



# Auditor General's Office 2020 Operating Budget

**October 8, 2019**

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Auditor General

**AUDITOR  
GENERAL**  

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**TORONTO**

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# 2020 Budget Highlights

## What We Do

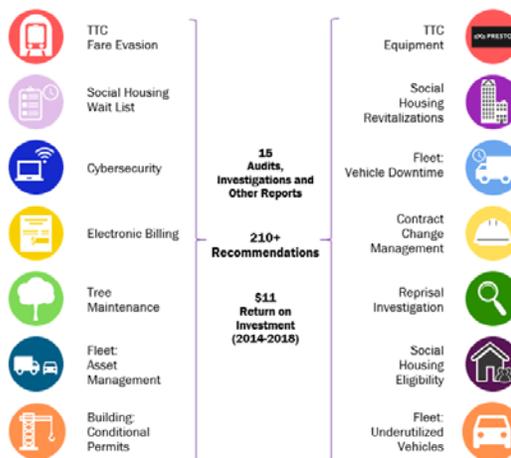
Under Section 178 of the City of Toronto Act, 2006, the Auditor General is “responsible for assisting City Council in holding itself and City administrators accountable for the quality of stewardship over public funds and for achievement of value for money in city operations.”

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.

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

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



## 2020 Budget Request

The Auditor General’s recommended 2020 budget for the Office is 1/20<sup>th</sup> of one per cent (.05%) of the City’s 2019 Approved Adjusted Budget. It is the Auditor General’s view that this is the minimum needed (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.

The majority of the Auditor General’s \$6.701 million budget request (92%) is for salaries and benefits. It is 0.9% higher than the 2019 budget because of standard progression pay increases and adjustments for economic factors.

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

The Auditor General’s 2020 Work Plan is being presented to Audit Committee at the same meeting as this 2020 Budget Request.

### **Key Service Issues & Challenges for 2020 and Beyond**

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

### **Key Priority Actions**

Flexibility within the Auditor General's approved budget and staffing is needed to be able to leverage the use of experts and specialized tools to address emerging risk areas.

***Increasing the Auditor General's requested budget by 1/200<sup>th</sup> of one per cent*** of the City Budget (to 0.055%), will help to provide assurance that information technology risks and high-risk complaints are being adequately addressed in a timely manner.

Over the longer term, City Council should consider setting the Auditor General's budget as a fixed percentage of the municipal budget to support the Office's independence. Considering the risks facing the City, it is the Auditor General's view that at 0.06% of the City's Operating Budget, the Office would continue 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.

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## A. Mandated Responsibilities of the Auditor General

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### City Council's role

Under the *City of Toronto Act, 2006*, the role of City Council is to [emphasis added]:

- 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.

### 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.

### 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 financial<sup>1</sup>, compliance and performance audits of City divisions, local boards<sup>2</sup>, 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

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<sup>1</sup> 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

<sup>2</sup> 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)

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

The Auditor General coordinates 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.

**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 2016 and 2019 are summarized in Exhibit 1. 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 2020 Budget Request

### 2020 Operating Budget Request of \$6,700,800

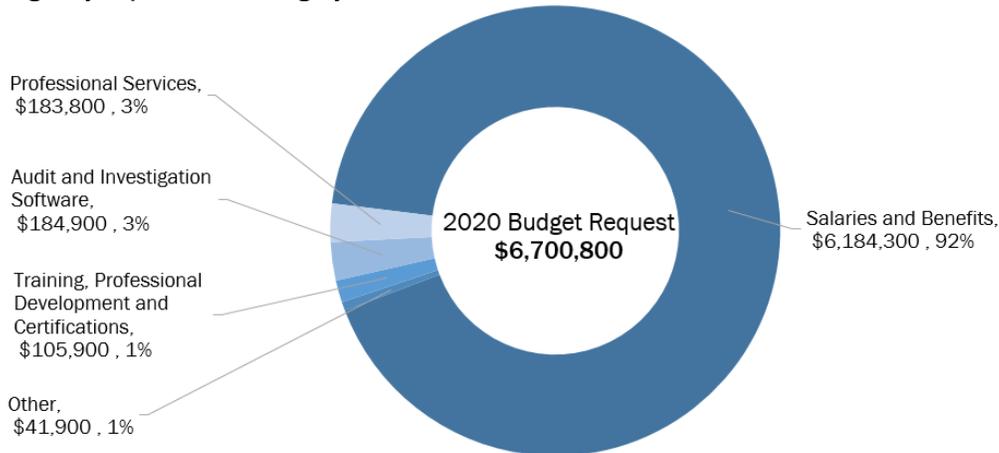
The Auditor General's 2020 Operating Budget request is \$6.701 million. This is a \$59,700 (0.9%) increase from the 2019 Approved Budget for progression pay increases and economic adjustments. The categories of expenses included in the budget, as summarized in Figure 1, are further described in Exhibit 2.

Table 1: Comparison of 2020 and 2019 Budget and Projections

2020 Budget Request	2019 Approved Budget	2019 Projected Actual*
\$6,700,800	\$6,641,100	\$6,641,100

\*Based on Q2 Corporate Variance Report

Figure 1: Budget by Expenditure Category



### Renewal of Council-approved budget to maintain 2020 budget at 2019 levels

The budget recommends the Council-approved 2017 to 2019 time-limited budget increases be retained permanently to preserve the level of service provided over the last three years.

The majority of the Auditor General's \$6.701 million budget request (92%) is for salaries and benefits. If the budget is not retained at 2019 levels, the Auditor General will need to reduce staff and contracted specialists that undertake audits and investigations. This also impacts the Office's ability to respond quickly to emerging risks, such as cybersecurity and breach management, as they arise.

Reductions will ultimately negatively impact the financial and non-financial benefits the City achieves as a result of Auditor General audits and investigations, and possibly increase the risks affecting the City.

## **Key Service Issues & Challenges for 2020 and Beyond**

### Investigating Alleged Fraud, Other Wrongdoing, or Reprisals

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

For the City's size and complexity, the Forensic Unit (investigations and Fraud & Waste Hotline team) is small. In the current year, our Office has over eight active investigations, but there are a number of other high-risk complaints waiting to be addressed.

**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. In addition to operating the Hotline and conducting investigations, during the year, the Forensic Unit was involved with the following activities:

- implementing a new case management system
- assisting the audit teams on various engagements
- addressing production orders to deliver documents and records to law enforcement officials.

All of these activities were important projects that required the Forensic Unit's expertise.

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

**Re-prioritizing audits in order to respond to emerging risks**

In order to quickly respond to certain emerging risks, such as cybersecurity risks, the Auditor General has needed to delay 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. For example, there is an increasing prevalence of reported breaches of governmental systems across Canada and the United States. It is appropriate that the Auditor General respond by increasing her focus on cybersecurity of City assets. Further, where alleged cyber incidents have been reported to the Auditor General, she needs to have sufficient capacity to allocate resources towards assessing these critical emerging risks and management's response to such incidents to be able to assure City Council the risks are appropriately managed.

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 2016 through 2019.

**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. The 2019 Annual Report will be presented to Audit Committee on February 10, 2020.

The 2018 Annual Report is available at:

<https://www.toronto.ca/legdocs/mmis/2019/au/bgrd/backgroundfile-126514.pdf>

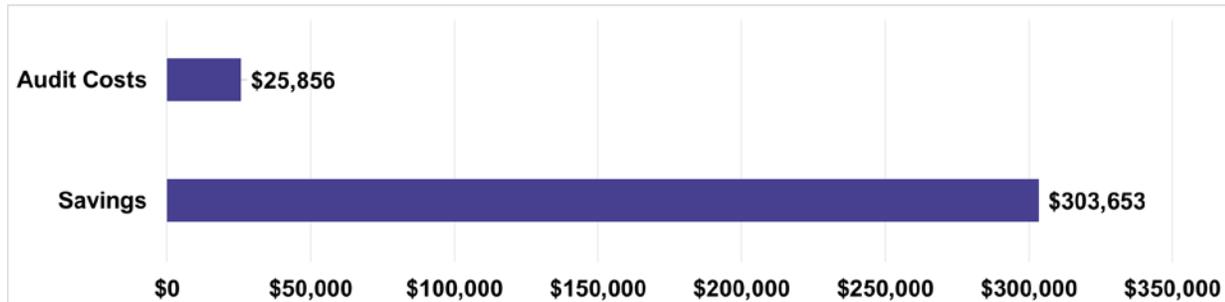
**Potential savings are not included in ROI calculation**

In conducting our audits, we always try to quantify the potential financial benefits of implementing audit recommendations. 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 2018 Annual Report highlighted that the total one-time and projected five-year savings realized in 2018 was \$133 million. The estimated one-time and projected five-year savings (cost reductions and revenue increases) for the years 2014 to 2018 were approximately \$303.7 million. Our cumulative Office expenditures over the same period were \$25.9 million.

**Figure 2: Five-Year Audit Costs Compared to Estimated Realized Savings (\$000's), 2014 to 2018, Auditor General's Office**



Source: Auditor General's 2018 Annual Report - Demonstrating the Value of the Auditor General's Office

**Every \$1 invested in the Office resulted in over \$11 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 2014-2018 is over \$11.

We have not yet updated the return on investment for 2015-2019. We do note that the number of audit recommendations implemented by management over the past year was low and there are a number of recommendations with the potential to realize savings which have not been fully implemented.

**Additional savings can be realized as audit recommendations are implemented**

Potential savings are however, not included in our return on investment calculation. As the City continues to implement audit recommendations, additional savings can be realized.

Examples of audit reports containing potential savings opportunities that may be achieved as management takes action to implement recommendations include:

- Review of Toronto Transit Commission's Revenue Operations: Phase One – Fare Evasion and Fare Inspection (2019)** recommended improved front-end controls as well as a more effective and efficient fare inspection program to decrease TTC's fare evasion rates and increase passenger revenue. We estimated that TTC lost at least \$64 million in passenger revenue in 2018 (\$61 million from fare evasion and TTC's estimate of \$3 million from malfunctioning Metrolinx equipment). A one percentage point reduction in fare evasion may result in \$11 million in additional passenger revenue per year.

- **Audit of Toronto Court Services: Collection of Provincial Offence Default Fines (2018)** included recommendations to strengthen Court Services' strategy, oversight, and tools to collect defaulted Provincial Offences Act fines. In its 2019 Budget, Court Services identified that it anticipated that the implementation of the Collection Plan and related procedures would result in an increase in revenue from the collection of defaulted Provincial Offences Act fines. At the time of our audit, there was \$577 million in default. This included \$63 million to be collected by the City on behalf of the Province and \$93 million in collection agency costs added by Court Services in order to pay for potential collection agency commissions.
- **Audits of Management of the City's Employee Extended Health and Dental Benefits, Phases One and Two (2016/17)** included a number of recommendations to improve oversight of claims administration services, and to ensure the City's benefits plans are cost-effective and follow industry standards and best practice. As highlighted in the Auditor General's 2019 Status Report on Outstanding Audit Recommendations for City Divisions in Corporate Services and Finance and Treasury Services, there is an opportunity to realize more savings when recommendations are implemented.

Exhibit 3 lists other examples of potential savings opportunities that may be achieved as management takes action to implement recommendations. Actual savings will be evaluated when the Auditor General completes her regular follow-up process of recommendations that management has reported as implemented.

**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, 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 was able to complete in 2019, 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 2019**

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

**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. As at September 30, 2019, the Hotline Program has received 460 complaints representing approximately 700 allegations. We project that at the end of 2019, the Fraud & Waste Hotline will receive over 600 complaints representing approximately 950 allegations.

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.

**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 2020 budget request is only 1/20<sup>th</sup> of one per cent of the 2019 City's 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 report<sup>3</sup> to City Council included jurisdictional research on funding models for accountability functions. The report noted that [emphasis added]:

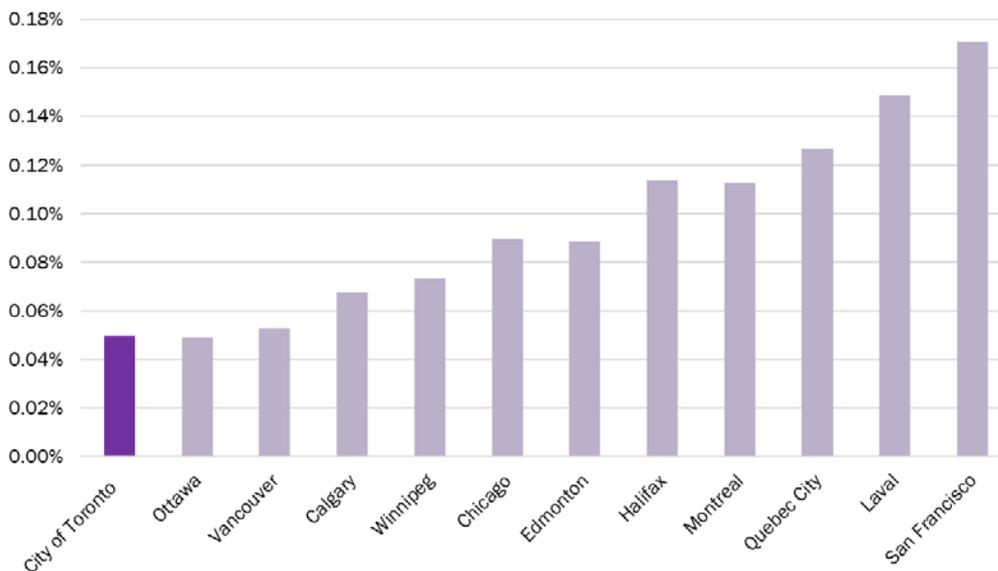
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<sup>3</sup> The April 2013 report from the City Manager entitled "Results Arising from the Shared Services Study Related to Internal Audit and Jurisdictional Research Respecting Funding Models for Accountability Functions" is available on the City's website at: <http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2013.AU10.12>

*“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.”*

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



**City Council requested management to report on the feasibility of dedicating a percentage of the City’s Budget to Accountability Offices as part of the 2020 Budget**

As part of the 2019 Budget, City Council requested the City Manager and the Chief Financial Officer and Treasurer “to report back as part of the 2020 Budget process on the funding needed to fulfill the legislative mandate of the Accountability Offices, including the feasibility of dedicating a percentage of the City’s total Operating Budget to be updated on an annual basis.” ([EX2.5](#), Recommendation #114)

**A budget based on a fixed percentage of the City's budget supports the Auditor General's independence**

A budget for the Auditor General set out in the Toronto Municipal Code based on a percentage of the total gross operating budget (tax- and rate-supported) supports the Office's independence and allows work to proceed without yearly budget pressures.

The Auditor General's 2020 budget request is only 1/20<sup>th</sup> of one per cent of the 2019 City's 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.

Increasing the Auditor General's budget to within the range of 0.055% to 0.06% of the operating budget would address the immediate emerging risks highlighted in this report. Within this range, the Office continues to be lean relative to the size and complexity of Toronto's government.

**Investing in the Auditor General produces benefits and savings**

Although the recommended increase to the Auditor General's requested budget is only in the range of 1/200<sup>th</sup> to 1/100<sup>th</sup> of one per cent of the overall City Budget, the Office recognizes that there may be resistance to a proposal to spend more given the current financial situation of the City and the very tight control over budget requests. However, 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.

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## C. Annual Work Plan

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**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 2016 and 2019 are summarized in Exhibit 1.

**Auditor General will begin a new City-wide audit priority assessment process shortly**

The Auditor General undertakes a risk-based approach to audit selection. To identify audit priorities, every five years the Auditor General performs an extensive 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 will be commencing a new assessment process shortly.

**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 2020 Work Plan**

The 2020 budget request supports 12 ongoing and upcoming audits and ten potential new projects on the horizon for 2020/2021. Ongoing and future projects expected to be included in the Work Plan range from in-depth operational reviews of Shelter, Support and Housing Administration division, Toronto Community Housing Corporation, and the Toronto Transit Commission, to assessing Transportation Services' winter maintenance program, collection of City revenues, and reviewing controls over information technology.

**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, as-needed 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 2019, the Auditor General needed to allocate resources to unplanned work pertaining to cyber-security risks that required her immediate attention.

The Auditor General's 2020 Work Plan will be presented to Audit Committee at its meeting on October 25, 2019.

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## Conclusion

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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
- delivering value for the resources Council has invested in her Office.

The Auditor General's 2020 Operating Budget request of \$6.701 million supports the same level of capacity to undertake value for money audits and investigations as in 2019.

Increasing the Auditor General's requested budget by 1/200th of one per cent of the City Budget (to 0.055%), will help to provide assurance that emerging risks and high-risk complaints are being adequately addressed in a timely manner.

## Exhibit 1: Audit and Investigation Reports Issued from 2016 to 2019

### 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. Establishment of City Wide **Cyber Security Breach Incident Management** Procedures Required<sup>4</sup>
10. Review of **Toronto Transit Commission's Revenue Operations**: Phase Two – **PRESTO/TTC** Fare Equipment and PRESTO Revenue\*
11. **Fleet** Services Operational Review: Phase Two – Stronger **Asset Management** Needed
12. Safeguarding **Rent-Geared-to-Income Assistance**: Ensuring Only Eligible People Benefit\*
13. Cyber Safety: A Robust **Cybersecurity** Program Needed to Mitigate Current and Emerging Threats
14. **Investigation Into Allegations of Reprisal**: Reprisal Not Found, But Lessons Learned
15. Toronto Building Division: **Conditional Permits** – Follow-up **Investigation**

*\*The requirements of these audits (i.e., visiting multiple locations spread out across the City over a fixed time period; and/or involving multiple non-City organizations) required double the audit staff resources that would normally be assigned to a project*

### 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

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<sup>4</sup> This was not a report on the results of a performance audit or investigation; however, the report contains recommendations as a result of allegations received by the Auditor General's Office.

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. 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

## 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
2. Audit of **Water Billing and Collection** – Phase II: Part 1 – Incorrect **Vacant Land** Status Properties Reduces City's Property Tax Revenue
3. Audit of **Water Billing and Collection** – Phase II: Part 2 – Management of Water Supply Contract for the **Region of York**
4. Auditor General's Observations of a **Land Acquisition** at Finch Avenue West and Arrow Road by the **Toronto Parking Authority**
5. Strengthening Enforcement of the **Fair Wage Policy**
6. Audit of **Information Technology Vulnerability** and Penetration Testing – Phase II: Internal Penetration Testing, Part 1 – Accessibility of Network and Servers
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**
8. Management of the City's **Long-Term Disability Benefits**, Phase Two: Interim Report on the Approval and Monitoring of Claims
9. Improving the Tendering Process for **Paving Contracts**
10. Audit of **City Cleaning Services** – Part 1: Opportunities to Control Costs, Improve Productivity and Enhance Quality of Cleaning Services
11. Audit of City Cleaning Services – Part 2: Maximizing Value from **Cleaning Contracts**
12. Audit of **Toronto Transit Commission** Materials and Procurement Department, Phase One: Improving Controls to Safeguard **Inventory**
13. Audit of **Water Billing and Collection** – Phase I: **Overdue Water Account Collections** Require Strengthening
14. Audit of **Information Technology Vulnerability** and Penetration Testing - Phase 1: External Penetration Testing
15. **Toronto Parking Authority** Phase 2: Audit of the Revenue Operations of **Off-Street Controlled Facilities**

## Exhibit 2: Composition of Auditor General's 2020 Budget Request

**Salaries and benefits make up 92% of the budget**

Salaries and benefits make up 92 per cent of the budget. If the Operating Budget is not sustained at 2019 levels (and adjusted for economic factors and progression pay) on an ongoing basis, this will result in the termination of staff.

**1% 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 one per cent of the Auditor General's budget.

By law, 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.

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.

**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 that may be achieved as management takes action to implement recommendations made in prior years. Table 2 includes examples of potential savings opportunities highlighted in audits completed in 2019. 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 Previous Years**

Report	Potential Savings that May be Achieved When Recommendations are Implemented
<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 that May be Achieved When Recommendations are Implemented
<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 <b>annual savings of \$1.5 million</b>. TTC management advised that they have begun implementing the audit recommendations and incorporated annual savings of \$500,000 into their 2019 Budget Notes.</p> <p>Recognizing that TTC's wireless service agreement was based on the City's agreement, we expanded our review to the City's wireless services agreement. The audit identified additional potential savings of <b>\$1 million annually if wireless phone services at the City are acquired from a vendor offering better prices</b>.</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. As part of the 2019 budget, management reported <b>\$2.1 million in efficiency savings</b> resulting from the audit recommendations. The first follow-up review of the recommendations in the two reports and the verification of the cost savings will be conducted in 2020.</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 <b>assess the need for the approved \$49 million capital budget</b> (exclusive of land acquisition and ongoing operating costs) to build 1,100 new spaces in 21 centres when there are opportunities to <b>make better use of existing licensed child care spaces</b>. 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 <b>\$2.391 million in service efficiencies</b> will be achieved starting in 2022.</p>

**Table 2: Examples of Potential Savings Opportunities in Auditor General's Reports Issued in 2019**

Report	Potential Savings that May be Achieved by Implementing Recommendations
<p><i>Review of Urban Forestry - Ensuring Value for Money for Tree Maintenance Services</i></p>	<p>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 <b>reduce the estimated potential loss in productivity by \$2.6 million per year</b>.</p>

Report	Potential Savings that May be Achieved by Implementing Recommendations
<i>Fleet Services Operational Review - Phase One: Lengthy Downtime Requires Immediate Attention</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 <b>could have potentially recovered \$1.2 million over the last three years, or \$400,000 per year.</b>
<i>Fleet Services Operational Review - Phase Two: Stronger Asset Management Needed</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 <b>\$375,000 per year can be saved</b> 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</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.

**AUDITOR  
GENERAL**  

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**TORONTO**

