AUDITOR GENERAL'S REPORT ACTION REQUIRED

Ⓜ TORONTO

Auditor General's Office 2015-2024 Capital Budget and Plan

Date:	January 15, 2015
To:	Budget Committee
From:	Auditor General
Wards:	All
Reference Number:	

SUMMARY

This report requests a Budget Committee recommendation for City Council to approve the Auditor General's Office 2015-2024 Capital Budget and Plan. The Auditor General has never submitted a capital request and it is anticipated that this will be the only capital request submitted during the Auditor General's seven-year term.

The Auditor General's request is for $695,000 over the 10 year period for the state of good repair of the complaint management system and for the implementation of new audit management software.

1) The plan includes a request for $565,000 to be funded over a two year period for the development of a replacement fraud and waste complaint management system for the Auditor General's Forensic Unit.

2) A new audit management software that will improve staff efficiency in completing audits and result in the ability for staff to conduct and complete more audits at a cost of $130,000.

The Forensic Unit is integral to the Auditor General's Office and the fraud and waste complaint management database is a key component to enabling the Unit to conduct its work. The current database is nearing the end of its useful life and has limited functionality. The Auditor General will leverage the database system used by the Toronto Ombudsman's Office and customize it to meet unique needs of the Office.

Customizing the existing Ombudsman's complaint management system is required to meet specific workflow and reporting requirements of the Auditor General's Office. The

replacement system will provide a secure environment to track process and analyze fraud and waste allegations over the next 10 years.

In off-election years, the Auditor General's budget is usually submitted to the Audit Committee in November, prior to submission to the Budget Committee. The 2014 municipal election resulted in a compressed budget process time frame and as the first 2015 Audit Committee is scheduled for February 27, 2015 submission to the Audit Committee prior to the Budget Committee was not possible.

As a result, an approved budget will be submitted at the February Audit Committee for information along with the Audit Work Plan.

The Budget Committee Chair and the former Chair of the Audit Committee have been apprised of this change.

RECOMMENDATION

The Auditor General recommends that:

1. City Council approve the Auditor General's Office 2015-2024 Capital Budget and Plan at $.695 million as submitted.

Financial Impact

The financial impact of adopting the recommendation will result in the inclusion of $695,000 in the City of Toronto's 2015 – 2024 Capital Budget and Plan.

COMMENTS

In May 2002, City Council approved an independent Auditor General's Office for the City of Toronto. *The City of Toronto Act, 2006* (the Act) subsequently formalized the establishment of the Auditor General. Section 177 of the Act requires that "The City shall appoint an Auditor General".

Section 178 of the Act states *that "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*." (emphasis added)

Since 2009 the projected savings generated from the Auditor General's Office is estimated at $220 million.

Background on the Auditor General's Forensic Unit

The Auditor General's Office has administered the City's Fraud and Waste Hotline since the program's inception in 2002. The Forensic Unit is responsible for conducting investigations and providing oversight related to investigations referred to management. The Auditor General's Forensic Unit is part of the City's strategy to manage the business risk of fraud and other wrongdoing. Prevention and detection remain key components in managing this business risk which results in direct financial loss and indirect costs including additional management resources required to investigate and correct wrongdoing.

City Council adopted a *Fraud Prevention Policy* in 2000 to provide guidance to employees when misuse or misappropriation of City resources and assets are suspected and to outline the responsibilities of the Auditor General and management for investigating and resolving allegations. In November 2002, after a six-month pilot, City Council also authorized the Auditor General to establish and operate a fraud and waste hotline.

This core responsibility was reinforced in June 2014 through Council's adoption of a new framework for the disclosure and investigation of wrongdoing pursuant to Council's approval of a Toronto Public Service By-law.

The by-law reinforces the Auditor General's role to continue to operate the Fraud and Waste Hotline Program and maintain oversight in the investigation and resolution of reported wrongdoing at the City. The by-law also assigned to the Auditor General the responsibility to investigate complaints of reprisal or retribution.

The benefits and results of the Forensic Unit and the Hotline Program are outlined annually. The link to the most recent report is provided below.

http://www.toronto.ca/legdocs/mmis/2014/au/bgrd/backgroundfile-66970.pdf

Capital Request - Forensic Unit Complaint Management System

This capital request is being made to enable the development of a new fraud and waste complaint management database.

The original fraud and waste database was built on the City's existing Domino System over 12 years ago. This system is at the end of its useful life. Since the inception of the Hotline Program, the number of fraud and waste complaints has tripled. Workflow processes are not automated within the Domino database and the Domino application has been scheduled for decommissioning within the next few years.

In addition, one of the weaknesses of the current Domino System is that it does not separately identify and track multiple allegations related to a single complaint. The system has frequent performance issues and has limited search capability. In December

2014 the database exceeded capacity and the office ran the risk of losing data. In order to remediate the capacity issue a second Domino database was created to store new data.

The benefits anticipated through the implementation of the proposed replacement system include the following:

- leveraging the use of an existing City complaint management system
- providing a secure environment for tracking, processing and analyzing fraud and waste allegations
- improving staff efficiency in managing complaint files
- allowing for tracking multiple allegations related to a single complaint
- providing confidential internet-based complaint intake
- improving the reliability and accuracy of complaint files
- providing extensive analytical capability identifying fraud and waste trends

The current database is nearing the end of its useful life and has limited functionality. The Auditor General will leverage the database system used by the Toronto Ombudsman's Office and customize it to meet the needs of the Auditor General's Office. Customizing the Ombudsman's existing system is necessary to meet specific workflow and reporting requirements of the Auditor General's Office and to improve data for decision making.

Finally, the system design may be leveraged by internal audit offices within the City and its agencies and corporations.

Capital Request - Audit Management Software

The Auditor General's Office assists 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 by performing audits. Under the Toronto Municipal Code, the Auditor General's Office must comply with government audit standards.

Currently, audit management software is not used in the conduct of the Auditor General's performance audits, many of which are large and complex. Rather, auditors use a hybrid of internally developed electronic tools and manual processes to manage audit activities.

From a workflow perspective, performance audits are conducted at various locations across the City. Auditor General staff prepare portions of working papers to document audit procedures while working off site. The auditors must then return to the office to print, collate and manually cross reference working papers to support audit findings. Every printed working paper is reviewed by another auditor and each file is reviewed for quality control at various senior levels in the Office, as required by audit standards. Current audit tools do not embed quality control measures or an automated workflow. Furthermore, in their paper form, audit files are difficult to share and leverage for future audit work.

Government auditing standards require the Auditor General to ensure that sufficient and appropriate audit evidence be retained to support audit findings. Documentation to support the auditors' work including review of background information and reports, examination of documents and records, analysis performed, and detailed testing of controls are prepared electronically, then printed and organized. Thousands of pieces of evidence and documentation are retained for each audit and the 'paper' audit file can measure anywhere from three to 10 feet in height.

In 2012, an external quality assurance review of the Auditor General's Office was conducted by a review team from the Association of Local Government Auditors (ALGA) to ensure compliance with government auditing standards. After review of a sampling of audit projects completed over a three-year period, the peer review team recommended the Auditor General's Office move to using audit management software citing increases in efficiency and work output.

Over the past few years we have been monitoring the progress and benefits of audit management software. We believe such solutions present advantages including direct productivity gains for audit projects while working at various sites around the city and in remote locations. Expected outcomes of implementing an automated solution for audit management include:

- Workflow automation and increased levels of collaboration enabling audits to be more effectively planned, monitored, and controlled. Based on conservative estimates, an automated solution reducing administrative processes and integrating numerous audit activities, including audit planning, risk tracking, issue tracking, and recommendation follow-up is expected to reduce audit hours per project in sufficient magnitude to pay for the software within one year.

- Improved audit quality control resulting from standardization and automation of quality review activities. Audit automation software is embedded with quality assurance control measures required to be used when preparing and retaining audit files. Furthermore, the software standardizes templates to ensure staff document work in a consistent format meeting requisite standards for audit quality. This improves efficiency when audit files are reviewed.

- Enhanced physical and logical security access controls over audit file document retention through the secure and central storage of audit files in a secure electronic database.

- Decreased system support risk where the solution is vendor-supported rather than supported by internal staff.

- A move to a 'green' paperless environment to align with the City's workplace modernization and environmental goals. The Office envisions utilizing the proposed audit management software as part of this initiative

- Enhanced ability to leverage knowledge and practices amongst peers in other Auditor General offices through sharing of templates and information.

As a result of the complexity and size of audit files, the audit industry has moved to utilizing audit management software. The implementation of an automated solution for audit management will enable the Auditor General's Office to keep pace with the industry and help attract and retain the best and brightest staff to the City.

All major accounting firms and all Auditor General Offices in Canada that are of an equal or larger size, as well as many municipalities across North America, utilize audit management software to streamline their audit processes. Two-thirds of the Auditor General's staff hired within the past six years (or 89% of external hires) used audit management software as their primary work tool before joining the Auditor General's Office. For auditors, reverting to manual working papers is not unlike someone being accustomed to using email because it is the primary form of communication, now being required to use manual letters as their main form of communication.

CONCLUSION

This capital request supports the need for a new Fraud and Waste Hotline complaint management system. A complaint management system is essential to operate an effective Hotline Program.

The current database is nearing the end of its useful life and has limited functionality. The Auditor General will leverage the database system used by the Toronto Ombudsman's Office and customize it to meet the needs of the Auditor General's Office. Customizing the Ombudsman's system is necessary to meet specific workflow and reporting requirements of the Auditor General's Office.

The acquisition of an automated solution for audit management and documentation will enable the Auditor General's Office to achieve significant operational efficiencies, improve quality control, and reduce administrative and manual processes, enabling staff to meet future demand for audit work and to keep pace with the industry.

CONTACT

Jerry Shaubel, Director
Tel: (416) 397-8462, Fax: (416) 392-3754, E-Mail: jshaubel@toronto.ca

Carmelina Di Mondo, Director, Auditor General's Office
Tel: (416) 397-7625, Fax: (416) 392-3754, E-Mail: cdimond@toronto.ca

Akrivi Nicolaou, Audit Manager, Auditor General's Office
Tel: (416) 392-0057, Fax: (416) 392-3754, E-Mail: anicola@toronto.ca

SIGNATURE

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Beverly Romeo-Beehler, Auditor General

ATTACHMENT

Appendix 1: Accountability Officers: 2015 – 2024 Capital Budget and Plan Budget
              Request Overview