

AUDITOR GENERAL'S REPORT

Auditor General's Office 2018 Operating Budget

October 13, 2017

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Auditor General**



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EXECUTIVE SUMMARY

This report provides information relating to the 2018 Operating Budget for the Auditor General's Office.

City Council approved temporary budget increases to provide additional capacity to undertake value for money audits and investigations

On February 15 and 16, 2017, City Council approved the 2017 Budget Committee Recommended Operating Budget for the Accountability Offices. At that time, City Council approved the:

"temporary increase of \$1.0 million, as reflected in the Auditor General's 2017 Budget Committee Recommended Operating Budget to provide additional capacity to undertake value for money audits and investigations, subject to a report back to Audit and Executive Committees from the Auditor General on a revised audit work plan, and that temporary planned increases of up to \$1.5 million in 2018 and an additional \$1.4 million in 2019 be subject to consideration in future year budget processes together with revised audit work plans." (Recommendation 250)

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.EX22.2>

Additional projects were initiated, extended, or accelerated in 2017

In 2017, the Auditor General increased staffing of her Office based on City Council's temporary increase of \$1 million to her budget. This enabled the Auditor General's Office to initiate more projects during 2017, as well as accelerate or expand audits and investigations in process. The benefits of the additional capacity provided by City Council are already evident in projects completed in the few months since new staff were added.

Increases will enable more high priority projects to be completed in 2018 and 2019

With the funding from City Council's additional temporary planned increases to her 2018 and 2019 budgets, the Auditor General will be able to complete a greater number of high priority projects to address risks and identify efficiencies and savings on a more timely basis. The Auditor General will include more projects in her annual Audit Work Plan resulting in a gradual decline of backlogged projects that have been constrained by prior years' operating budgets.

2018 Operating Budget Request of \$7,444,900 reflects Council's planned temporary increase

The Auditor General's 2018 Operating Budget request is \$7.445 million. The \$1.5 million increase from the approved adjusted 2017 operating budget of \$5.903 million reflects City Council's 2017 decision (EX22.2) to provide the Auditor General with additional capacity to undertake value for money audits and investigations.

Value of the Auditor General's Office

Role of the Auditor General

The Auditor General's role is to provide assurance to City Council regarding quality of stewardship over public funds and the achievement of value for money in City operations.

As a by-product of fulfilling her mandate, the Auditor General's Office identifies significant savings for the City. The City is obtaining considerable value from the investment in resources allocated to the Auditor General's Office.

\$160.5 million in one-time and projected five-year cost savings and revenue increases from 2012 to 2016

On April 26, 2017, City Council received the Auditor General's 2016 Annual Report - Demonstrating the Value of the Auditor General's Office. This report highlighted approximately \$160.5 million in one-time and projected five-year cost savings and revenue increases. This estimate includes implementation costs and accumulates savings from 2012 to 2016.

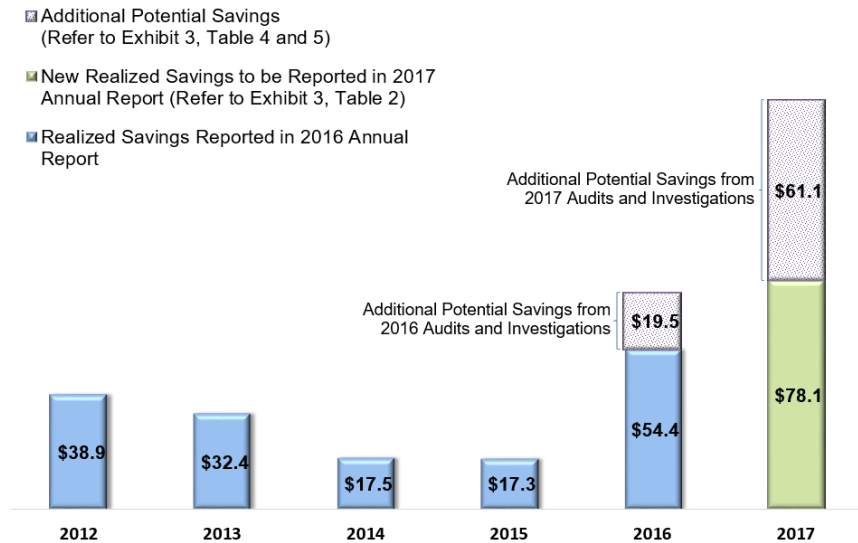
<http://www.toronto.ca/legdocs/mmis/2017/au/bgrd/backgroundfile-101860.pdf>

The return on every dollar invested in the Auditor General's Office is approximately \$7.4

The Auditor General's Office has clearly demonstrated that the cost savings identified through its audits significantly exceed its annual budget. The return on every dollar invested in the Auditor General's Office is approximately \$7.4.

Figure 1 summarizes additional realized and potential savings not included in the Auditor General's previous annual reports. Examples of some of the potential one-time and annually recurring savings identified from reports issued in 2016 and 2017 are included in Exhibit 3. As highlighted in Exhibit 3, for projects completed during 2017, the Auditor General's Office has identified approximately \$61.1 million in potential one-time and annually recurring savings over a five-year period.

Figure 1: Five-year Savings by the Year Identified (in Millions)



In addition to the tangible cost savings, other important benefits of the Auditor General's audits and investigations include the avoidance of future costs, a more efficient and effective City, and the protection of City assets.

Breakdown of the 2018 Operating Budget

Salaries and benefits comprise just over 80 per cent of the total budget

The majority of the Auditor General's 2018 Operating Budget request of \$7.445 million consists of salaries and benefits. Salaries and benefits comprise just over 80 per cent of the total budget.

Cost of specialists and contracted audit professionals make up an additional 16 per cent of the budget

The cost of professional services for specialists and contracted audit professionals used in the course of an audit or investigation make up an additional 16 per cent.

Audit costs remain low relative to other major cities in Canada and the United States

As approved by City Council on February 15 and 16, 2017, the temporary planned increases of up to \$1.5 million in 2018 and an additional \$1.4 million in 2019 would bring the Auditor General's Office operating budget to \$7.445 million and \$8.909 million in each year respectively. These increases to the Auditor General's budget go a long way towards bringing the Auditor General's budget in line with similar functions in other major cities in Canada and the United States.

Impact of Temporary Budget Increases on Staffing

Return on investment in new temporary staff

Council approved a temporary increase to the Auditor General's 2017 Operating Budget to provide additional capacity to undertake value for money audits and investigations. In 2017, 14 temporary positions were created in response to this budget increase. Significant time and money is being invested to train and develop new staff.

Maintaining the investment at the level announced by City Council last year enables the Auditor General's Office to continue to build organizational knowledge, and ensure staff continuity for planned audit projects and succession planning purposes.

Impact of Temporary Budget Increases on the Audit Work Plan

Increased capacity to undertake audits and investigations

The temporary increases in funding provides the Auditor General additional staff resources to carry out more audits and investigations.

Five additional projects were added to the 2017 Audit Work Plan

In response to the Council-approved temporary increase of \$1.0 million to her 2017 Operating Budget, the Auditor General added five additional audits to her 2017 Audit Work Plan, most of which are currently underway. The Auditor General was also able to undertake more in-depth and complex forensic investigations.

Additional projects included in the 2018 Audit Work Plan

The Auditor General's 2018 Audit Work Plan also incorporates additional projects in anticipation of City Council's temporary planned increase of \$1.5 million to the Auditor General's 2018 Operating Budget.

With the announcement of this additional funding, the Auditor General put the foundation in place to address high priority projects on a timelier basis by including more projects in her annual Audit Work Plan. This will result in a gradual decline of backlogged projects that have been constrained by prior years' operating budgets.

Conclusion

The Auditor General is committed to delivering value for the investment in resources allocated to the Auditor General's Office. Audits and investigations result in tangible cost savings, and other significant important benefits including the avoidance of future costs, a more efficient and effective City, and the protection of City assets. Based on the financial and non-financial benefits identified in this report, the return on the investment in the Auditor General's Office is significant.

THE AUDITOR GENERAL'S OFFICE

Auditor General required by the City of Toronto Act, 2006

The *City of Toronto Act, 2006*, requires that "*The City shall appoint an Auditor General*". Under Section 178(1) of the *Act*, the Auditor General is:

"responsible for assisting city council in holding itself and its administrators accountable for the quality of stewardship over public funds and for the achievement of value for money in city operations."

Responsibilities of the Auditor General

Specific responsibilities of the Auditor General are set out in Chapters 3 and 192 of the *Toronto Municipal Code*. The Auditor General is primarily responsible for the following:

- Financial (excluding attest), compliance and performance (value for money) audits of City divisions, and certain agencies and corporations
- Operating the Fraud and Waste Hotline
- Conducting investigations into fraud and other wrongdoing, as well as, allegations of reprisals against employees under the Disclosure of Wrongdoing and Reprisal Protection rules
- Overseeing the work and the contract of the external auditors performing annual financial statement audits
- Following up recommendations contained in previous audit reports

- Reporting annually to City Council on the activities of the Office including the savings achieved for the City
- Coordinating with the City's Internal Audit Division and internal auditors of the City's agencies and corporations to ensure the efficient and effective use of audit resources
- Coordinating activities with the City's three other Accountability Officers: the Ombudsman, the Lobbyist Registrar and the Integrity Commissioner

VALUE OF THE AUDITOR GENERAL'S OFFICE

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

The Auditor General's Annual Report to City Council, entitled *Demonstrating the Value of the Auditor General's Office*, summarizes the activities and the quantifiable financial and non-financial benefits of the Office. The most recent Annual Report received by City Council on April 26, 2017, is available at:
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.AU8.8>

Operating Budget increase provided capacity to undertake additional value for money audits and investigations

On February 15, 2017, City Council approved a temporary \$1.0 million increase to the Auditor General's 2017 Operating Budget, bringing the Office's total approved budget up to \$5.903 million.

The increased budget has enabled the Auditor General to start putting resources in place to address backlogged projects. She hired 14 additional staff on a temporary basis. This provided the Auditor General with the capacity to accelerate or expand the scope of selected performance audits, and broaden certain forensic investigations. In addition, five more audits were added to her 2017 Audit Work Plan. Many of these audits are currently underway and will be presented to Audit Committee in 2018.

Table 1 (below) demonstrates the increase in value for money audits and in-depth investigations the Auditor General has been able to conduct as a result of the increased funding. The benefits of the audits and investigations are further described in the sections that follow.

Table 1: Recent Accomplishments

Description	2015	2016	2017 (forecasted)
Number of performance audit reports and in-depth investigation reports completed and issued ¹	14	15	18
<ul style="list-style-type: none"> Number of new recommendations 	163	149	189
Number of follow-up reports completed and issued	3	3	6
<ul style="list-style-type: none"> Number of recommendations included in the annual follow-up process (out of a total number of recommendations not fully implemented as at December 31 of the prior year) 	190 (368)	161 (378)	152 (301)
Number of complaints (and approximate number of related allegations) processed through the Fraud and Waste Hotline	572 (800)	552 (900)	670 (900)

Benefits of an Effective Audit Process

The Auditor General conducts independent, objective audits

The Auditor General conducts independent, objective audits designed to add value and improve the effectiveness and efficiency of governance and operational processes.

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.

Exhibit 2 includes a list of the audit reports issued in 2016 and 2017.

Savings outweigh the costs to operate the Office

Cost savings identified through the Auditor General’s audits and investigations far outweigh the costs to operate the Office. Most of the savings generated represent on-going annual savings.

¹ In addition to audit and investigation reports, the Auditor General regularly issues administrative reports (such as the Annual Report - Demonstrating the Value of the Auditor General’s Office and the Annual Report on the Fraud and Waste Hotline) as well as other reports (such as reports on the Continuous Controls Monitoring Program)

\$160.5 million in cost savings and revenue increases from 2012 to 2016

On April 26, 2017, City Council received the Auditor General's most recent Annual Report. This report highlighted approximately \$160.5 million in one-time and projected five-year cost savings and revenue increases. This estimate includes implementation costs and accumulates savings from 2012 to 2016.

Every \$1 invested in the Office resulted in \$7.4 in savings

The return on every dollar invested in the Auditor General's Office is approximately \$7.4.

A summary of the reports issued by the Auditor General that contribute to these savings is included in Table 2 of the Auditor General's 2016 Annual Report, which is available at:

<http://www.toronto.ca/legdocs/mmis/2017/au/bgrd/backgroundfile-101860.pdf>

As the City continues to implement audit recommendations, additional savings can be realized. These new savings have not been included in the Auditor General's previous annual reports. Figure 2 and Table 2 summarize the realized and potential savings not included in the Auditor General's previous annual reports.

Figure 2: Five-year Savings by the Year Identified (in Millions)

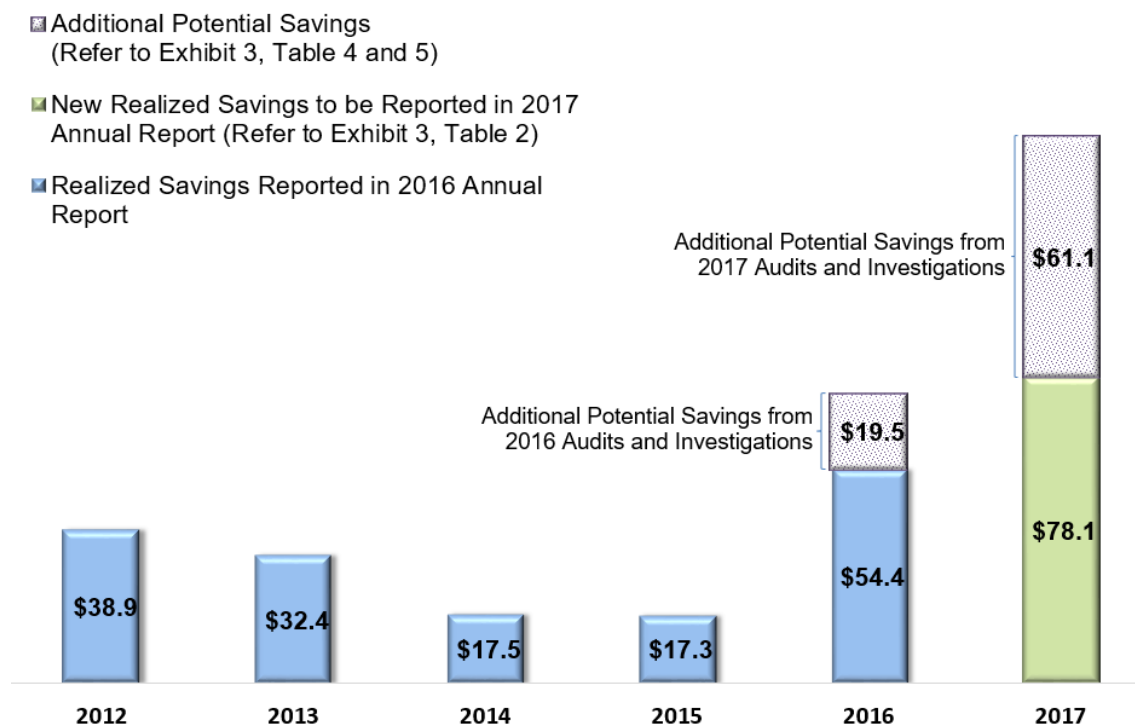


Table 2: Summary of Realized and Potential Savings Not Yet Included in any Previous Annual Report - Demonstrating the Value of the Auditor General's Office

Source of Realized and Potential Savings	Reference to Exhibit 3 for additional detail	One-time	Annual Recurring	Total over 5 years (One-time + Annual Recurring)
Realized Savings in 2017 (and not previously reported), from Reports Issued to December 31, 2015.	Table 2	\$11,362,000	\$13,340,000	\$78,062,000
Potential Savings , Recommendations Not Fully Implemented from Reports Issued to December 31, 2015.	Table 3	-	\$31,594,000	\$157,970,000
Potential Savings , Recommendations from Reports Issued in 2016	Table 4	\$4,000,000	\$3,105,000	\$19,525,000
Potential Savings , Recommendations from Reports Issued in 2017	Table 5	\$12,297,000	\$9,754,000	\$61,067,000
Total Realized and Potential Savings Not Yet Included in any Previous Annual Report – Demonstrating the Value of the Auditor General's Office		\$27,659,000	\$57,793,000	\$316,624,000

\$78.1 million in additional savings realized in 2017 by implementing recommendations from past audits

As illustrated in Table 2, approximately \$78.1 million from one-time and projected five-year cost savings were realized in 2017. This results from management's implementation of recommendations from five previously issued audit reports.

These savings, together with any other savings or revenue increases realized, will be included in the Auditor General's next Annual Report to be presented to Audit Committee at its first meeting in 2018. Table 2 in Exhibit 3 details the additional savings realized in 2017 by implementing recommendations from past audits.

\$31.6 million in potential annual savings and revenue increases related to recommendations that have not yet been fully implemented

Outstanding audit recommendations have the potential to generate approximately \$31.6 million in annual cost savings or revenue increases once they have been implemented. This translates to potential cost savings and revenue increases of \$158.0 million over five years. These are recommendations from audit and investigation reports received by Audit Committee prior to December 31, 2015.

The actual cost savings and revenue increases will be included in the Auditor General's Annual Report when they have been realized. Table 3 in Exhibit 3 summarizes the potential cost savings and revenue increases related to recommendations that have not yet been fully implemented.

2016 and 2017 audits identified \$80.6 million in potential savings and revenue increases over five years

Furthermore, recommendations from audit and investigation reports received by Audit Committee during 2016 and 2017 also have quantifiable future benefits.

Once implemented, recommendations from reports issued in 2016 could achieve approximately \$4.0 million in one-time savings and an additional \$3.1 million in recurring annual cost savings or revenue increases. This translates to potential cost savings and revenue increases of approximately \$19.5 million over five years.

Once implemented, recommendations from reports issued in 2017 could achieve approximately \$12.3 million in one-time savings and an additional \$9.8 million in recurring annual cost savings or revenue increases. This translates to potential cost savings and revenue increases of approximately \$61.1 million over five years.

The actual cost savings and revenue increases will be included in the Auditor General's Annual Report when they have been realized. Table 4 and Table 5 in Exhibit 3 specifically outlines the potential cost savings and revenue increases from reports issued in 2016 and 2017 (respectively).

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

Equally important are the non-financial benefits. Many of the recommendations issued by the Auditor General's Office have led to strengthened internal controls, improvements to policies and procedures, better management and use of City resources, improvements to operational efficiency and better customer service.

The following are examples of recent reports for which there are significant benefits which are either non-financial in nature or the financial benefits were not determinable at the time the reports were issued:

- Management of the City's Employee Extended Health and Dental Benefits, Phase One: The City Needs to Ensure Adequate Detection and Review of Potentially Excessive and Unusual Drug Claims
- Improving the Tendering Process for Paving Contracts

- Information Technology Vulnerability Assessment and Penetration Testing
- Strengthening Enforcement of the Fair Wage Policy
- Implementing an Integrated City-wide Risk Management Framework
- Operational Review of Build Toronto

All audits comply with Generally Accepted Government Auditing Standards

All of the Auditor General's audits are conducted in accordance with Generally Accepted Government Auditing Standards (the "Standards"). The Standards relate to: independence; objectivity; professional proficiency; scope; and performance of work. These Standards require that the Auditor General obtain sufficient, appropriate evidence that provides a reasonable basis for the audit findings and conclusions. As a result, each audit project takes on average nine months from start to finish by a team of two to three audit staff.

Independent quality assurance review of the Auditor General's Office

Audit organizations performing audits in accordance with Generally Accepted Government Auditing Standards are required to undergo an external independent quality assurance review at least once every three years. This review provides assurance that established policies and procedures and applicable auditing standards are being followed.

These reviews are performed by representatives from the Association of Local Government Auditors (ALGA), an independent professional body which conducts a significant number of quality assurance reviews throughout the U.S. To date, the Auditor General's Office has undergone four such reviews.

The next external quality assurance review will be conducted in 2018

The most recent quality assurance review of the Auditor General's Office was performed in August 2015. The Office received the highest level of compliance available in the external quality assurance review program. The results of the 2015 External Quality Assurance Review are available at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2015.AU4.9>

The next quality assurance review of the Auditor General's Office will be conducted in 2018.

Importance of the Forensic Unit and the Fraud and Waste Hotline

The Fraud and Waste Hotline receives allegations related to fraud, waste and other wrongdoing

The Fraud and Waste Hotline Program was established in November 2002 as an independent resource for employees or members of the public to report complaints of fraud, waste or other wrongdoing without fear of retribution.

The Hotline Program helps the Auditor General to fulfill her mandate under the *City of Toronto Act, 2006*, by identifying where City funds are not safeguarded and helping to detect and deter fraud and waste at the City.

The Auditor General has the sole responsibility to investigate complaints of whistleblower reprisal or retribution

This core responsibility was reinforced through Council's adoption of the Toronto Public Service By-law that introduced a Disclosure of Wrongdoing and Reprisal Protection policy. The *Toronto Public Service By-law* assigned the Auditor General the sole responsibility to investigate complaints of reprisal or retribution against City employees who report wrongdoing.

Cumulative actual and potential losses of complaints received by the Auditor General from 2012 to 2016 is more than \$4.5 million

As reported in the Auditor General's 2016 Annual Report, the Hotline Program received 552 complaints, consisting of approximately 900 allegations. The Hotline Program has helped to reduce losses and resulted in the protection of City assets. The cumulative total for actual and potential losses of complaints received in previous years (2012 to 2016) is more than \$4.5 million (actual) plus \$1.8 million (potential loss) had the fraud not been detected.

Hotline data provides a picture of significant risks

Over the years, data collected in relation to allegations received provides a picture of significant risks impacting the City's stewardship over public funds and the achievement of value for money in operations. This data is useful in identifying where audits are needed, and has led to key audits that have had significant findings, including the recent audits of long-term disability, employee extended health benefits, and road maintenance.

Benefits of the Hotline Program

In addition to providing a picture of significant risks, the Hotline Program has helped to reduce losses and resulted in the protection of City assets. Additional benefits 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

The Forensic Unit focuses its investigative work on high-risk areas

Ultimately, the effectiveness of the Fraud and 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.

The Auditor General's Forensic Unit is dedicated to managing the Fraud and Waste Hotline and is responsible for conducting investigations and providing independent oversight of management-led investigations.

Some investigations are conducted by management

Due to limited staff resources, the Auditor General uses a risk-based approach. 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 prevent future wrongdoing.

Operating budget increase provides the Auditor General with capacity to carry out investigations into complex cases

The Auditor General's Forensic Unit focuses its investigative work into high-risk areas. During 2017, with the enhanced capacity afforded by the temporary increase to the operating budget, the Auditor General was able to carry out several significant investigations into complex cases.

1. The Auditor General was contacted and requested by a complainant to review a pending property acquisition by the Toronto Parking Authority at Finch Avenue West and Arrow Road.
 - Part 1 of the investigation focused on whether the purchase price was at Fair Market Value. An investigation report was issued in October 2016 entitled "*Auditor General's Observations of a Land Acquisition at Finch Avenue West and Arrow Road by the Toronto Parking Authority*". This report is available at:
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.AU7.14>

Subsequent to this report, the transaction was cancelled.

- Part 2 of the investigation focused on the remaining aspects of the transaction and included recommendations for process improvement. A report on the second part of the investigation was issued in June 2017. This report is available at:
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.AU9.12>

In addition to making several recommendations to improve governance, the Auditor General's work concluded that, in her view, the Toronto Parking Authority would have overpaid for the land transaction by approximately \$2.63 million. This represents a potential cost savings that is included in Table 5 in Exhibit 3.

2. In mid-2016, the Auditor General launched a review in response to a complaint received by the Fraud and Waste Hotline. It was alleged that certain Toronto Building Division's cash receipts were misappropriated. During the course of our investigation, we noted several system control deficiencies and improvement opportunities that resulted in six recommendations. The investigation report was issued in March 2017 entitled "*Toronto Building Division – Strengthening System Controls to Safeguard Cash Receipts*". This report is available at:
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.AU8.7>

Three more in-depth investigation will be completed in 2017

Three more in-depth investigative reports are expected to be completed during 2017.

Annual Report on the Fraud and Waste Hotline

The 2016 Annual Report on the Fraud and Waste Hotline can be found at:
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.AU8.9>

The next Annual Report will be tabled at Audit Committee at its first meeting in 2018.

AUDITOR GENERAL'S OFFICE – 2018 BUDGET REQUEST

City Council approved temporary budget increases to provide additional capacity to undertake value for money audits and investigations

On February 15 and 16, 2017, City Council approved the 2017 Budget Committee Recommended Operating Budget for the Accountability Offices. At that time, City Council approved the:

"temporary increase of \$1.0 million, as reflected in the Auditor General's 2017 Budget Committee Recommended Operating Budget to provide additional capacity to undertake value for money audits and investigations, subject to a report back to Audit and Executive Committees from the Auditor General on a revised audit work plan, and that temporary planned increases of up to \$1.5 million in 2018 and an additional \$1.4 million in 2019 be subject to consideration in future year budget processes together with revised audit work plans." (Recommendation 250)

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2018 Operating Budget Request of \$7,444,900 reflects Council's planned temporary increase

The Auditor General's 2018 Operating Budget request is \$7.445 million. The \$1.5 million increase from the approved adjusted 2017 operating budget of \$5.903 million reflects City Council's 2017 decision (EX22.2) to provide the Auditor General with additional capacity to undertake value for money audits and investigations. Table 3 below compares the 2018 budget request and the 2017 approved budget and projected year-end actual results.

Table 3: Comparison of 2018 and 2017 Budget and Projections

2018 Budget Request	2017 Approved Budget	2017 Projected Actual
\$7,444,900	\$5,902,900	\$5,736,900

Auditor General's Staff Complement

Auditor General's Office 2017 approved staff complement consists of 32 positions

The Auditor General's Office approved staff complement currently consists of 32 staff positions comprised of four senior management, 25 professional, one supervisor administration and two administrative staff positions.

Staff hired on a temporary basis in response to the Council-approved budget increase

In response to the Council-approved temporary increase of \$1.0 million to the Auditor General's 2017 Operating Budget, the Auditor General hired, on a temporary basis, 14 new staff. The addition of new staff enabled the Auditor General's Office to initiate more projects during 2017, as well as accelerate or expand audits and investigations in process. The benefits of the additional capacity provided by City Council are already evident in projects completed in the few months since new staff were added.

The Auditor General's 2018 budget request reflects these 14 new temporary positions.

It requires a significant investment of time and money to onboard, train, and develop new staff

Based on the projected budget increases for both 2018 and 2019 within City Council's 2017 decision (EX22.2) to provide the Auditor General with additional capacity to undertake value for money audits and investigations, a significant investment of time and money has been invested towards onboarding, training and developing staff hired into these temporary positions.

The Office demonstrated value from the 2017 budget increase

The addition of staff provides the Auditor General with additional capacity to carry out audits and investigations. This is reflected in the additional projects that have been included in the 2018 Audit Work Plan based on the second of three temporary increases to the Auditor General's budget planned by City Council.

The temporary nature of the additional professional positions, can pose challenges to the Office's ability to attract, hire, and retain high quality professional staff in a competitive marketplace. This can impact the Auditor General's Office ability to continue to keep pace with the breadth, depth and number of projects initiated and/or completed in 2017.

As highlighted in Table 5 of Exhibit 3, recommendations implemented from 2017 audits and investigations could potentially achieve approximately \$12.3 million in one-time and nearly \$9.8 million in annual recurring cost savings and revenue increases. Additional examples of some of the potential annual and recurring cost savings and revenue increases from reports issued in 2016 are also included in the Exhibit.

Succession planning to ensure the Office is sufficiently staffed, now and for the future

When salaries and benefits comprise over 80 per cent of the total Auditor General's Office budget, succession planning is vital. Employee turnover, due to resignation, retirement, or long-term illness is an ongoing risk. In recent years, the Office experienced a high level of staff turnover due to retirements. As summarized in Figure 3 and Figure 4, 70 per cent of the Office's audit and investigative staff are new to the City, or new in their positions within the past three years. Retention and succession planning will continue to be a challenge, with ten per cent of the professional staff in the Auditor General's Office having more than 20 years of service with the City and over 30 per cent being temporary.

Benefits from leveraging current staff complement

Therefore, it is critical that the Auditor General leverage the current staff to build and cultivate a stable, strong, competent, dedicated group of professionals that can withstand the effects of staff turnover without significantly impacting audits and investigations. We have an ongoing program of knowledge transfer to ensure this occurs effectively.

Figure 3: Length of Time Auditor General's Staff Have Been in Their Roles

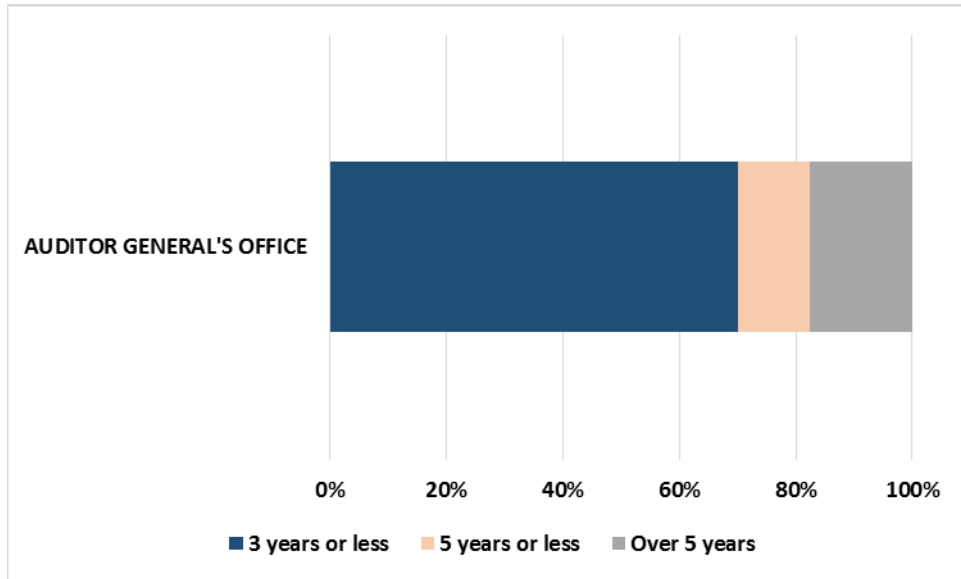
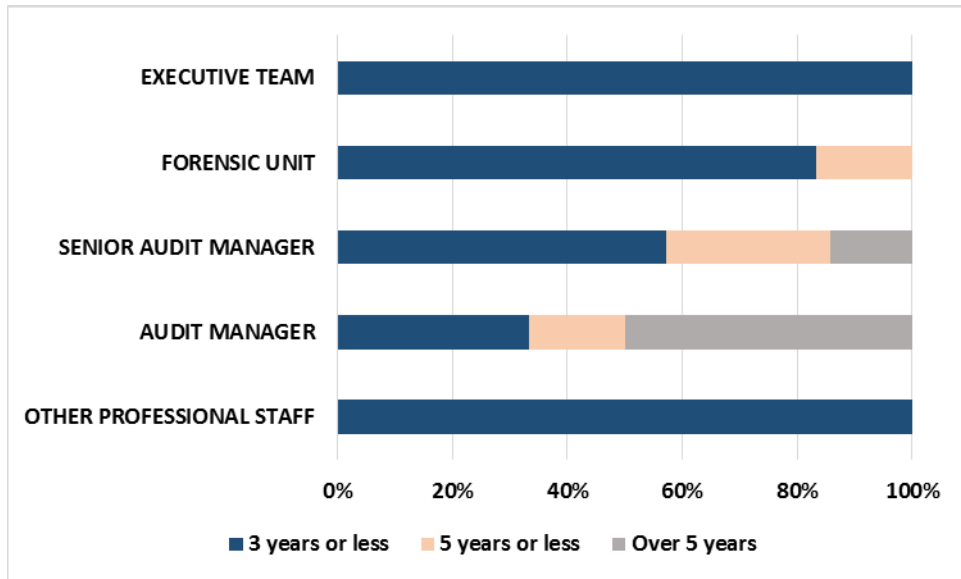
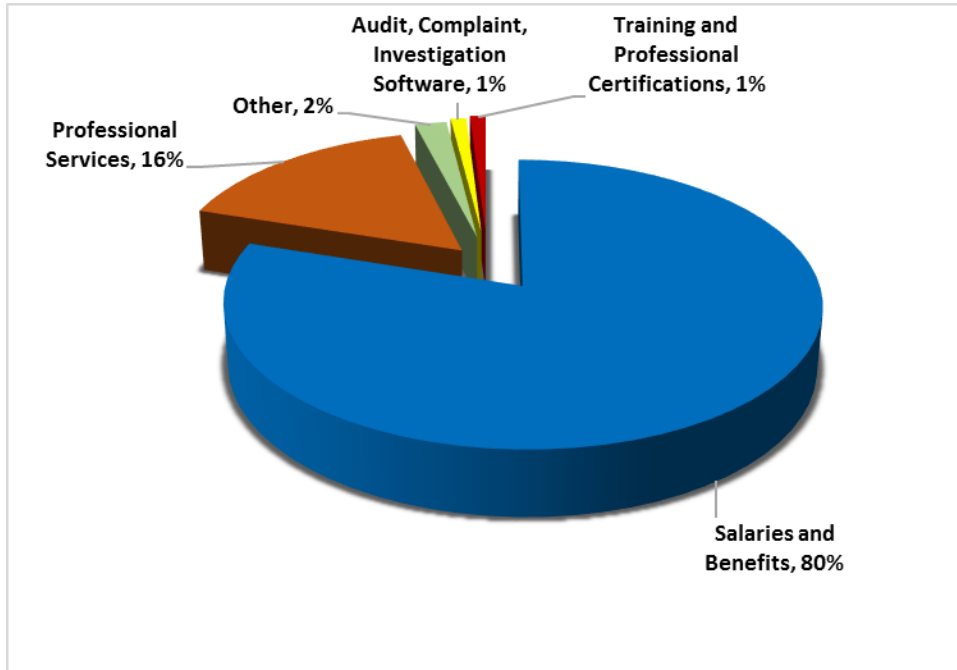


Figure 4: Length of Time in Roles, by Position



Composition of Auditor General's 2018 Budget Request

Figure 5: Composition of the Budget by Expense Category



80% of budget is salaries and benefits

The majority of the Auditor General's 2018 budget request consists of salaries and benefits. As shown in Figure 5, salaries and benefits comprise just over 80 per cent of the total budget. If the Operating Budget is not sustained at 2017 levels on an ongoing basis, this will result in the deletion of positions and termination of staff. The Auditor General's Office would also be unable to continue to keep pace with the breadth, depth and number of projects initiated and/or completed in 2017. This ultimately impacts the financial and non-financial benefits the City achieves as a result of Auditor General audits and investigations.

16% of budget is used for specialists engaged to support audits and investigations

In addition, the cost of professional services for experts, specialists and contracted audit professionals with the specific skill sets needed in the course of a particular audit or investigation make up 16 per cent of the budget.

1% of budget is used to ensure staff maintain professional proficiency and certifications

The Auditor General is 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 one per cent of the Auditor General's budget.

To comply with Government Auditing 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.

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. There may be additional continuing professional education requirements for specific professional certifications.

1% of budget is for licences for Audit, Complaint and Investigation Management software

The Auditor General's Office issued a Request for Proposal to obtain an audit, complaint and investigation management software solution. The Audit, Complaint and Investigation Management System will replace the outdated Fraud & Waste Hotline database and automate working papers and risk management processes that will help to maximize the efficiency and effectiveness of the Office. The contract for the implementation and licensing of the solution will be awarded shortly. It is expected that annual licensing and support costs of this software will make up approximately one per cent of the Auditor General's budget.

The Benchmarking of Audit Costs – Comparisons with Other Municipalities

Toronto audit costs is among the lowest of all major cities surveyed

The Auditor General's budget as a percentage of the City's municipal budget is in the range of 0.05 per cent. This percentage is among the lowest of major municipalities across Canada, as well as those of a number of municipalities in the United States.

Quebec legislation mandates audit resources be a set percentage of the total City budget

Of significance in the comparison of audit costs between municipalities is legislation in Quebec. 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.”*

In Quebec, the amount legislated for audit services in municipalities with a budget in excess of \$1 billion is 0.11 per cent of the total City budget. If the equivalent percentage of 0.11 per cent was applied to the City of Toronto, the City’s total audit budget would be in the range of \$13.5 million.

City Manager’s recent report on funding models for accountability functions in the City

In April 2013, City Council adopted a 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'. This report included the following:

“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 percent.”

The temporary planned increases, approved by City Council on February 15 and 16, 2017, of up to \$1.5 million in 2018 and an additional \$1.4 million in 2019 will bring the Auditor General's Office operating budget to \$7.445 million and \$8.909 million in each year respectively. Audit costs for 2018 and 2019 relating to the Auditor General's Office as a percentage of the City's 2017 municipal budget would be in the range of 0.06 and 0.07 per cent respectively. These increases to the Auditor General's budget to provide additional capacity to undertake value for money audits and investigations goes a long way towards bringing the Auditor General's budget in line with similar functions in other major cities in Canada and the U.S.

Compliance With All Appropriate City Policies

Annual Compliance Audit

The Auditor General's Office undergoes an annual compliance audit by an external independent auditor engaged by the City Manager's Office. The annual compliance audit provides Council assurance that the Auditor General's Office is carrying out its operations within delegated authorities and in compliance with applicable City bylaws and policies.

The annual compliance report for the year ended December 31, 2016, was presented to Audit Committee on June 27, 2017. The report issued by the independent external auditor is available at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.AU9.16>

IMPACTS OF THE PROPOSED BUDGET ON THE 2018 AUDIT WORK PLAN

City-wide audit priority assessment was completed in 2015

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 the operations of the City and its major agencies and corporations under her mandate.

Backlog of potential audits was included in the 2016 Audit Work Plan

The results of the City-wide assessment are used to set the audit priorities for the next five years. This assessment was last completed in 2015. At that time, a number of areas for potential audits were identified. The 2016 Audit Work Plan submitted to Audit Committee on October 23, 2015, includes a summary (Appendix 4) of the backlog of audits reflected by the City-wide risk assessment results. Appendix 4 can be found at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2015.AU4.6>

The results of the five-year risk assessment are evaluated each year during the audit planning process, and new risks are added, as required, to keep the risk universe up to date. The Auditor General also considers the views and experience of City Councillors and City management when developing her Audit Work Plan.

Additional funding will result in a gradual decline of backlogged projects

Additional funding enables the Auditor General to address high-priority projects on a more timely basis by including more projects in her annual Audit Work Plan. This will result in a gradual decline of backlogged projects that have been constrained by prior years' operating budgets.

Five audits were added to the 2017 Audit Work Plan in response to the increased Operating Budget

City Council's temporary increase of \$1.0 million to the Auditor General's 2017 Operating Budget, provided the Auditor General with the capacity to accelerate or expand the scope of selected performance audits, and broaden certain complex forensic investigations. In addition, five more audits were added to her 2017 Audit Work Plan. Many of these audits are currently underway and will be presented to Audit Committee in 2018. The benefits of the additional capacity provided by City Council are already evident in projects completed in the few months since new staff were added.

Additional audits have been planned for 2018 in anticipation of the Council-recommended temporary increase of \$1.5 million in 2018

The Auditor General's 2018 Audit Work Plan also incorporates additional projects in anticipation of City Council's temporary planned increase of \$1.5 million to the Auditor General's 2018 Operating Budget.

A report for information, on the 2017 audits and the planned work for 2018, was considered by the Audit Committee on June 27, 2017. This report, which provides an overview of how the resources allocated to the Auditor General's Office will be used in 2017 and 2018, can be found at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.AU9.15>

Projects included in the 2018 Audit Work Plan

Projects included in the 2018 Audit Work Plan range from in-depth operational reviews of units within the Parks, Forestry & Recreation divisions, Toronto Community Housing, and Toronto Transit Commission, to assessing the administration of the shelter system, reviewing significant construction contracts, and reviewing controls over information technology.

Additional projects in the 2018 Audit Work Plan are contingent on temporary increase to budget

Additional projects to be added to the 2018 Work Plan (contingent on the planned funding as per EX22.2 Recommendation #250) include performance audits of City Planning and Toronto Hydro.

In addition to the specific audit projects, the Auditor General's Office will expand data analytics and continuous controls monitoring projects, Fraud and Waste Hotline investigative work, and follow-up reviews of outstanding audit recommendations as part of its ongoing activities.

The final 2018 Annual Audit Work Plan is being tabled for consideration at the same Audit Committee meeting on October 27, 2017, where the Auditor General's 2018 Operating Budget is considered.

CONCLUSION

The amount of \$7.445 million is the Auditor General's budget request for 2018.

The budget request reflects City Council's decision on February 15 and 16, 2017, for:

"temporary increase of \$1.0 million, as reflected in the Auditor General's 2017 Budget Committee Recommended Operating Budget to provide additional capacity to undertake value for money audits and investigations, subject to a report back to Audit and Executive Committees from the Auditor General on a revised audit work plan, and that temporary planned increases of up to \$1.5 million in 2018 and an additional \$1.4 million in 2019 be subject to consideration in future year budget processes together with revised audit work plans." (Recommendation 250)

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.EX22.2>

EXHIBIT 1 – AUDIT FRAMEWORK AT THE CITY OF TORONTO

City Council, in 2002, approved an audit framework establishing three levels of audit

In May 2002, City Council approved an independent Auditor General’s Office for the City of Toronto in conjunction with the implementation of a new audit framework. The 2002 audit framework established three levels of audit services for the City of Toronto: the Auditor General's Office; the external auditor of the City's financial statements; the Internal Audit Division. This framework is consistent with best practices in most major cities.

Auditor General to perform independent financial, compliance and performance audits

(1) The Auditor General’s Office was created in order to report directly to and provide assurance strictly for City Council. In carrying out its audit activities, the Auditor General’s Office is independent of management. The Auditor General has the authority to conduct financial, operational, compliance, information systems, forensic and other special audits and reviews of City divisions, local boards (restricted definition) and other City-controlled corporations as specified by City Council. The Auditor General reports to Council through the Audit Committee.

External Auditor to provide independent attestation of financial statements

(2) The City is required to appoint an external auditor licensed under the *Public Accounting Act 2004*. Under Section 139 of the *City of Toronto Act, 2006*, the external auditor is appointed by City Council to perform the annual statutory audit of the City’s financial statements including agencies and corporations and provide an opinion on the fairness of the information presented in these financial statements.

Internal Audit function to carry out assurance and consultative work for management

(3) A separate Internal Audit Division reporting to the City Manager was established to provide assurance and management consulting advice for the City’s Executive Management Team.

**Coordination and
consultation with other
audit functions**

Audit work at the City requires coordination with the City Manager's Internal Audit Division, as well as audit groups at the Toronto Transit Commission, the Toronto Police Service and the Toronto Community Housing Corporation.

The Auditor General meets with each of these groups on a regular basis in order to ensure that she is aware of any audit concerns and to ensure that there is no duplication of audit work.

The Auditor General also meets regularly with both the external auditor PricewaterhouseCoopers, the City's other Accountability Officers, and the Ontario Ombudsman and Auditor General to discuss any emerging issues.

Finally, the Auditor General meets with the City Manager periodically to discuss a wide range of issues, including the annual work plan, upcoming audit reports, internal audit work and issues of concern.

EXHIBIT 2 – LISTING OF AUDIT AND INVESTIGATION REPORTS ISSUED IN 2016 AND 2017

Expected at the October 27, 2017 Audit Committee Meeting

1. A Review of Municipal Licencing 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. 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

2017

10. Auditor General's Observations of a Land Acquisition at Finch Avenue West and Arrow Road by the Toronto Parking Authority - Part 2 – June 22, 2017
11. Real Estate Services Division – Restore Focus on Union Station Leasing – June 13, 2017
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" – June 13, 2017
13. Review of Toronto Transit Commission – Procurement Policies and Practices: Improving Materials Management and Purchasing Policies Can Potentially Result in Significant Savings - May 15, 2017
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 – March 20, 2017
15. Detection of Warning Signs for Potential Bid Rigging Should be Strengthened – March 17, 2017
16. Toronto Building Division – Strengthening System Controls to Safeguard Cash Receipts – March 10, 2017
17. Information Technology Vulnerability Assessment and Penetration Testing – Wrap-up Phase I and Phase II – March 10, 2017
18. Audit of Water Billing and Collections – Phase II: Water Billing and Water Meter Management Controls Require Improvement – March 10, 2017

2016

1. Management of the City's Long-Term Disability Benefits – Phase Two: The Need for a Proactive and Holistic Approach to Managing Employee Health and Disability – October 13, 2016
2. Audit of Water Billing and Collection – Phase II: Part 1 – Incorrect Vacant Land Status Properties Reduces City's Property Tax Revenue – October 13, 2016
3. Audit of Water Billing and Collection – Phase II: Part 2 – Management of Water Supply Contract for the Region of York – October 13, 2016
4. Auditor General's Observations of a Land Acquisition at Finch Avenue West and Arrow Road by the Toronto Parking Authority - October 24, 2016
5. Strengthening Enforcement of the Fair Wage Policy – October 13, 2016
6. Audit of Information Technology Vulnerability and Penetration Testing – Phase II: Internal Penetration Testing, Part 1 – Accessibility of Network and Servers – October 24, 2016
7. Management of the City's Employee Extended Health and Dental Benefits – Phase One – The City Needs to Ensure Adequate Detection and Review of Potentially Excessive and Unusual Drug Claims – October 24, 2016
8. Management of the City's Long-Term Disability Benefits, Phase Two: Interim Report on the Approval and Monitoring of Claims – June 30, 2016
9. Improving the Tendering Process for Paving Contracts – June 27, 2016
10. Audit of City Cleaning Services – Part 2: Maximizing Value from Cleaning Contracts – June 14, 2016
11. Audit of City Cleaning Services – Part 1: Opportunities to Control Costs, Improve Productivity and Enhance Quality of Cleaning Services – June 14, 2016
12. Audit of Toronto Transit Commission Materials and Procurement Department, Phase One: Improving Controls to Safeguard Inventory – May 12, 2016
13. Audit of Water Billing and Collection – Phase I: Overdue Water Account Collections Require Strengthening – February 17, 2016
14. Audit of Information Technology Vulnerability and Penetration Testing - Phase 1: External Penetration Testing – February 16, 2016
15. Toronto Parking Authority Phase 2: Audit of the Revenue Operations of Off-Street Controlled Facilities – January 12, 2016

EXHIBIT 3 – SUMMARY OF REALIZED AND POTENTIAL SAVINGS AND REVENUE INCREASES FOR REPORTS ISSUED TO OCTOBER 27, 2017

On April 26, 2017, City Council received the Auditor General's 2016 Annual Report - Demonstrating the Value of the Auditor General's Office. This report highlighted approximately \$160.5 million in one-time and projected five-year cost savings and revenue increases. This estimate includes implementation costs and accumulates savings from 2012 to 2016.

The return on every dollar invested in the Auditor General's Office was approximately \$7.4.

A summary of the reports issued by the Auditor General that contribute to these savings is included in Table 2 of the Auditor General's 2016 Annual Report which is available at: <http://www.toronto.ca/legdocs/mmis/2017/au/bgrd/backgroundfile-101860.pdf>

As the City continues to implement audit recommendations, additional savings can be realized. These realized savings will be included in the Auditor General's future annual reports. Figure 1 and Table 1 summarize the realized and potential savings not included in the Auditor General's previous annual reports.

Figure 1: Five-year Savings by the Year Identified (in Millions)



Table 1: Summary of Realized and Potential Savings Not Yet Included in any Previous Annual Report - Demonstrating the Value of the Auditor General's Office

Source of Realized and Potential Savings	Reference tables for additional detail	One-time	Annual Recurring	Total over 5 years (One-time + Annual Recurring)
Realized Savings in 2017 (and not previously reported), from Reports Issued to December 31, 2015.	Table 2	\$11,362,000	\$13,340,000	\$78,062,000
Potential Savings , Recommendations Not Fully Implemented from Reports Issued to December 31, 2015.	Table 3	-	\$31,594,000	\$157,970,000
Potential Savings , Recommendations from Reports Issued in 2016	Table 4	\$4,000,000	\$3,105,000	\$19,525,000
Potential Savings , Recommendations from Reports Issued in 2017	Table 5	\$12,297,000	\$9,754,000	\$61,067,000
Total Realized and Potential Savings Not Yet Included in any Previous Annual Report – Demonstrating the Value of the Auditor General's Office		\$27,659,000	\$57,793,000	\$316,624,000

Table 2: Summary of Additional Savings Realized in 2017 Related to Recommendations Implemented from Reports Issued to December 31, 2015

In 2017, the additional one-time and projected five-year cost savings realized by implementing recommendations from five previously issued audit reports is approximately \$78.1 million.

#	Audit Report	One-time	Annual Recurring	Total over 5 years (One-time + Annual Recurring)
1	Improving Controls Over Property Tax Assessments and Payment in Lieu of Taxes, 2015	\$2,426,000	\$5,806,000	\$31,456,000
2	Operational Review of Invest Toronto Inc., 2014	-	\$1,700,000	\$8,500,000
3	Review of Toronto Transit Commission Bus Maintenance and Shops Department, Phase One: Bus Maintenance and Warranty Administration, 2014	\$8,000,000	\$5,800,000	\$37,000,000
4	Controls Over Telecommunication Expenses Need Improvement, 2014	\$936,000	-	\$936,000
5	Fleet Services – Reliable Data is Needed for Effective Fleet Management, 2013	-	\$34,000	\$170,000
Total Additional Realized Savings in 2017 (not included in previous Auditor General's Annual Reports)		\$11,362,000	\$13,340,000	\$78,062,000

Table 3: Summary of Potential Savings related to Recommendations Not Fully Implemented from Reports Issued to December 31, 2015

Recommendations in audit and investigation reports received by Audit Committee prior to December 31, 2015 have the potential to generate approximately \$31.6 million in recurring annual cost savings or revenue increases once they have been implemented. The actual cost savings and revenue increases will be included in the Auditor General's Annual Report when they have been realized.

#	Audit Report	One-time	Annual Recurring	Total over 5 years (One-time + Annual Recurring)
1	Cost Benefits of Extended Warranties for Construction Projects Are Unknown, 2014	-	\$514,000	\$2,570,000
2	Toronto Transit Commission - Review of Wheel-Trans Services - Sustaining Level and Quality of Service Requires Changes to the Program, 2012	-	\$31,080,000	\$155,400,000
Total Potential One-time and Annual Recurring Savings, Reports Issued to December 31, 2015		-	\$31,594,000	\$157,970,000

Table 4: Summary of Potential One-time and Annual Recurring Savings Related to Reports Issued in 2016

Recommendations in audit and investigation reports received by Audit Committee during 2016 have the potential to generate approximately \$4.0 million in one-time savings and an additional \$3.1 million in recurring annual cost savings or revenue increases once they have been implemented. The actual cost savings and revenue increases will be included in the Auditor General's Annual Report when they have been realized.

#	Audit Report	One-time	Annual Recurring	Total over 5 years (One-time + Annual Recurring)
Audit Reports Issued in 2016				
1	Audit of Water Billing and Collection – Phase I: Overdue Water Account Collections Require Strengthening	\$4,000,000	\$800,000	\$8,000,000
2	Audit of City Cleaning Services: Part 1: Opportunities to Control Costs, Improve Productivity and Enhance Quality of Cleaning Services Part 2: Maximizing Value from Cleaning Contracts	-	\$830,000	\$4,150,000
3	Audit of Water Billing and Collection – Phase II: Part 1 – Incorrect Vacant Land Status Properties Reduces City's Property Tax Revenue	-	\$600,000	\$3,000,000
4	Management of the City's Employee Extended Health and Dental Benefits, Phase One: The City Needs to Ensure Adequate Detection and Review of Potentially Excessive and Unusual Drug Claims	-	\$875,000	\$4,375,000
Total Potential Savings, 2016 Reports		\$4,000,000	\$3,105,000	\$19,525,000

Table 5: Summary of Potential One-time and Annual Recurring Savings Related to Reports Issued in 2017

Recommendations in audit and investigation reports received by Audit Committee during 2017 have the potential to generate approximately \$12.3 million in one-time savings and an additional \$9.8 million in recurring annual cost savings or revenue increases once they have been implemented. The actual cost savings and revenue increases will be included in the Auditor General's Annual Report when they have been realized.

#	Audit Report	One-time	Annual Recurring	Total over 5 years (One-time + Annual Recurring)
Audit Reports Issued in 2017				
1	Audit of Water Billing and Collections - Phase II: Water Billing and Water Meter Management Controls Require Strengthening	\$192,000	\$600,000	\$3,192,000
2	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	\$75,000	-	\$75,000
3	Review of Toronto Transit Commission Procurement Policies and Practices: Improving Materials Management and Purchasing Policies Can Potentially Result in Significant Savings	-	\$8,000,000	\$40,000,000
4	Real Estate Services Division - Restore Focus on Union Station Leasing	\$9,400,000	\$54,000	\$9,670,000
5	Auditor General's Observations of a Land Acquisition at Finch Avenue West and Arrow Road by the Toronto Parking Authority - Part 2	\$2,630,000	-	\$2,630,000
6	Review of Toronto Transit Commission Accounts Payable Functions: Improving Invoice Verification and Vendor Account Management	-	\$1,100,000	\$5,500,000
Total Potential Savings, 2017 Reports		\$12,297,000	\$9,754,000	\$61,067,000