

BU22.2d Attachment 1



Auditor General's Office 2021 Operating Budget

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Beverly Romeo-Beehler, FCPA, FCMA, JD, ICD.D, CFF, BBA
Auditor General

**AUDITOR
GENERAL**

TORONTO

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2021 Budget Highlights

What We Do

Under Section 178 of the *City of Toronto Act, 2006*, 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 Auditor General’s Office is independent of management and has the authority to conduct financial, operational, compliance, information systems, forensic and other special audits and reviews of City divisions, and certain City agencies and corporations.

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.

2020 Results

In 2020, City-wide operations were significantly impacted by the COVID-19 pandemic. Many planned and in-progress audits were paused so that City staff could focus on service delivery and essential City services. However, in keeping with our mandate where operationally feasible, we continued work on audits and investigations, as well as our 2020 City-wide risk and opportunities assessment. Some of our staff also contributed to the COVID efforts; our administrative unit was redeployed to an essential services area of the City and some audit staff assisted with foreign translation in another essential services area while still continuing to work on audits.

We leveraged this time to implement a new electronic audit management system and continue the roll out of a newly implemented complaint management system. The new audit management system digitalizes both our audit files and our improved follow-up process, and assists with managing project workflows and interactions with divisional staff. The complaint management system, managed by our forensic team, allows complainants to upload documents through the internet while remaining anonymous, enhanced tracking of complaints, and improved reporting capabilities. These modernization initiatives set the Auditor General's Office up well, not only for remote work during the current period with COVID-19, but also for the longer term.

We issued seven audit and investigative reports (see Exhibit 1) and several other reports. Recommendations from these reports were aimed at improving controls and practices to protect against cyber security risks, improving contract management practices over winter road maintenance services, strengthening the delivery of expected outcomes for providing quality, safe, affordable housing to people in need, and deterring those thinking about committing benefits fraud against the City.

Starting in early 2020 and in accordance with the Auditor General's 2020 Audit Work Plan, the Auditor General conducted a City-wide risk and opportunities assessment to identify audit priorities for the development of her Audit Work Plan. The risk and opportunities assessment is a major undertaking. Every five years the Auditor General performs an extensive risk assessment of the operations of the City divisions and its major agencies and corporations included in her mandate. We digitalized our risk and opportunities assessment this year so that survey responses and

documentation were submitted online by City staff. As of the date of this report, we have received over 135 completed surveys from over 50 City divisions and major agencies and corporations.

The current City-wide risk and opportunities assessment also includes the Toronto Public Library and the Toronto Police Service. Both of these Boards, not currently within the Auditor General's jurisdiction as part of the Toronto Municipal Code, requested the Auditor General to perform this assessment for the first time. The preliminary results of this City-wide assessment are being presented as part of the Auditor General's 2021 Audit Work Plan, with additional updates to be communicated in 2021.

At the onset of the COVID-19 pandemic, we deferred our ongoing recommendation follow-up work so that City management and staff could focus on delivering essential services across the city. We took this opportunity to optimize our new audit management system so that it could integrate the continuous tracking of audit recommendations. City divisions, agencies and corporations can now provide updates on the status of recommendations in real-time, through a 24/7 online application portal. We have already provided training to over 200 staff members from City divisions and major agencies and corporations.

2021 Budget Request

The Auditor General's 2021 operating budget request is slightly less than the funding requested as part of the 2020 operating budget cycle. The Auditor General's recommended 2021 budget for the Office is 1/20th of one per cent (.05%) of the City's 2020 Approved Adjusted Budget.

Recognizing the City's current financial constraints, it is the Auditor General's view that at 0.05% of the City's Operating Budget, the Office continues to be lean relative to the size and complexity of Toronto's government while being able to address fraud and reprisal allegations and emerging issues appropriately.

The majority of the Auditor General's \$6.651 million budget request (92%) is for salaries and benefits. During 2020, the Auditor General's Office modernized by implementing an audit management system that not only supports documenting audit work, but also assists with managing project workflows and interactions with divisional staff. The Auditor General also streamlined internal processes and restructured the Office – repurposing existing administrative positions into audit and investigative positions to help make sure there were resources to address the important requests emerging from the Boards of the Toronto Police Service and Toronto Public Library.

In this budget, the Auditor General is seeking to confirm her organizational restructure by converting five temporary contract staff positions to permanent positions. The restructuring of five positions will have a net zero impact – reorganization costs will be absorbed in the base budget.

During the 2020 Budget process, City Council granted an additional \$675,000 in one-time funding to the Auditor General's 2020 operating budget. This amount funded additional work in cyber security and high-risk fraud & waste complaints. Some were completed and reported on in 2020 and others are in progress. Given the financial pressures facing the City during COVID-19, the Auditor General's 2021 operating budget request does not include this amount. By maintaining her 2020 base budget, the Auditor General will continue to demonstrate value from audits and investigations.

Although an enhanced budget increase is not being requested, it is important to note that with the addition of two significant City Boards (Toronto Police Service and Toronto Public Library), the Auditor General will be increasing the breadth in coverage of her work with audits or reviews of operations

governed by these Boards. In order to include audits of these two organizations, this may impact the number of audits that can be completed in the City's other divisions, agencies, and corporations.

The Auditor General's 2021 Work Plan is being presented to Audit Committee at the same meeting as this 2021 Budget Request.

Key Service Issues & Challenges for 2021 and Beyond

1. With the addition of audit projects to the Auditor General's 2021 Audit Work Plan (including those related to the Toronto Police Service and the Toronto Public Library), and with 2021 being the last year of the current Auditor General's term, transitioning a strong, stable, highly trained workforce at previously approved staff complement levels to continue with project delivery is critical. Performance audits in these areas are expected to identify cost savings and efficiencies to help the City address its financial pressures, as efficiencies are a natural by-product of performance audits.
2. For the City's size and complexity, the Forensic Unit is small. A number of high-risk complaints are waiting to be addressed and 2020 saw an increase in complaints and allegations to the Auditor General's Fraud and Waste Hotline. A number of investigations have been delayed, primarily due to resource constraints and COVID-19 considerations.
3. Cyber security risks have increased as more City operations were forced to transition to online, remote work. In order to quickly address and respond to certain information technology risks, the Auditor General may need to delay some other audits included in her Annual Work Plan.

Key Priority Actions

The Toronto Police Service and Toronto Public Library Boards invited the Auditor General's Office to perform a risk assessment. These assessments, completed in 2020, identified potential high-risk areas that could benefit from an audit. With her current staff complement, the Auditor General will need to prioritize which audits can be carried out in the near-term, versus those that need to be deferred.

Complexities can arise when conducting some investigations. Especially when there are a number of people / entities alleged to be involved. Staff may need to be re-assigned to an investigation, and in some cases, specialist(s) need to be hired, which comes at an extra cost. It isn't possible to predict the number and complexity of fraud allegations and reprisal complaints that must be investigated each year. Therefore, it is an ongoing challenge to determine the extent of resources that will be needed to conduct these investigations.

The Boards of the Toronto Public Library, Toronto Police Service, Toronto Transit Commission and other agencies and corporations have expressed interest in our Office performing work in the area of cyber security. Within the 2021 base budget request, the Auditor General has capacity to perform two to three cyber security audits. The average cost (excluding our own staff time) for each cyber security audit is generally \$120,000, although the cost can vary and can sometimes be hard to predict. The third cyber security audit currently included in the Auditor General's 2021 Audit Work Plan is budget dependent.

It is important to note that the extent of funding to her Office can sometimes limit the Auditor General's ability to address any fraud and reprisal allegations and emerging issues as they arise.

A. Mandated Responsibilities of the Auditor General

City Council's role

Under the *City of Toronto Act, 2006*, the role of City Council is to:

- a) represent the public and to consider the well-being and interests of the City;
- b) develop and **evaluate the policies and programs** of the City;
- c) determine which services the City provides;
- d) **ensure** that administrative policies, practices and procedures and controllership policies, **practices and procedures are in place to implement the decisions** of council;
- e) **ensure the accountability and transparency of the operations** of the City, including the activities of the senior management of the City;
- f) **maintain the financial integrity** of the City; and
- g) carry out the duties of council under this or any other Act.

[emphasis added]

Auditor General provides assurance to City Council regarding quality of stewardship over public funds

The Auditor General's mandate is also outlined in the *City of Toronto Act, 2006*. Under Section 178(1), 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 Auditor General conducts value for money audits and forensic examinations to fulfill this mandate and to help provide the information that City Council relies on to fulfill its role.

Auditor General undertakes audits and follows up on previous audit recommendations until they are fully implemented

The Auditor General is primarily responsible for the following:

- Undertaking financial¹, compliance and performance audits of City divisions, local boards², and City-controlled corporations, as well as the Toronto Police Services Board, the Toronto Public Library Board and the Toronto Board of Health upon request
- Following up on recommendations from previous audit reports
- Reporting to City Council on annual Office activities, including savings achieved

¹ In accordance with the *City of Toronto Act*, the Auditor General does not perform the audits of the financial statements of the City and its local boards

² In accordance with the *City of Toronto Act*, the Auditor General's powers and duties are with respect to the City's local boards (restricted definition)

The specific responsibilities of the Auditor General are set out in Chapter 3 of the Toronto Municipal Code.

Auditor General investigates allegations of fraud and other wrongdoing, as well as alleged reprisals against employees

In addition, the Auditor General's role and responsibilities for investigating complaints and alleged wrongdoing are also set out in Chapter 192 of the Municipal Code and include:

- Operating the Fraud & Waste Hotline Program, including the referral of issues to divisional management
- Conducting investigations into allegations of fraud and other wrongdoing, as well as reprisals against employees under the City's Disclosure of Wrongdoing and Reprisal Protection rules

Breadth and depth of coverage by audits and investigations

In recent years, the Auditor General has completed a number of comprehensive and complex audits and investigations that covered a broad range of programs and services across the City and its agencies and corporations. The audits and investigations completed between 2017 and 2020 are summarized in Exhibit 1.

2020 City-wide risk and opportunities assessment will set a roadmap for future Audit Work Plans

In order to identify audit projects to be included in her annual work plans, the Auditor General carries out a City-wide risk assessment every five years. This exercise helps ensure all significant areas of the City are evaluated from an audit risk perspective by using uniform criteria to identify areas that may warrant audit attention. Determining which areas to audit and the appropriate allocation of audit resources is essential in maximizing the value of an effective audit process.

Continued Council commitment is needed to conduct impactful audits and investigations across the City

City Council's continued commitment to investing in the Auditor General's Office will help to ensure that audits of priority areas and emerging risks, as well as investigations of high-risk complaints are adequately addressed in a timely manner.

B. Breakdown of the 2021 Budget Request

2021 Operating Budget Request of \$6,651,641

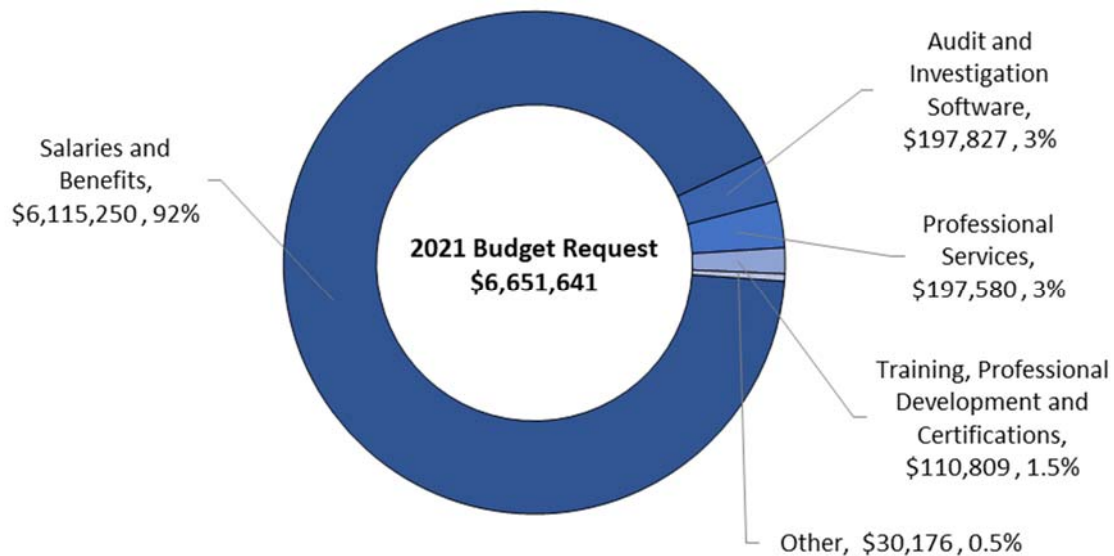
The Auditor General's 2021 Operating Budget request is \$6.651 million. After reversing the Council-approved one-time funding of \$675,000, this is slightly less than the base budget requested by the Auditor General in her 2020 Operating Budget for the Office (\$6.7 million). The categories of expenses included in the budget, as summarized in Figure 1, are further described in Exhibit 2.

Table 1: Comparison of 2021 and 2020 Budget and Projections

2021 Budget Request	2020 Approved Budget	2020 Projected Actual*
\$6,651,641	\$7,375,800	\$7,375,800

*Based on Q2 Corporate Variance Report

Figure 1: Budget by Expenditure Category



No increases or enhancements to the operating budget

By not including the Council-approved \$675,000 of one-time 2020 funding in the Auditor General's 2021 budget request, the 2021 budget request variance is flat when compared to her 2020 budget request.

Funding the Auditor General's 2021 budget request will continue to preserve the level of service provided over the last three years. The majority of the \$6.651 million budget request (92%) is for salaries and benefits. Within the requested base budget, the Auditor General is seeking to convert five temporary contract staff positions to permanent positions as part of an organizational restructure. This will result in a net zero budget impact; conversion costs will be absorbed in the base 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

Potential audits of Toronto Public Library and Toronto Police Service

With the addition of two significant City Boards (Toronto Public Library and Toronto Police Service), the Auditor General plans to broaden her coverage of audits and reviews of operations governed by these Boards.

Past audit reports have realized millions of dollars in cost savings, avoided costs, and found new or increased revenues

The Auditor General recognizes the City's ongoing financial pressures, especially with a focus on identifying savings and/or efficiencies. That being said, the benefits of performance audits that the Auditor General brings are that much more valuable. As highlighted in the Auditor General's Annual Reports, past audit reports have realized millions of dollars in cost savings, avoided costs, and identified revenue increases and new revenues.

Any reductions to the Office will ultimately negatively impact the financial and non-financial benefits the City achieves as a result of the Auditor General's audits and investigations, and possibly increase the risks affecting the City.

Key Service Issues & Challenges for 2021 and Beyond

Expanded scope with limited resources

New performance audits planned for the Toronto Police Service and Toronto Public Library

Upon invitations from the respective boards of the Toronto Police Service and Toronto Public Library, the Auditor General conducted risk assessments of these agencies in 2020. Potential audit projects were adopted by the respective Boards in October 2020, and the full proposed audit plan for the Toronto Police Service will be considered by its Board during their November 24, 2020 meeting. The Auditor General's 2021 Audit Work Plan includes four audits of operations governed by these boards, and the Audit Work Plan may be further updated following the Toronto Police Services Board meeting.

With her current staff complement, the Auditor General will need to prioritize which audits can be carried out in the near-term, versus those that will need to be pushed into later years. This means that the Office's backlog of audit projects will continue to grow.

A number of high-risk Fraud & Waste Hotline complaints are waiting to be addressed

Investigating Alleged Fraud, Wrongdoing, or Reprisals

For the City's size and complexity, the Forensic Unit (investigations and Fraud & Waste Hotline team) is small. Our Office currently has several active investigations underway, but there are a number of other high-risk complaints waiting to be addressed. This year also saw an increase in complaints and allegations to the Auditor General's Fraud and Waste Hotline. As at October 31, 2020, complaints to the Hotline increased by about 33 per cent when compared to the previous year.

Delay in addressing complaints is primarily due to resource constraints

The delay in addressing these other high-risk complaints is primarily due to resource constraints. It is a challenge to conduct forensic investigations in a timely manner because of the Office's limited capacity. In addition, it is not possible to predict the number and complexity of fraud allegations and reprisal complaints received by the Fraud & Waste Hotline. In order to help manage the resource constraints, the Auditor General has had to re-allocate some staff time normally dedicated to audits as well as leverage the use of experts and specialized investigative tools to supplement our investigations.

Responding to Emerging Risks

Cyber incidents still present a significant risk to the City

In order to quickly respond to certain emerging risks, such as heightened cyber security risks that come with moving more City operations and services online, the Auditor General may need to delay some audits included in the Annual Work Plan. This is necessary to provide City Council with assurance that emerging risks are being adequately addressed in a timely manner. There is an increasing prevalence of reported cyber security breaches of governmental systems across Canada and the United States.

2021 budget request only has capacity for 2-3 cyber security audits

Within the 2021 base budget request, the Auditor General has capacity to perform two to three cyber security audits. The average cost (excluding our own staff time) for each cyber security audit is generally \$120,000, although the cost can vary and can sometimes be hard to predict. The third cyber security audit currently included in the Auditor General's 2021 Audit Work Plan is budget dependent.

City Council's continued commitment to investing resources in the Auditor General's Office would help ensure that emerging risks and high-risk complaints are adequately addressed in a timely manner.

B.1. Return on Investment

The Auditor General conducts independent, objective audits

The City is obtaining considerable value from investing resources into the Auditor General's Office.

The Auditor General conducts independent, objective audits designed to add value and improve the effectiveness and efficiency of governance and operations. Exhibit 1 of this report includes a list of the audit reports issued from 2017 through 2020.

An effective audit process results in significant payback to the City

An effective audit process can also achieve the following:

- increased revenues
- reduced costs
- strengthened risk management
- improved internal controls
- enhanced protection of City assets.

Annual Report – Demonstrating the Value of the Auditor General's Office

City Council has required the Auditor General to report on the value of the Office, and specifically the dollar savings to the City of Toronto since 2004. In response to this requirement, the Auditor General submits an Annual Report to City Council, entitled *Demonstrating the Value of the Auditor General's Office*, which summarizes the activities and the quantifiable financial and non-financial benefits of the Office.

Council recommendation to continue reporting on savings achieved City-wide

City Council reaffirmed the importance of this Annual Report in its March 2019 recommendation:

"City Council request the Auditor General to include in future Auditor General's Annual Report, beginning in 2020, savings achieved by City Divisions and Agencies resulting from the implementation of the Auditor General's reports and recommendations." (EX2.5, Recommendation #113)

The Auditor General will present the 2020 Annual Report to Audit Committee in early 2021.

The 2019 Annual Report is available at:

<https://www.toronto.ca/legdocs/mmis/2020/au/bgrd/backgroundfile-145394.pdf>

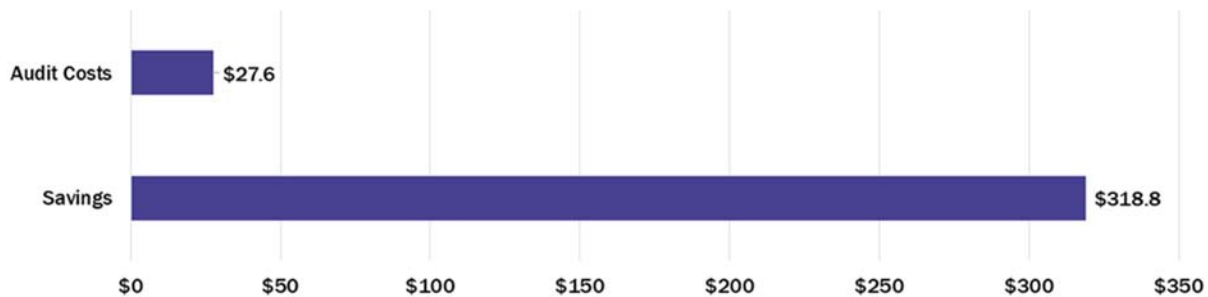
Potential savings are not included in ROI calculation

In conducting our audits, we always quantify the potential financial benefits of implementing audit recommendations, whenever possible. These financial benefits, referred to as "savings", can include cost reductions, new or increased revenue streams, or future cost avoidance. These savings are only included in the Auditor General's annual reports when our Office, in consultation with management, have verified that they have been realized.

Realized savings are reported in the Auditor General's Annual Report

The 2019 Annual Report highlighted that the total **one-time and projected five-year savings** realized in 2019 was **\$32.6 million**. The estimated one-time and projected five-year savings (cost reductions and revenue increases) **for the years 2015 to 2019** were approximately **\$318.8 million**. Our cumulative Office expenditures over the same period were \$27.6 million.

Figure 2: Five-Year Audit Costs Compared to Estimated Realized Savings (\$000's), 2015 to 2019, Auditor General's Office



Source: Auditor General's 2019 Annual Report – Demonstrating the Value of the Auditor General's Office

Every \$1 invested in the Office resulted in \$11.5 in savings

Savings identified through the Auditor General's audits and investigations far outweigh the costs to operate the Office. Most of the savings generated represent ongoing annual savings. The **return on every dollar invested in the Auditor General's Office from 2015-2019 is over \$11.5.**

Additional savings can be realized as audit recommendations are implemented

We have not yet updated the return on investment for 2016-2020. We do note that a number of audit recommendations have the potential to realize savings when they are fully implemented. Potential savings are however, not included in our return on investment calculation

Improved approach to recommendation follow-up

In 2020, we modernized our process and improved the efficiency and timeliness of how we collect information from management when following up on audit recommendations. As an extension of our new audit management technology solution, we integrated continuous tracking of the implementation status of audit recommendations.

Management priorities shifted due to the pandemic

The unprecedented pandemic impacted City operations in many ways (changes to service delivery, redeployment of staff, etc.). With a shift towards addressing the City-wide impacts of COVID-19, management's attention to implementing past Auditor General audit recommendations was sometimes delayed or halted. However, there were also some instances of realized efficiencies related to previous Auditor General recommendations, indicated by management actions through the reports that went to the various Committees and City Boards in 2020.

Recommendations related to improving controls are important but benefits may not be quantifiable

Equally important are the non-financial benefits from Auditor General recommendations. These include strengthened internal controls, cyber security controls, improved policies and procedures, better management and use of City resources, increased operational efficiency, better customer service, and increased detection and prevention of serious safety and security issues.

Table 2 includes examples of the reports the Office completed in 2020 where the benefits were either non-financial in nature, or could not be conservatively quantified at the time the reports were issued.

Table 2: Examples of Non-Quantifiable Benefits from Auditor General's Reports Issued in 2020

Non-quantifiable benefit	Report
Improving contract design and contract management controls and improving efficiency of processes by leveraging technology	<i>Audit of Winter Road Maintenance Program - Phase One: Leveraging Technology and Improving Design and Management of Contracts to Achieve Service Level Outcomes</i>
Strengthening accountability and delivering on objectives and expected outcomes for providing quality, safe, affordable housing to households in need	<i>Strengthening Accountability and Outcomes for Affordable Housing: Understanding the Impact of the Affordable Home Ownership Program</i>
Deterring employee benefit fraud	<i>Employee Health Benefits Fraud Involving a Medical Spa</i> <i>Continuous Controls Monitoring Program: Opportunities to Reduce Cost of Dental Benefits</i>

Benefits of the Fraud & Waste Hotline Program

In addition to conducting in-depth audits and investigations, the Auditor General's Fraud & Waste Hotline Program has helped to reduce losses and has resulted in the protection of City assets. Without the Hotline Program, certain losses from incidents of fraud and waste might not have been identified or recovered.

Implemented a new complaint management system

With the support of the City's Technology Services Division and others, we worked to implement a new complaint management system, which included the migration of prior complaint data. As of December 2019, the new system was operating successfully and the roll out of the newly implemented system took place during 2020.

New system has many benefits

Some of the new complaint management system's improved functionality includes:

- the ability for complainants to upload files when submitting their complaint;
- the ability for complainants to remain anonymous and still communicate with the Auditor General's Office through a secure portal;
- modernizing the tracking and documentation of complaints through their lifecycle, thereby increasing the efficiency of the process; and,
- extensive reporting capabilities that will help the Auditor General's Office perform further analysis of the underlying data.

Complaints to the Hotline increased in 2020

As at October 31, 2020, the Hotline Program received 702 complaints representing over 1,000 allegations. The total number of complaints received to date has significantly increased from the prior year, by about 33 per cent. We project that at the end of 2020, the Fraud & Waste Hotline will receive over 800 complaints representing approximately 1,250 allegations.

Evaluating trends in allegations to the Hotline have led to important audits

Hotline data also provides a picture of trends and potential risks that have led to audits with significant findings, including the recent audits of long-term disability, employee extended health benefits, and road maintenance.

Other benefits from the Hotline Program that are not quantifiable include:

- The deterrence of fraud or wrongdoing
- Strengthened internal controls
- Improvements in policies and procedures
- Increased operational efficiencies
- The ability to use complaint data to identify trends and make action-oriented recommendations to management.

Ultimately, the effectiveness of the Fraud & Waste Hotline 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 and other wrongdoing and the deterrence created by having such a tool.

Forensic Unit is also responsible for overseeing and conducting investigations

In addition to operating the Fraud & Waste Hotline, the Auditor General's Forensic Unit is responsible for providing independent oversight of management-led investigations, and conducting investigations, including allegations of reprisal.

Where independence is not an issue, the Auditor General may ask management to do the first-line investigation. The Auditor General's Office provides independent oversight to review the adequacy of work conducted, including steps taken to reduce losses, protect City assets and deter future wrongdoing.

Due to limited staff resources, the Forensic Unit uses a risk-based approach and focuses its investigative work on high-risk areas.

B.2. Benchmarking Audit Costs with Other Municipalities

Auditor General's Office is considered lean by any perspective

Multiple studies and sources have remarked on how lean the Auditor General's Office is:

- **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".*
- **Former Auditor General (since 2009):** *"The level of staff in the Auditor General's Office in relation to the audit work required is inadequate."*
- **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."*
- City Manager's Review of Accountability Offices conducted by **Lorne Sossin, Dean of Osgoode Law School (2015):** *"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."*

Toronto's auditor among lowest-funded compared to other major cities in Canada and U.S.

The Auditor General's 2021 budget request is only 1/20th of one per cent of the City's 2020 adjusted operating budget (0.05%). This is among the lowest of major municipalities across Canada, as well as those of a number of municipalities in the United States, as summarized in Figure 3.

A budget based on a fixed percentage of the operating budget supports the Office's independence and allows work to proceed without yearly budget pressures

It is worth noting that some municipalities have adopted legislatively prescribed methods for funding their oversight bodies in proportion to their overall budgets. For example, 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."

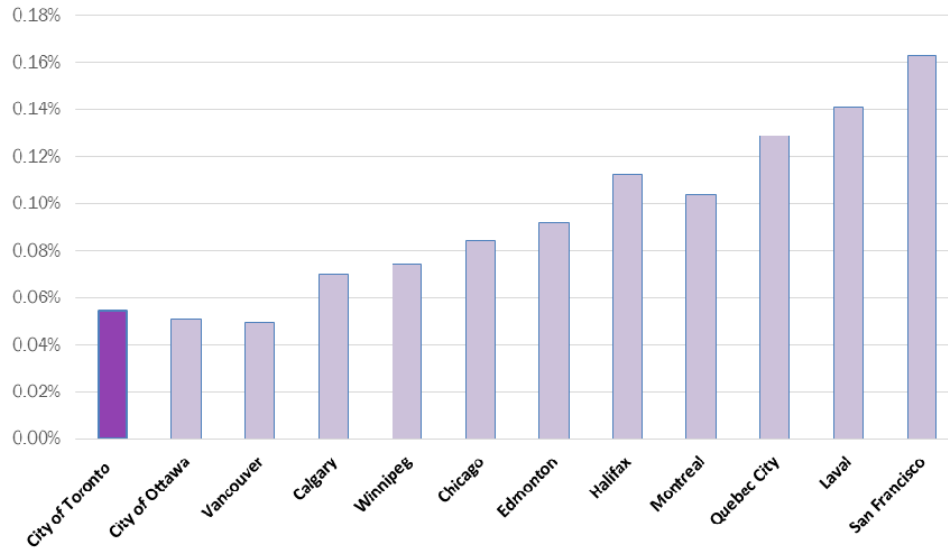
The City Manager's 2013 report³ to City Council included jurisdictional research on funding models for accountability functions. The report noted that [emphasis added]:

"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 per cent."

³ The April 2013 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" is available on the City's website at: <http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2013.AU10.12>

Figure 3: Audit Costs as a Per Cent of Municipal Operating Budget



Funding models for the Accountability Offices were to be examined

In January 2020, the Office of the City Manager issued a briefing note where it was reported that "Funding models for the Accountability Offices will be examined, including research on percentage-based Operating Budgets, in consultation with the Accountability Officers, during 2020 for a report to Budget Committee as part the 2021 Budget process."

The briefing note is available at:
<https://www.toronto.ca/legdocs/mmis/2020/bu/bgrd/backgroundfile-141885.pdf>

The Auditor General's 2021 budget request is only 1/20th of one per cent of the 2020 City's adjusted operating budget (0.05%). It is the Auditor General's view that this is the minimum needed (relative to the City's budget) 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.

Investing in the Auditor General produces benefits and savings

As noted by Denis Desautels, former Auditor General of Canada, in his 2002 report *Serving Council and Citizens: Strengthening the Audit Function at the City of Toronto*,

*“...While the work of an Auditor General can lead to **greater efficiency and savings in city operations**, it can also help **improve the quality and effectiveness of services to citizens...**”*

*“...The **benefits (better information to Council, greater accountability, improved services to citizens, better management systems) and the savings** that stem from an effective auditing structure with the right resources are usually quite demonstrable even if they cannot always be quantified...”*

*“...**any additional spending** would be based on the premise that it **would produce benefits** in excess of the incremental spending...”*

Each Annual Report by the Auditor General over the last 15 years has reinforced this position.

C. Annual Work Plan

Breadth and depth of coverage by audits and investigations

In recent years, the Auditor General completed a number of comprehensive and complex audits and investigations that covered a broad range of programs and services across the City and its agencies and corporations. The audits and investigations completed between 2017 and 2020 are summarized in Exhibit 1.

Auditor General refreshed the City-wide audit priority assessment in 2020

The Auditor General undertakes a risk-based approach to audit selection. To identify audit priorities, every five years the Auditor General performs an extensive risk assessment of City operations and its major agencies and corporations. The results of this assessment inform the audit priorities for the next five years. The Office initiated this assessment in early 2020.

How the audit work plan is established

To establish the annual audit work plan, the results of the five-year priority assessment are considered together with an analysis of trends in allegations made to the Fraud & Waste Hotline. The Auditor General also considers the views and experience of City Councillors and City management.

Projects included in the 2021 Work Plan

The 2021 budget request supports 14 ongoing and upcoming audits and 18 potential new projects on the horizon for 2021/2022. Ongoing and future projects included in the Work Plan range from cyber security audits across multiple City divisions and agencies and corporations, to reviews of contract and property management practices at Toronto Community Housing Corporation, administration of emergency shelters by Shelter, Support and Housing Administration, to operational reviews at Toronto Police Services.

Audit project backlog will continue to grow

The 2021 Audit Work Plan also includes a long list of deferred audit projects that were identified through the 2020 City-wide risk and opportunities assessment. More audit areas will be included in our backlog of audit projects as we finalize this City-wide project in the upcoming months.

Other significant areas of work

In addition to the specific audit projects, the Auditor General's Office will continue to increase our use of data analytics, conduct Fraud & Waste Hotline investigative work, and conduct follow-up reviews of outstanding audit recommendations.

Shifting planned audits to accommodate emerging risks and high-risk allegations of fraud, other wrongdoing, or reprisal

In recent years, the Auditor General has found it necessary to have a flexible work plan in order to conduct ad-hoc audit and investigative work to address emerging risks that arise throughout the year. It is not possible to predict the amount and complexity of as-needed work related to emerging risks and complaints received by the Fraud & Waste Hotline. For example, in 2020, the Auditor General needed to allocate resources to unplanned investigative work pertaining to identifying fraud of employee benefit reimbursements for ineligible health benefits.

The Auditor General's 2021 Work Plan is being presented to Audit Committee at its meeting on November 19, 2020.

Conclusion

The Auditor General is committed to:

- providing assurance to City Council regarding the quality of stewardship over public funds in order to assist Councillors in fulfilling their oversight duties under the City of Toronto Act, and
- delivering value for the resources Council has invested in her Office.

Auditor General's Office adds value to City operations

The Auditor General's 2021 Operating Budget request of \$6.651 million will allow the Office to continue to undertake value for money audits and investigations which can add value and improve the effectiveness and efficiency of governance and operations.

Exhibit 1: Audit and Investigation Reports Issued from 2017 to 2020

2020*

1. **Cyber Safety** – Critical Infrastructure Systems: **Toronto Water SCADA System**
2. Audit of **Winter Road Maintenance** Program - Phase One: **Leveraging Technology** and Improving Design and **Management of Contracts to Achieve Service Level Outcomes**
3. Employee **Health Benefits Fraud** Involving a Medical Spa
4. Strengthening Accountability and **Outcomes for Affordable Housing**: Understanding the Impact of the Affordable Home Ownership Program
5. Continuous Controls Monitoring Program: Opportunities to **Reduce Cost of Dental Benefits**
6. Review of 260 Eighth Street **Land Transaction**: No Wrongdoing Identified
7. Getting at the Root of the Issues - A Follow-Up to 2019 **Tree Maintenance Services** Audit

** The COVID-19 pandemic delayed some audits temporarily and other audits were deferred given the impact on operations and City staff time. This impacted the typical annual volume of audit and investigation reports for 2020. Given the delays and the audits in progress and near completion, we expect to have a higher volume of reports than typical for the first Audit Committee meeting in 2021.*

We conducted our 2020 City-Wide Risk and Opportunities assessment to set out the audit priorities for the next five years, and this is a significant undertaking completed by our office every five years.

We also leveraged this time to implement a new electronic audit management system and continue the roll out of a newly implemented complaint management system. These modernization initiatives set the Auditor General's Office up well, not only for remote work during the current period with COVID-19, but also for the longer term.

2019

1. Review of Toronto Transit Commission's Revenue Operations: Phase One – **Fare Evasion** and Fare Inspection
2. Review of Urban Forestry: Ensuring Value for Money for **Tree Maintenance** Services
3. Moving Forward Together: Opportunities to Address Broader City Priorities in **TCHC Revitalizations**
4. Opening Doors to **Stable Housing**: An Effective **Waiting List** and Reduced **Vacancy** Rates Will Help More People Access Housing
5. Audit of Interface Invoice Payments - Improving **Contract Management and Payment Processes**
6. Engineering and Construction Services – Phase Two: Construction **Contract Change Management** Controls Should Be Strengthened
7. **Fleet Services** Phase 1: Lengthy **Downtime** Requires Immediate Attention
8. Fleet Services Phase 1: Stronger Corporate Oversight Needed for **Underutilized Vehicles**
9. Review of **Toronto Transit Commission's Revenue Operations**: Phase Two – **PRESTO/TTC** Fare Equipment and PRESTO Revenue
10. **Fleet** Services Operational Review: Phase Two – Stronger **Asset Management** Needed
11. Safeguarding **Rent-Geared-to-Income Assistance**: Ensuring Only Eligible People Benefit

12. Cyber Safety: A Robust **Cybersecurity** Program Needed to Mitigate Current and Emerging Threats
13. **Investigation Into Allegations of Reprisal**: Reprisal Not Found, But Lessons Learned
14. Toronto **Building** Division: **Conditional Permits** – Follow-up Investigation⁴

2018**

1. **Raising the Alarm**: Fraud Investigation of a Vendor Providing Life Safety Inspection Services to the City of Toronto
2. Review of **Urban Forestry** – Permit Issuance and Tree By-law Enforcement Require Significant Improvement
3. Enhance Focus on **Lease Administration** of City-owned Properties
4. Review of the **Green Lane Landfill Operations** – Management of Contracts Needs Improvement
5. IT Infrastructure and IT Asset Management Review: Phase 1: Establishing an **Information Technology Roadmap** to Guide the Way Forward for Infrastructure and Asset Management
6. **Information Technology Infrastructure** and **Asset Management** Review: Phase 2: Establishing Processes for improved Due Diligence, Monitoring and Reporting for Effective IT Projects and Asset Management
7. Improvement Needed in Managing the **City's Wireless Telecommunication Contracts**
8. Engineering and Construction Services, Phase One: Controls Over Substantial Performance and **Warranty Inspection** Processes Should be Strengthened
9. Review of **Toronto Transit Commission Employee Expenses** and Reward and Recognition Programs: Opportunities to Improve Policies and Controls and Save Costs
10. **Toronto Transit Commission**: Managing **Telecommunication Contracts** and Payments
11. Children's Services Division: Opportunities to Achieve Greater Value for **Child Care** From Public Funds
12. Toronto **Court Services**: **Collection** of Provincial Offence Default Fines
13. Review of Toronto Transit Commission Procurement Policies and Practices: A Case Study to Improve Future **Wheel-Trans Accessible Taxi Services Procurement**

***There was no Audit Committee meeting in the second half of 2018 due to the municipal elections.*

2017

1. A Review of Municipal Licensing and Standards Division's Management of Business Licences - Part One: **Licence Issuance, Inspection and Complaint Investigation** Functions
2. A Review of Municipal Licensing and Standards Division's Management of Business Licences - Part Two: **Licensed Holistic Centres**
3. A Review of Municipal Licensing and Standards Division's Management of Business Licences - Part Three: **Eating Establishments and Nightclubs**

⁴ Although work was completed in 2019, due to a technical update, the report was issued at the February 10, 2020 Audit Committee

4. Auditor General's Observations on the Quantity of Product Realized from the **City's Single Stream Recyclable Material (Blue Bin) Program**
5. Improving the Effectiveness of the **Basement Flooding Protection Subsidy Program**
6. Toronto Building Division: **Conditional Permits**
7. Obtaining Best Value Through the Use of **Vendor Rosters**
8. Review of Toronto **Transit Commission Accounts Payable** Functions: Improving Invoice Verification and Vendor Account Management
9. Auditor General's Office – Review of **Complaint regarding the June 29, 2016, Toronto Transit Commission Briefing Note**
10. Auditor General's Observations of a **Land Acquisition** at Finch Avenue West and Arrow Road by the **Toronto Parking Authority** - Part 2
11. Real Estate Services Division – Restore Focus on **Union Station Leasing**
12. Supplementary report to the Auditor General's Phase One Report "The City Needs to Ensure Adequate Detection and Review of Potentially Excessive and Unusual **Drug Claims**"
13. Review of **Toronto Transit Commission Procurement** Policies and Practices: Improving Materials Management and Purchasing Policies Can Potentially Result in Significant Savings
14. Management of the City's Employee Extended **Health and Dental Benefits**, Phase Two: Ineffective Controls and Plan Design Leaving the City Vulnerable to Potential Benefit Abuse
15. Detection of **Warning Signs for Potential Bid Rigging** Should be Strengthened
16. **Toronto Building** Division – Strengthening System Controls to Safeguard **Cash Receipts**
17. **Information Technology Vulnerability** Assessment and Penetration Testing – Wrap-up Phase I and Phase II
18. Audit of **Water Billing and Collections** – Phase II: **Water Billing** and **Water Meter** Management Controls Require Improvement

Exhibit 2: Composition of Auditor General's 2021 Budget Request

Salaries and benefits make up 92% of the budget	The Auditor General's 2021 Operating Budget request is \$6.651 million. This is slightly less than the base budget requested by the Auditor General in her 2020 Operating Budget for the Office. Salaries and benefits make up 92 per cent of the budget.
1.5% of budget is used to ensure staff maintain professional proficiency and certifications	The Auditor General is also required to ensure that staff maintain professional proficiency through continuing professional education. The costs associated with maintaining required levels of professional proficiency and professional certifications make up approximately 1.5 per cent of the Auditor General's budget.
Maintain compliance with Government Auditing Standards	<p>We are required to comply with Government Auditing Standards. Under those standards each auditor must complete 80 hours of continuing professional education 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 audit entity operates.</p> <p>In addition, all audit and forensic unit staff hold professional certifications or membership with professional organizations including: Chartered Professional Accountants of Ontario, the Information Systems Audit and Control Association, the Association of Certified Fraud Examiners, and the Institute of Internal Auditors. These designations require additional continuing professional education requirements for specific professional certifications.</p>
Next external quality assurance review will be in 2021	Audit organizations that perform audits in accordance with the standards are also required to undergo an external quality assurance review every three years. The review provides independent assurance that the Office's internal quality control system is operating effectively. Our next external quality assurance review is coming up in 2021; associated costs will be absorbed into our budget.
3% of budget is used for specialists engaged to support audits and investigations	On occasion, the Auditor General needs specific skill sets or subject matter experts to support her audits and investigations. The cost of professional services for experts, specialists and contracted audit professionals make up three per cent of the budget.
3% of budget is for licences for Audit, Complaint and Investigation Management software	To modernize to meet industry best practices, the Auditor General's Office acquired software to replace the outdated, decommissioned Fraud & Waste Hotline database and to automate audit working papers and risk management processes. The Office also has licences for specialized software to conduct data analysis for audits and investigations. The annual licensing and support costs of software necessary to support audit and investigative work makes up approximately three per cent of the Auditor General's budget.

Exhibit 3: Financial and Non-Quantifiable Benefits of Audits and Investigations

Additional savings will be realized as audit recommendations are implemented

As the City continues to implement audit recommendations, additional savings can be realized. These savings will only be included in future Auditor General’s annual reports when they are realized.

The number of audit recommendations implemented by management during the past year was low and there are a number of recommendations with the potential to realize savings which have not been fully implemented.

Table 1 includes examples of potential savings opportunities highlighted in audits completed in 2020. Table 2 includes examples of potential savings that may be achieved as management takes action to implement recommendations made in prior years. Actual savings will be evaluated when the Auditor General completes her regular follow-up process of recommendations that management has reported as implemented.

Table 1: Examples of Potential Savings Opportunities Identified in 2020

Report	Potential Savings that May be Achieved When Recommendations are Implemented
<p><i>Audit of Winter Road Maintenance Program - Phase One: Leveraging Technology and Improving Design and Management of Contracts to Achieve Service Level Outcomes</i></p>	<p>With two years remaining in the current contract, the City could save an additional \$9.6 million if the Transportation Services Division applied the express terms of the contract for standby payments, dependent on legal advice. The audit highlighted that given past practices, this is a question for the City's legal services to consider further.</p> <p>From the issues identified during our audit, we estimate that the City overpaid approximately \$7.1 million over a five-year period due to non-compliance by contractors. We estimate the City could have saved an additional \$24 million in contractor standby charges if it had applied the express terms of the contract for standby payments. Legal services is reviewing whether any of the \$31 million may be recoverable or not.</p>
<p><i>Continuous Controls Monitoring Program: Opportunities to Reduce Cost of Dental Benefits</i></p>	<p>This audit suggested opportunities to reduce dental benefit costs incurred by the City. For example, co-insurance is used in other levels of government and introducing it to the City could mean annual savings in dental benefit costs of \$1.7 million to \$4.9 million or \$8.5 million to \$24.5 million over five years.</p>

Table 2: Examples of Potential Savings Opportunities in Auditor General's Reports Issued in Previous Years

Report	Potential Savings Opportunities from Past Audit Recommendations
<i>Review of Urban Forestry - Ensuring Value for Money for Tree Maintenance Services (2019)</i>	Contractor crews' reported work locations did not match their vehicle Global Positioning System (GPS) reports. Where management takes the necessary steps to ensure the City only pays for legitimate tree maintenance work that has been performed by contractor crews, there is an opportunity to reduce the estimated potential loss in productivity by \$2.6 million per year.
<i>Fleet Services Operational Review - Phase One: Lengthy Downtime Requires Immediate Attention (2019)</i>	Fleet Services can administer parts warranties more effectively to ensure that the City is not paying for parts that are under warranty and associated labour costs. Assuming Fleet Services was able to successfully claim warranties for 80 per cent of the parts, including 50 per cent of its hourly labour rate, it could have potentially recovered \$1.2 million over the last three years, or \$400,000 per year.
<i>Fleet Services Operational Review - Phase Two: Stronger Asset Management Needed (2019)</i>	Opportunity for savings by strengthening new vehicle warranty administration, streamlining rental pick-up and drop-off logistics, and improving the monitoring of repeated rentals to determine whether buying is more cost-effective than renting. It is estimated that at least \$375,000 per year can be saved by implementing these recommendations. There may be some implementations costs to be able to realize these savings.
<i>Audit of Interface Invoice Payments – Improving Contract Management and Payment Processes (2019)</i>	Opportunity for savings by recovering funds from duplicate and incorrect payments and managing contracts more effectively to obtain early payment discounts and volume rebates. The recommendations also included improved analysis and reporting on contract spend to enable divisions to better analyze purchases and consolidate or acquire goods and services at more competitive costs.
<i>Review of Urban Forestry – Permit Issuance and Tree By-law Enforcement Require Significant Improvement (2018)</i>	As of February 2018, there was a balance of \$29.3 million in refundable deposits collected from 1994 to 2017 as Tree Planting Security or Tree Protection Guarantee. Approximately \$9.8 million may need to be refunded to applicants as they are related to more recent years, but a portion of the remaining \$19.5 million (particularly those related to year 2012 or earlier) may no longer be refundable and could be transferred to the City's revenue account.
<i>Enhance Focus on Lease Administration of City-owned Properties (2018)</i>	Increased revenues may be realized where expired agreements are promptly renewed and additional rents and recoveries are appropriately billed to tenants for prior periods and going forward. Furthermore, there is an opportunity to offset costs by charging a fee to recover the cost of lease administration.
<i>Review of Toronto Transit Commission Employee Expenses and Reward and Recognition Programs: Opportunities to Improve Policies and Controls and Save Costs (2018)</i>	Audit identified a need to review the criteria and current process for issuing free annual passes to non-TTC staff to ensure valid justification and adequate controls, and to minimize lost revenue opportunities. The annual cost in 2017 for these non-TTC staff passes was approximately \$2 million ; however, we are not able to determine how much of that annual cost could be saved at this time.

Report	Potential Savings Opportunities from Past Audit Recommendations
<p><i>Audit of Toronto Transit Commission: Managing Telecommunication Contracts and Payments (2018)</i></p>	<p>Audit recommended disconnecting unused cell phones and land lines, acquiring wireless services from most cost-effective vendor and converting land lines to voice over IP phones. These recommendations when fully implemented would result in potential annual savings of \$1.5 million. TTC management advised that they began implementing the audit recommendations and incorporated annual savings of \$500,000 into their 2019 Budget Notes. We will report on the savings achieved from the full implementation of our audit recommendations.</p>
<p><i>Information Technology Infrastructure and Asset Management Review: Phases I and II (2018)</i></p>	<p>These audits included recommendations focused on rationalization of IT servers, applications and systems. Our Office will verify the savings that management has reported in recent City budget cycles.</p>
<p><i>Children's Services Division: Opportunities to Achieve Greater Value for Child Care from Public Funds (2018)</i></p>	<p>Audit identified a number of options to achieve better value from the current public funds invested in child care services. The City also has the opportunity to assess the need for the approved \$49 million capital budget (exclusive of land acquisition and ongoing operating costs) to build 1,100 new spaces in 21 centres when there are opportunities to make better use of existing licensed child care spaces. Any savings achieved could be reinvested to increase subsidies by 2,200 spaces, make child care fees more affordable or to improve wages across the sector. At a corporate level there are savings to be achieved from service integration among Divisions in the City that use income based information to assess eligibility for services. In the 2019 budget process, management estimated a net annual savings of \$2.391 million in service efficiencies will be achieved starting in 2022. Our Office will verify these savings in our recommendation follow-up.</p>