.5.

Realized savings & revenues (in millions) with recurring savings projected over 5 years*



- Most of the quantifiable impacts from implementing the Auditor General's recommendations result in ongoing annual savings and revenues.
- In 2018, the City realized over \$13 million in one-time cost savings and revenue increases. The City will also achieve over \$17.5 million in savings and revenues every year. Therefore, total savings realized in 2018 is \$31 million. Cost reductions and revenue increases realized in 2018 and projected over five years totals more than \$101 million.
- These savings and revenues are realized because management implemented audit recommendations from 14 previously issued audits.

*Figures are from the 2018 Annual Report - Demonstrating the Value of the Auditor General's Office. Updated savings figures will be provided in the 2019 Annual Report, which will be presented to Audit Committee on February 10, 2020.

Non-financial benefits

Identifying opportunities to increase cost savings and revenues is only one component of the Auditor General's mandate. Equally important are recommendations that improve governance, accountability, risk management and internal controls. These non-quantifiable improvements can be difficult to measure. The following positive changes are examples of the non-quantifiable impact of audit recommendations made in 2019:

Non-quantifiable benefit	Report
Improving the safety and security of City assets	<i>Establishment of City Wide Cyber Security Breach Incident Management Procedures Required</i> <i>Cyber Safety: A Robust Cybersecurity Program Needed to Mitigate Current and Emerging Threats</i>

Enhanced effectiveness of how those in need of housing assistance are served	<p><i>Opening Doors to Stable Housing: An Effective Waiting List and Reduced Vacancy Rates Will Help More People Access Housing</i></p> <p><i>Safeguarding Rent-Geared-to-Income Assistance: Ensuring Only Eligible People Benefit</i></p>
Improved strategic planning to achieve City priorities like affordable housing	<p><i>Moving Forward Together: Opportunities to Address Broader City Priorities in Toronto Community Housing Corporation Revitalizations</i></p>
Better controls over contracting practices	<p><i>Review of Urban Forestry - Ensuring Value for Money for Tree Maintenance Services</i></p> <p><i>Engineering and Construction Services - Phase Two: Construction Contract Change Management Controls Should Be Strengthened</i></p> <p><i>Audit of Interface Invoice Payments - Improving Contract Management and Payment Processes</i></p> <p><i>Review of Toronto Transit Commission's Revenue Operations: Phase Two – PRESTO/TTC Fare Equipment and PRESTO Revenue</i></p>
More effective and efficient operations and/or use of resources	<p><i>Fleet Services Operational Review - Phase One: Lengthy Downtime Requires Immediate Attention</i></p> <p><i>Fleet Services Operational Review - Phase One: Stronger Corporate Oversight Needed for Underutilized Vehicles</i></p> <p><i>Fleet Services Operational Review - Phase Two: Stronger Asset Management Needed</i></p> <p><i>Review of Toronto Transit Commission's Revenue Operations: Phase One – Fare Evasion and Fare Inspection</i></p>
Improved controls to protect and maximize revenue of the TTC	<p><i>Review of Toronto Transit Commission's Revenue Operations: Phase One – Fare Evasion and Fare Inspection</i></p> <p><i>Review of Toronto Transit Commission's Revenue Operations: Phase Two – PRESTO/TTC Fare Equipment and PRESTO Revenue</i></p>

APPENDICES

Appendix 1

2020 Auditor General-Recommended Operating Budget by Expenditure Category

Category (In \$000s)	2017	2018	2019	2019	2020	2020 Change from	
	Actual*	Actual*	Budget*	Projected Actual**	Total Auditor General- Recommended Budget	2019 Projected	Actual
	\$	\$	\$	\$	\$	\$	%
Provincial Subsidies							
Federal Subsidies							
Other Subsidies							
User Fees & Donations							
Licences & Permits Revenue							
Transfers From Capital							
Contribution From Reserves/Reserve Funds							
Sundry and Other Revenues		0.2					
Inter-Divisional Recoveries							
Total Revenues		0.2					
Salaries and Benefits	5,008.8	5,628.6	6,079.9	5,463.1	6,184.3	721.2	13.2%
Materials & Supplies	10.0	6.4	11.1	13.0	7.7	(5.3)	(40.8%)
Equipment	89.6	188.9	187.7	241.8	65.9	(175.9)	(72.7%)
Service and Rent	248.4	411.8	329.4	890.3	432.2	(458.1)	(51.5%)
Contribution To Capital							
Contribution To Reserves/Reserve Funds	8.2	8.2	10.6	10.6	10.6		
Other Expenditures							
Inter-Divisional Charges							
Total Gross Expenditures	5,364.9	6,243.9	6,618.8	6,618.8	6,700.8	82.0	1.2%
Net Expenditures	5,364.9	6,243.7	6,618.8	6,618.8	6,700.8	82.0	1.2%
Approved Positions	30.0	33.0	36.0	36.0	36.0		

* Actuals and 2019 Budget adjusted retroactively to remove interdepartmental charges and recoveries

** Year-End Projection Based on Q3 2019 Variance Report

Appendix 2

Summary of 2020 Service Changes

N/A

Appendix 3

Summary of 2020 New / Enhanced Service Priorities Included in Budget

N/A

Appendix 4

Summary of 2020 New / Enhanced Service Priorities Not Included in Budget

N/A

Appendix 5

2020 Capital Budget; 2021 - 2029 Capital Plan Including Carry Forward Funding

N/A

Appendix 6

Reporting on Major Capital Projects: Status Update

N/A

Appendix 7

Summary of Capital Needs Constraints

N/A

Appendix 8

2020 User Fee Changes (Excludes User Fees Adjusted for Inflation)

N/A

Appendix 9

Inflows and Outflows to/from Reserves and Reserve Funds

2020 Operating Budget

Corporate Reserve / Reserve Funds

Reserve / Reserve Fund Name (In \$000s)	Reserve / Reserve Fund Number	Withdrawals (-) / Contributions (+)		
		2020	2021	2022
		\$	\$	\$
Insurance Reserve Fund	XR1010			
<i>Withdrawals (-)</i>				
<i>Contributions (+)</i>		10.6	10.6	10.6

* Based on 9-month 2019 Reserve Fund Variance Report

Appendix 10

Glossary of Terms

Actuals: An actual financial amount paid (or received) for the delivery of City services (these exclude any commitments to be paid in the future).

Complement: Positions that support the delivery of City services and service levels as approved by Council.

Efficiencies: Reductions in the cost of delivering a service without a reduction in service level.

New / Enhanced: New and enhanced service changes resulting in an increase in service levels from what was previously approved by Council.

Operating Budget: An Operating Budget is the City's annual plan to provide services to the residents of Toronto; the budget includes all revenues and expenses needed to provide services; an example of an operating cost would be the cost to run the TTC subways.

Recommended Operating: An operating budget recommended by Accountability Officer to City Council for consideration and approval.