

TORONTO STAFF REPORT

October 19, 2005

To: Audit Committee
From: Auditor General
Subject: Auditor General's Office – 2006 Budget

Purpose:

To provide the Audit Committee with information relating to the 2006 budget for the Auditor General's Office.

Financial Implications and Impact Statement:

The 2006 budget request for the Auditor General's Office is \$4,080,669, which is \$224,878 in excess of its adjusted base budget of \$3,855,791. The proposed budget and base budget contain audit fees in the amount of \$317,000 and \$333,846 respectively relating to the external financial audit.

The adjusted base budget was the amount provided by the Financial Planning Division, which essentially represents the budget approved for 2005 adjusted for inflation plus approved salary increases.

Recommendations:

It is recommended that the attached 2006 budget for the Auditor General's Office be approved and forwarded to the Budget Advisory Committee.

Background:

In May 2002, City Council approved an independent Auditor General's Office for the City of Toronto. The Auditor General's Office reports directly to Council through the Audit Committee, and, as such, is independent from management. As an independent office, the Auditor General submits an annual audit work plan to the Audit Committee for review and an annual budget for review and approval.

Consequently, this budget has been forwarded directly to the Audit Committee without a detailed review by the City's Financial Planning Division. This process was approved by City Council in 2001.

Detailed information relating to the 2006 budget is contained in the attached document, entitled "Auditor General's Office – 2006 Budget".

Comments:

The 2006 budget request for the Auditor General's Office is \$4,080,669, which is \$224,878 in excess of its adjusted base budget of \$3,855,791. A business case supporting this request is contained in the attached document (Appendix 1).

The major component of the 2006 budget is salaries and benefits, which represent 96 per cent of its budget (excluding external financial audit fees).

Benefits of the Audit Process to the City of Toronto

Reviews, investigations and audits conducted by the Auditor General's Office have benefited the City of Toronto in a variety of ways.

Audit recommendations identify ways to:

- maximize City revenues or identify opportunities for new revenues or cost savings;
- manage or utilize City resources, including public funds, personnel, property, equipment and space in an economical and efficient manner; and
- identify causes of inefficiencies or uneconomical practices, including inadequacies in management information systems, internal and administrative procedures, organizational structure, use of resources, allocation of personnel, purchasing policies and equipment.

Audits help auditees to:

- safeguard assets;
- check the accuracy and reliability of accounting data;
- detect unauthorized transactions and unauthorized access to assets that could result in unauthorized acquisitions, use or disposition of assets;
- ensure compliance with laws, regulations, policies, procedures, or generally accepted industry standards; and
- achieve the desired program results.

The Auditor General's Office, as one of its responsibilities, operates the Fraud and Waste Hotline Program. Since its inception, the activities of this program have increased significantly. The volume of calls to the Hotline in 2005 has increased by over 50 per cent compared to 2004.

In regard to the operation of the Fraud and Waste Hotline Program, the Auditor General prepares an annual report on the Program, which will be in front of the next Audit Committee meeting.

While certain audit reports have resulted in tangible cost savings, the more important benefits provided relate to the avoidance of future costs, as well as the protection of City assets. Nevertheless, tangible annual cost savings have occurred, or will occur, as a result of the work conducted by the Auditor General.

Conclusions:

Detailed information relating to the 2006 budget is available in the Auditor General's Office budget submission attached to this report (Appendix 1).

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Attachment: Appendix 1: Auditor General's Office – 2006 Budget



Auditor General's Office

2006 Budget

October 19, 2005



Auditor General's Office

2006 Budget

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THE AUDITOR GENERAL'S OFFICE 2006 BUDGET REQUEST

Details relating to the 2006 budget request for the Auditor General's Office are as follows:

Table 1

	2006 Budget Request	2006 Adjusted Base	2005 Budget	2005 Projected Actual
Salaries	2,888,811	2,679,060	2,492,145	2,237,164
Employee Benefits	718,968	675,069	585,838	450,123
External Audit Fees	317,000	338,846	327,300	316,832
Services, Material and Supplies	131,500	138,316	136,563	124,749
Interdepartmental Charges	24,390	24,500	24,500	58,643
Total	4,080,669	3,855,791	3,566,346	3,187,511

2006 Adjusted Base Budget

The 2006 adjusted base budget of \$3,855,791 was provided to the Auditor General's Office by the City's Financial Planning Division and reflects Corporate merit increases of 2.75 per cent and economic factor increases to other categories in 2006 to provide for inflation.

The 2006 Budget Request of \$4,080,669 represents the Auditor General's opinion in terms of the funds required to operate and provide an effective level of audit services, including the operation of the Fraud and Waste Hotline Program for the City. These funds are required to provide services to the City as well as its Agencies, Boards and Commissions.

2006 Budget Request

The 2006 budget request of **\$4,080,669** is in excess of the 2006 adjusted base budget of **\$3,855,791** (5.8 per cent) by **\$224,878**. The budget of the Auditor General's Office includes \$317,000, which relates to the fees for the legislated annual external financial audit conducted by Ernst & Young. The Auditor General has no control over this budget as it represents the results of a contractual agreement based on a competitive RFP process in 2003 extending to 2007.

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An analysis of the increases in the 2006 budget over the 2006 adjusted base budget is as follows:

Analysis of Additional 2006 Budget Request

2006 Adjusted Base Budget		\$3,855,791
Increases to Adjusted Base Budget		
Salaries	209,751	
Benefits	<u>43,899</u>	
		253,650
Decreases to Adjusted Base Budget		
External Auditors	(21,846)	
Other	<u>(6,926)</u>	
		<u>(28,772)</u>
2006 Budget Request		<u>\$4,080,669</u>

An analysis of each one of the above is provided in the following paragraphs.

Justification for Increased Request

1. Increases to Budget – Salaries

The 2006 Budget Request includes an additional salary request of \$209,751, which relates to the proposed addition of two staff at the Senior Audit Manager level. These positions are required based on the increasing workload related to the City's Fraud and Waste Hotline Program and also to provide additional resources towards the completion of our annual audit work plan, including the follow-up of recommendations contained in previously issued audit reports.

Due to the demands on our staff time, minimal audit work has been conducted on certain of the City's Agencies, Boards and Commissions and at certain City divisions. For example, little audit work has been conducted at the Toronto Public Library, the Toronto Transit Commission and the North York Performing Arts.

We have conducted a number of audits at the Toronto Police Service, including:

- Review of the Investigation of Sexual Assaults – Toronto Police Service (October 1999);
- The Evaluation of the Air Support Unit Pilot Project – Toronto Police Service (March 2001);
- Performance Audit, The Public Complaints Process – Toronto Police Service (August 2002);
- Follow-up Review on the October 1999 Report Entitled "Review of the Investigation of Sexual Assaults – Toronto Police Service (October 2004); and
- Enterprise Case and Occurrence Processing System (eCOPS) Project Review – Toronto Police Service (April 2005).

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However, these audits have been mostly at the request of City Council or the Toronto Police Services Board itself. Consequently, there is a need to expand the Auditor General's focus to areas at the Toronto Police Service, which may have additional financial payback, e.g., salary overtime and court time, police training, etc.

The TTC internal audit staff who report directly to the Chief General Manager are currently conducting certain audit work. Regular discussions occur between the TTC staff and the Auditor General's Office in order to ensure that the Auditor General is aware of the extent of work being conducted at the TTC. However, there is a need to further re-evaluate the level of audit work being conducted at the TTC by the Auditor General's Office.

An extremely important component of any audit process is the requirement that there be a follow-up of audit recommendations made. There is little benefit to an audit unless recommendations resulting from the audit are implemented. In order to address this issue, we have, in consultation with the City Manager, set up a formal process to follow up on all previously issued audit reports. Additional resources will enable us to ensure that all previously approved recommendations have been implemented.

As indicated previously, activity relating to the Fraud and Waste Hotline has increased significantly since its inception. It was recognized and acknowledged that during its initial phase, the Hotline could be accommodated with existing resources until the extent of activity was determined. In 2005, we added one position to deal with the workload created by the Fraud and Waste Hotline. It is apparent that the significant and high profile projects arising out of this Council initiative warrant another senior staff member in order to ensure that issues identified as a result of the Fraud and Waste Hotline are addressed appropriately. For example, many investigations, due to limited resources, are being referred to Divisions for follow-up. In order to maintain the integrity of the Hotline, it is important that investigations for the most part are conducted independently.

The activity of the Fraud and Waste Hotline in 2005 has increased by 50 per cent over the previous year. Should activity in this program decline, which we do not anticipate, the resources could readily be used to continue with projects from our annual work plan.

2. Increase to Budget – Benefits

The increased benefits costs of \$43,899 consist of benefit costs relating to the proposed additional staff as explained above.

3. Decreases to Budget – External Auditors Fees

During 2005, the Federal government exempted municipalities from GST. The contract with the external auditors is inclusive of GST. Because of the GST exemption, the budget request has been reduced by \$11,546. In addition, the base budget includes an economic factor increase to this fee. The contract with the external auditors is for a fixed fee and accordingly, we have reduced the budget request by \$10,300 as a result.

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General Comments

In prior years, the Auditor General's Office has placed emphasis on the fact that the extent of audit resources compared to the City's overall municipal budget is on the low end of the scale compared to other municipalities (see Table 2). The intent was to demonstrate that the office operates in a fiscally responsible manner and that its level of resources was not out of line with other municipalities.

In view of the budgetary difficulties at the City since amalgamation, requests for additional resources by the Auditor General's Office during that time have been minimal even though the demand for audit services has been increasing.

The office has a significant backlog of audit work, particularly in relation to the follow-up of previously issued audit reports. In addition, the activity of the Fraud and Waste Hotline has increased significantly in 2005.

Comparisons With Other Municipalities

The Auditor General's Office has benchmarked its costs with those of major municipalities across Canada, as well as those of a number of municipalities in the United States. The following comparison of costs with other major municipalities for comparable levels of audit services indicates that, as a percentage of total municipal budgets, the audit costs at the City of Toronto are at the lower end of the scale.

Table 2

	Municipal Operating Budget (in \$000s)	Audit Costs (in \$000s)	Audit Costs as a % of Municipal Operating Budget
	\$	\$	%
Los Angeles County	17,127,000	15,000	0.09
City of Ottawa	1,889,000	1,203	0.06
City of Toronto	6,800,000 (1)	4,524	0.06
Calgary	1,600,000	1,300	0.08
San Jose	2,860,000	2,200	0.08
Winnipeg	1,141,000	1,000	0.09
Detroit	3,105,000	3,294	0.11
Edmonton	1,148,000	1,660	0.14
Phoenix	2,447,000	3,677	0.15
Philadelphia	4,627,000	11,253	0.24

(1) Approximate amounts, excluding TTC

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The amount included in Table 2 reconciles to the 2006 budget request as follows:

2006 Budget Request	\$4,080,669
Less External Audit Fees	(317,000)
Add Internal Audit Division	<u>760,000</u>
Audit Costs – Table 1	<u>\$4,523,669</u>

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

The amount of the appropriation for audit services municipalities with a budget in excess of \$1 billion is 0.11 per cent of the total City budget. If the percentage was applied to the City of Toronto, the City’s Audit budget would be somewhere in the range of \$7.5 million.

The current audit budget at the City is as follows:

Auditor General’s Office (including external audit fees)	\$4,080,669
Internal Audit Fees	<u>760,000</u>
	<u>\$4,840,669</u>

Using the Quebec model as a guide, it would appear that the audit budget at the City should be increased by a level of approximately \$2.6 million.

Summary

The actual budget to operate the Auditor General’s Office for 2006 (excluding the financial attest audit fees) is \$3,763,669 of which over 96 per cent relates to salaries and benefits. The Auditor General’s Office currently operates with a staff of 25 auditors and 3 administrative staff. The 2006 request is for 2 additional staff to bring the complement up to 27 auditors. One of the additional staff will be assigned to the operation of the Fraud and Waste Hotline in order to accommodate the 50 per cent increase in activity which has occurred during the year. The other auditor will be assigned to those projects representing the highest risk to the City as determined by the Auditor General and his senior staff.

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As indicated previously, an effective audit process can result in a significant pay back to the City in terms of:

- increased revenues;
- reduced costs;
- improved internal controls; and
- enhanced protection of City assets.

The costs savings generated by the Auditor Generals Office since amalgamation, while difficult to quantify precisely, have been significant and far outweigh the costs to operate the office. Many of the savings generated are not one-time savings as in many cases they represent ongoing annual savings.

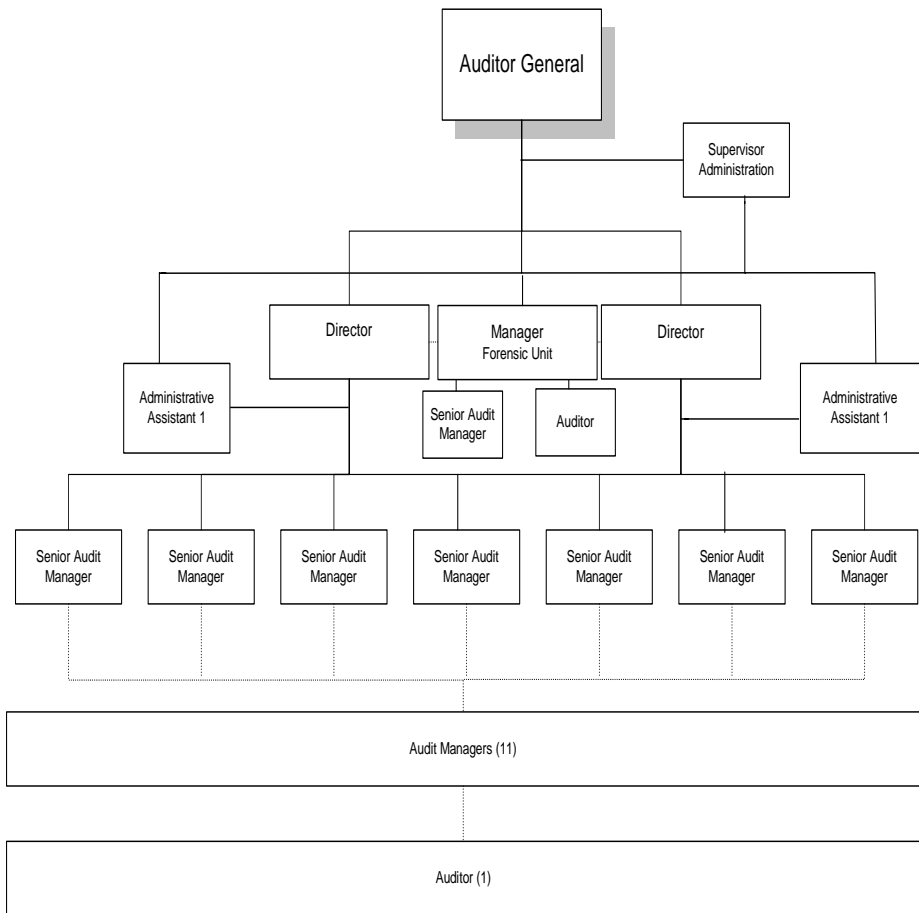
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**THE AUDITOR GENERAL'S OFFICE –
ORGANIZATION CHART AND WORKFORCE**

Organizational Chart as of December 31, 2005.

Auditor General's Office

December 31, 2005



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**THE AUDITOR GENERAL'S OFFICE –
ORGANIZATION CHARTS AND WORKFORCE
Proposed Organizational Chart as of December 31, 2006.**

Auditor General's Office

December 31, 2006

