

budget

—2019—



BUDGET NOTES

**AUDITOR
GENERAL**
TORONTO

Office of the Auditor General

What We Do

Pursuant to the *City of Toronto Act, 2006*, the "Auditor General is appointed to assist City Council in holding itself and its administration accountable for **the quality of stewardship over public funds** and for the **achievement of value for money in City operations**."

The Auditor General conducts financial, operational, compliance, information systems, forensic and other special reviews.

Why We Do It

Under the *City of Toronto Act*, **City Council's role** includes ensuring the City's "*practices and procedures are in place to implement the decisions of council*" and that the City maintains *accountability, transparency and financial integrity* in City operations.

The **Auditor General assists City Council** in fulfilling its due diligence responsibilities by independently providing a transparent picture of whether City administrators are carrying out City Council's directions in a cost-effective manner.

The Office is a key control in ensuring that Torontonians' tax dollars are spent as intended and that City programs are run effectively.

Our Activities & Achievements

Achievements

- Realized **significant savings** – \$272 million from 2014 to 2018 resulting in a \$10 return for every \$1 invested in the Office
- Made many recommendations with **important non-financial impacts**, including improving public safety, reducing IT vulnerabilities and ensuring fair administration of justice
- Received **highest quality rating** on an independent, international peer review of our audit operations

Activities

- Published 13 reports on major audits and investigations
- Made 185 recommendations
- Processed 1,000 allegations through the Fraud and Waste Hotline

More details in the Auditor General's 2019 Operating Budget and Annual Report

Key Challenges

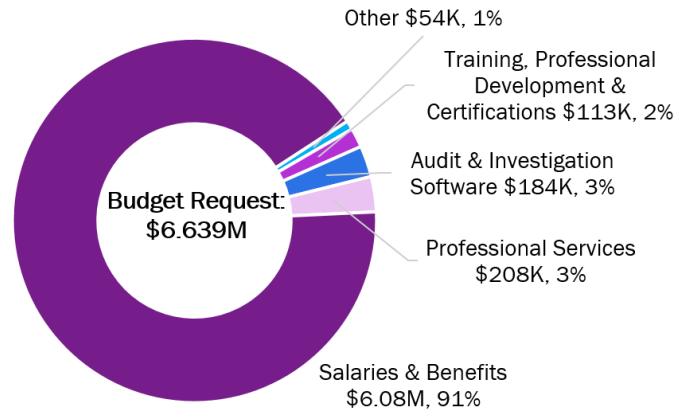
- **Retaining and developing staff:** Audit staff in Council-approved temporary positions will be a challenge to retain in a competitive market. Retaining investments in developing staff and preparing them for the future is put at risk with temporary positions.
- **Meeting forensic and retaliation investigation demands in a timely manner:** It is not possible to predict the number and complexity of fraud allegations and reprisal complaints received by the Fraud and Waste Hotline. For the City's size and complexity, the Hotline team is small.

Priority Actions

- **Make permanent the four temporary junior positions** in order to stabilize our workforce and keep the benefits of investments made in these staff members. There is no net dollar impact in 2019, and a base impact of less than \$400,000 in future years should the current temporary funding be rescinded in 2020.
- **Stable, skilled workforce:** Skill development at all levels is key to a stable, competent workforce for the future. Retain all staff by continuing to invest in skills transfer and professional development, including maintaining the status we received in 2018 as a CPA pre-approved training program.
- **Create capacity** through cross-training forensic and investigative staff - supplement with contracts to address volume issues.

Budget At A Glance

| AUDITOR GENERAL-RECOMMENDED OPERATING BUDGET | | | |
|--|-------|-------|-------|
| \$Million | 2019 | 2020 | 2021 |
| Gross Expenditures | \$6.6 | \$5.6 | \$5.7 |
| Revenues | \$0.0 | \$0.0 | \$0.0 |
| Net Expenditures | \$6.6 | \$5.6 | \$5.7 |
| Approved Positions | 36.0 | 36.0 | 36.0 |



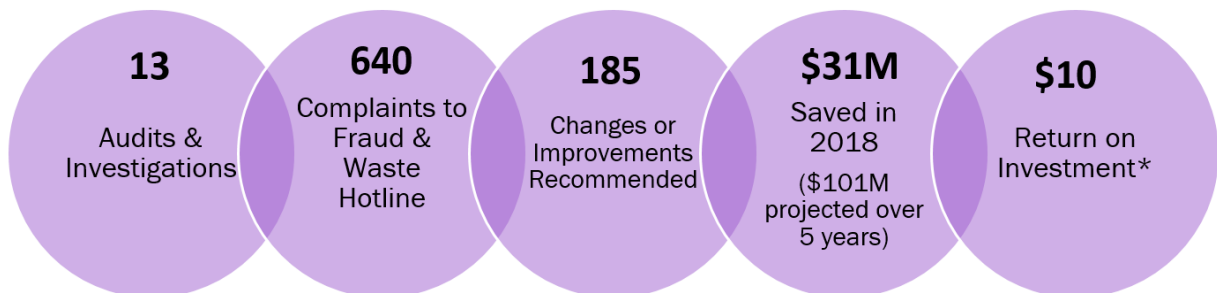
90% of the budget is dedicated to staff. Highly trained staff and a stable workforce are the key ingredients in our Office's ability to highlight opportunities for reducing risk, identify efficiencies, and to save the City money. Temporary professional positions can pose challenges to the Office's ability to attract, hire, and retain high-quality professional staff in a competitive marketplace.

To sustain current benefits to the City of Toronto and Torontonians, and the same level of assurance to City Council, the Auditor General has included an enhancement request to make permanent four (4) existing Council-approved temporary junior positions. The temporary positions approved by Council in 2018 are already funded in our Office's Base Budget. The request has no net impact in 2019 and helps to maintain staffing at the current level for 2020.

Key Responsibilities

- Performing financial, 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 contract of the external auditors performing annual financial statement audits
- Following up on recommendations from previous audit and investigation 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

Our Key Achievements in 2018

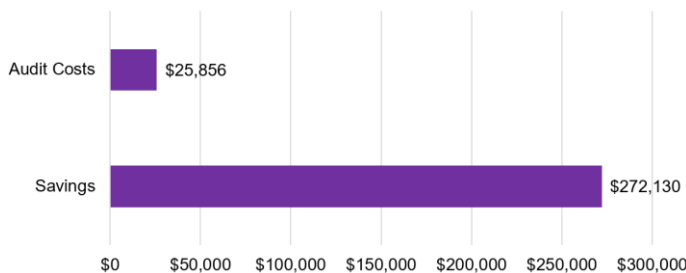


* Refer to "Realized savings & revenues" and "Audit costs vs. savings" metrics in the "Value of the Auditor General's Office" section that follows

Value of the Auditor General's Office

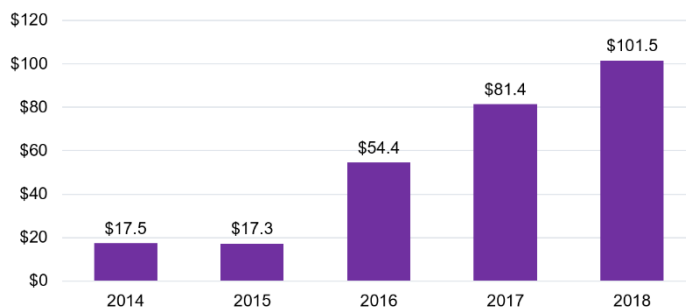
The Auditor General's Office is proud of the work we do to support City Council in ensuring Torontonians' tax dollars are well spent, and that City programs are effectively run. The following are some outcomes of our Office's work, including savings and other benefits.

Audit costs vs. savings (in 000s) over five years (ROI)



- Savings identified through the Auditor General's audits and investigations far outweigh the costs to operate the Office.
- The Office's expenditures of approximately \$25.9 million over five years have generated \$272 million in savings and revenue increases for the City once our audit recommendations were implemented by management.
- For every \$1 invested in our Office, the City achieves a return of over \$10 by implementing our audit recommendations. This is an 18% increase from our 2017 return on investment (ROI)¹ of \$8.5.

Realized savings & revenues (in millions) with recurring savings projected over 5 years



- Most of the quantifiable impacts from implementing the Auditor General's recommendations result in ongoing annual savings and revenues.
- In 2018, the City realized over \$13 million in one-time cost savings and revenue increases. The City will also achieve over \$17.5 million in savings and revenues every year. Therefore, total savings realized in 2018 is \$31 million. Cost reductions and revenue increases realized in 2018 and projected over five years totals more than \$101 million.
- These savings and revenues are realized because management implemented audit recommendations from 14 previously issued audits.

Non-quantifiable benefits

Identifying opportunities to increase cost savings and revenues is only one component of the Auditor General's mandate. Equally important are recommendations that improve governance, accountability, risk management and internal controls. These non-quantifiable improvements are difficult to measure. The following positive changes are examples of the non-quantifiable impact of audit recommendations made in 2018:

| Non-financial benefit | Report |
|---|--|
| Increased detection and prevention of serious fire safety issues | <i>Raising the Alarm: Fraud Investigation of a Vendor Providing Life Safety Inspection Services to the City of Toronto</i> |
| Improved strategic planning for IT | <i>IT Infrastructure and IT Asset Management Review</i> |
| Better controls over contracting practices | <i>Controls over Substantial Performance and Warranty Inspection Processes Should be Strengthened</i> <i>Review of the Green Lane Landfill Operations - Management of Contracts Needs Improvement</i> |
| Improved child care wait list information for families | <i>Children's Services Division: Opportunities to Achieve Greater Value for Child Care from Public Funds</i> |
| Improved processes for ensuring fines are a meaningful deterrent when laws are broken | <i>Toronto Court Services: Collection of Provincial Offence Default Fines</i> |

¹ Return on investment (ROI) is a ratio of five-year audit costs to the cumulative estimated five-year realized savings

CONTENTS

Page

5

7

N/A

13

15

16

17

RECOMMENDATIONS

2019 AUDITOR GENERAL-RECOMMENDED
OPERATING BUDGET

2019 - 2028 AUDITOR GENERAL-RECOMMENDED
CAPITAL BUDGET & PLAN

ISSUES FOR DISCUSSION

APPENDICES

1. 2019 Organization Chart
2. Reserve and Reserve Fund Review

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RECOMMENDATIONS

RECOMMENDATIONS

The Auditor General recommends that:

1. City Council approve the Auditor General's Office 2019 Operating Budget of \$6.639 million gross and net and the associated staff complement of 36.0 permanent positions.



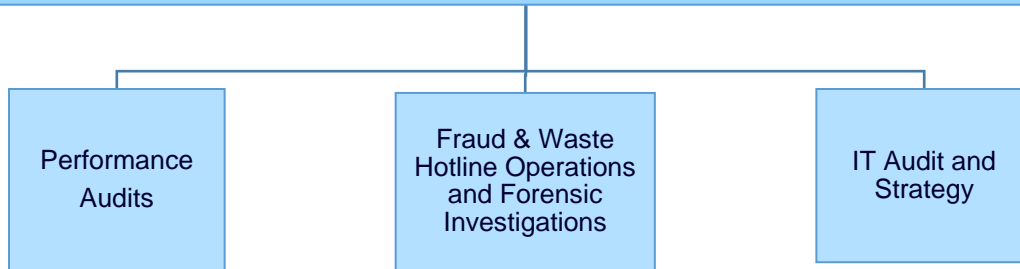
2019 AUDITOR GENERAL-RECOMMENDED OPERATING BUDGET

OFFICE MAP

Auditor General's Office

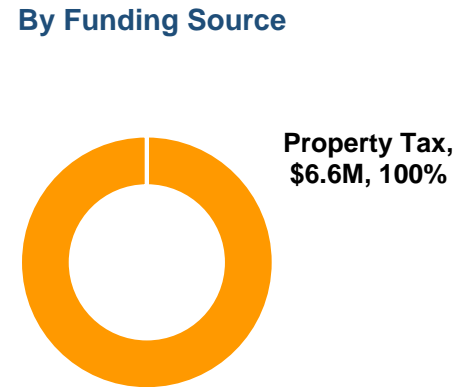
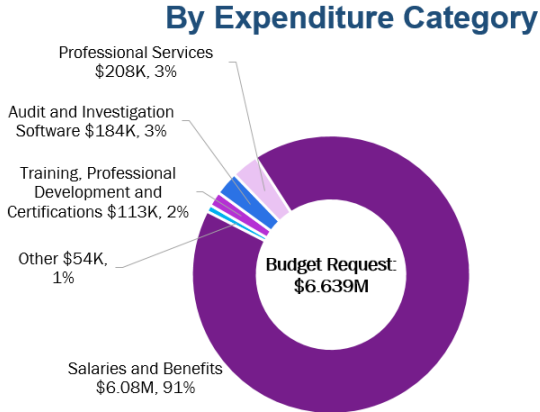
The Auditor General's Office **assists City Council** in holding itself and City Administrators accountable for the quality stewardship over public funds and for achievement of value for money in City operations. We:

- a) Perform financial, compliance and performance (value for money) audits
- b) Operate the Fraud and Waste Hotline;
- c) Conduct investigations into fraud and other wrongdoing, as well as allegations of reprisals against employees under the Disclosure of Wrongdoing and Reprisal Protection rules;
- d) Oversee the contract of the external auditors who perform annual financial statement audits; and
- e) Follow up on recommendations from previous audit and investigation reports.



2019 OPERATING BUDGET HIGHLIGHTS

2019 Auditor General-Recommended Operating Budget \$6.6M



- **2.1%** budget increase (\$0.135 million) over the 2018 Approved Net Operating Budget to maintain existing service levels and align staffing to better support value for money audit and investigations.
- **\$0M** New/enhanced funding to make permanent four existing Council-approved temporary positions
- **2020/2021** Sustain investment in the Auditor General's Office at 2019 budget levels, adjusting for increases in salaries and benefits, and inflationary adjustments for contracts and non-payroll items.

2019 OPERATING BUDGET OVERVIEW

Table 1: 2019 Auditor General-Recommended Operating Budget and Plan

| (In \$000s) | 2018 | | 2019 | | | Changes | | Incremental Change | |
|-------------------------------|----------------|-------------------|----------------|----------------|--|--------------|-------------|--------------------|-------------|
| | Budget | Projected Actual* | Base | New / Enhanced | Total Auditor General-Recommended Budget | | | 2020 Plan | 2021 Plan |
| | \$ | \$ | \$ | \$ | \$ | | | \$ | \$ |
| Total | | | | | | | | | |
| Gross Expenditures | 6,503.5 | 6,488.5 | 6,638.6 | | 6,638.6 | 135.2 | 2.1% | (1,034.3) | 95.0 |
| Revenue | | | 0.0 | | 0.0 | 0.0 | - | 0.0 | 0.0 |
| Total Net Expenditures | 6,503.5 | 6,488.5 | 6,638.6 | | 6,638.6 | 135.2 | 2.1% | (1,034.3) | 95.0 |
| Approved Positions | 36.0 | 36.0 | 36.0 | 0.0 | 36.0 | 0.0 | 0.0% | 0.0 | 0.0 |

* Year-End Projection Based on Q3 2018 Variance Report

Base Changes

(\$6.639M Gross and Net)

- Salary & benefit adjustment related to progression pay and benefit adjustments.
- Economic factor adjustments for non-payroll items.

New/Enhanced Service Priorities

(\$0M Gross and Net)

- Stabilize staffing by making permanent four existing Council-approved temporary positions, which will better align staffing to support value for money audits and investigations. The budget pressure associated with these conversions is offset by reductions in the non-payroll budget.
- These temporary positions were part of the Budget Committee recommended temporary budget increases approved by Council at its meeting on February 15-16, 2017 (EX22.2) and amended February 12, 2018 (EX31.2) to provide the AG's Office with additional capacity to undertake value for money audits and investigations.

Future Year Plan

- The temporary budget increases approved by City Council in 2017 (as amended in 2018) will reverse in 2020.
- By choosing to sustain its investment at 2019 levels (after accounting for increases in salaries and benefits and non-payroll items), City Council is supporting the Auditor General's current capacity to undertake value for money audits and investigations. This also enables the Auditor General's Office to continue to build organizational knowledge by ensuring staff continuity for planned audit projects.

EQUITY IMPACTS

Our audits focus on stewardship of public funds, but they also touch on important parts of civic life, and we strive to make the City better for Torontonians. For example:

- Our 2018 Court Services report about a significant amount of unpaid provincial offence fines is concerned with the administration of justice. Collecting unpaid fines assures the public that laws are effective and fines are a meaningful deterrent when they are broken. Improving the City's collection of unpaid fines will help address this problem and ensure all are treated fairly.
- Our 2018 Children's Services audit noted that licensed child care in Toronto is the most expensive in the country and unaffordable for 75 per cent of families in the city. Our audit recommended a shift towards providing more economical services in order for the City to provide more subsidies to more families who are waiting for assistance. We also recommended improvements to the wait list and daycare vacancy information so that parents have the best information available when planning such an important element of their life.
- We are currently working on an audit of the City's centralized wait list for social housing, which the Shelter, Support and Housing Administration Division has reported as having over 100,000 people on it. We want to ensure that the right people are granted access to the limited rent-geared-to-income funded units at the right time.

2019 Auditor General-Recommended Operating Budget Changes

The 2019 Auditor General-Recommended Operating Budget for the Auditor General's Office is \$6.639 million gross and net or 2.1% higher (\$0.135 million) than the 2018 Council Approved Operating Budget. Table 2 below summarizes the key cost drivers to maintain current service levels, and to align staffing to better support value for money audits and investigations.

Table 2: 2019 Auditor General-Recommended Operating Budget Changes

| (In \$000s) | Total | |
|--|----------------|-------------|
| | \$ | Positions |
| 2018 Council Approved Operating Budget (Net) | 6,503.5 | 36.0 |
| Base Expenditure Changes | | |
| Prior Year Impacts | | |
| Other Prior Year Impacts | (35.3) | |
| Economic Factors | | |
| Divisional Economic Factors | 4.0 | |
| Salaries and Benefits | | |
| COLA | 51.3 | |
| Progression Pay | 103.5 | |
| Salary and Step Adjustments | | |
| Benefits Adjustments | 11.6 | |
| Other Base Expenditure Changes | | |
| Time-Limited Increased Funding - Budget Reallocation | 0.0 | |
| Sub-Total Base Expenditure Changes | 135.2 | 0.0 |
| Total Base Changes | 135.2 | 0.0 |
| New & Enhanced Services | | |
| Enhanced Service Priorities | | |
| Conversion of 4 temporary Audit Analyst positions to permanent | 0.0 | |
| Sub-Total New & Enhanced Services | | |
| | | |
| Total 2019 Auditor General-Recommended Operating Budget (Net) | 6,638.6 | 36.0 |

2018 OPERATING PERFORMANCE

2018 Service Performance

Key Accomplishments:

- As highlighted in the "Realized savings & revenues" and "Audit costs vs. savings" metrics in the "Value of the Auditor General's Office" section on page 3 of these Budget Notes, in 2018, the audit recommendations implemented by the City saved the City a significant amount of money, improved programs and services, and improved public safety.
- The Auditor General reports annually to City Council demonstrating the value of the Auditor General's Office. The Auditor General's Annual Report summarizes the activities and the quantifiable financial and non-financial benefits of the Office. The 2018 Annual Report will be presented at the first Audit Committee meeting of the new City Council term, on February 22, 2019. The 2017 Annual Report is available at: <http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.AU11.1>
 - In 2018, the City realized over \$13 million in one-time cost savings and revenue increases. Going forward, the City will also achieve over \$17.5 million in savings and revenues every year. Therefore, cost reductions and revenue increases realized in 2018 is \$31 million. These savings, projected over five years, total over \$101 million. The savings and revenues are the result of management's implementation of recommendations from 14 previously issued audits.
 - 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.
 - In addition, the Auditor General's Fraud and Waste Hotline Program has helped to reduce losses and 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. In 2018, the Hotline Program received over 640 complaints, consisting of approximately 1,000 allegations.
- In 2018, the Auditor General's Office received the highest possible rating on its external quality assurance review – the fifth time the Office has received this rating. The results of the 2018 External Quality Assurance Review will be presented to Audit Committee at its meeting on February 22, 2019.
- In 2018, the Auditor General's Office established a CPA pre-approved training program for students to complete their CPA certification program's practical experience requirement.

2018 Financial Performance

Table 3: Budget vs. Actual by Category of Expenditures and Revenues

| Category (In \$000s) | 2017 Actual | 2018 Budget | 2018 Projected Actual * | 2019 Total Auditor General- Recommended Budget | 2019 Change from 2018 Approved Budget | |
|--|----------------|----------------|-------------------------------|--|---|-------------|
| | \$ | \$ | \$ | \$ | \$ | % |
| Salaries and Benefits | 5,008.8 | 6,056.2 | 5,597.3 | 6,079.9 | 23.7 | 0.4% |
| Materials & Supplies | 10.0 | 11.3 | 12.4 | 11.1 | (0.2) | (1.7%) |
| Equipment | 89.6 | 76.1 | 274.1 | 187.7 | 111.7 | 146.8% |
| Service and Rent | 248.4 | 329.4 | 574.5 | 329.4 | 0.0 | 0.0% |
| Contribution To Capital | | | | | | |
| Contribution To Reserves/Reserve Funds | 8.2 | 8.2 | 8.2 | 8.2 | | |
| Other Expenditures | | | | | | |
| Inter-Divisional Charges | 22.9 | 22.3 | 22.2 | 22.3 | | |
| Total Gross Expenditures | 5,387.8 | 6,503.5 | 6,488.7 | 6,638.6 | 135.2 | 2.1% |
| Sundry and Other Revenues | | | 0.2 | | | |
| Total Revenues | | | 0.2 | | | |
| Total Net Expenditures | 5,387.8 | 6,503.5 | 6,488.5 | 6,638.6 | 135.2 | 2.1% |
| Approved Positions | 32.0 | 36.0 | 36.0 | 36.0 | 0.0 | 0.0% |

* Year-End Projection Based on Q3 2018 Variance Report

The Auditor General's Office is projecting a surplus of \$0.015 million at year-end (based on Q3 2018 Operating Variance Report), primarily due to lower spending in salary and benefits as a result of a delay in hiring temporary staff, partially offset by higher spending in equipment and service & rents.

For additional information regarding the 2018 Q3 operating variances and year-end projections, please refer to the attached link for the report entitled "Operating Variance Report for the Nine-Month Period Ended September 30, 2018", considered by City Council at its meeting on December 13, 2018.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.CC1.7>



ISSUES FOR DISCUSSION

ISSUES IMPACTING THE 2019 BUDGET

2019 Budget Overview

- The Auditor General's 2019 Operating Budget request is \$6.639 million. This is a \$0.135 million (2.1%) increase from the 2018 Approved Budget. This increase arises from progressive pay increases for existing staff and benefit adjustments and inflationary adjustments for non-payroll items. Salaries and benefits make up over 90 per cent of the budget.
- The 2019 budget request supports a list of 11 ongoing and upcoming audits and 14 potential new projects in our horizon for 2019/2020. The Auditor General's 2019 Annual Work Plan will be presented to Audit Committee at its meeting on February 22, 2019.

Enhancement Request

- The Auditor General's 2019 Operating Budget includes a request to convert four existing Council-approved temporary positions to permanent positions. This request has no net impact in 2019; it would permanently extend the prior year Council-approved budget increases related to the four temporary positions – a base impact in future years of less than \$0.400 million should the current temporary funding be rescinded in 2020.
- It is our view that after considering the risks facing the City, the increase in the mandate of councillors, the added responsibility to investigate allegations of reprisals under the *Toronto Public Service By-law*, along with the demonstrated positive impact of the Office and the need for the successive development of internal expertise, the Office needs all the positions it is currently using on a go-forward basis.
- To upgrade skills and attract and retain staff, a significant investment of time and money has been made towards onboarding, training and developing staff hired in these permanent and temporary positions. To keep the benefits of the investments the Auditor General has made, it is paramount to secure staff permanently.

Base Budget Pressures

- The temporary budget increases approved by City Council in 2017 (as amended in 2018) will reverse in 2020.
- By choosing to sustain its investment at 2019 levels (after taking into account increases in salaries and benefits and non-payroll items), City Council is supporting the Auditor General's current capacity to undertake value for money audits and investigations. This also enables the Auditor General's Office to continue to build organizational knowledge by ensuring staff continuity for planned audit projects.

A Comment About the Reduced Council Size

When the Office was established, the former Auditor General for Canada (Mr. Denis Desautels) who led a taskforce that provided recommendations to City Council on the establishment of an Auditor General's Office, wrote [emphasis added]:

"... in my view, **a strong audit function to support Council is just as needed, if not more so**, in this kind of environment than in the more structured federal or provincial environments.

Individual Councillors do not have the resources of a political party with its own researchers to draw upon **and must be able to count upon the work of an independent auditor in order to fulfill their own oversight duties**. One can also argue that real accountability is harder to achieve in this kind of environment, **hence the greater need for the kind of information or assurances that an independent auditor can provide.**"

<https://www.toronto.ca/legdocs/2002/agendas/council/cc020416/pof5rpt/cl001.pdf>

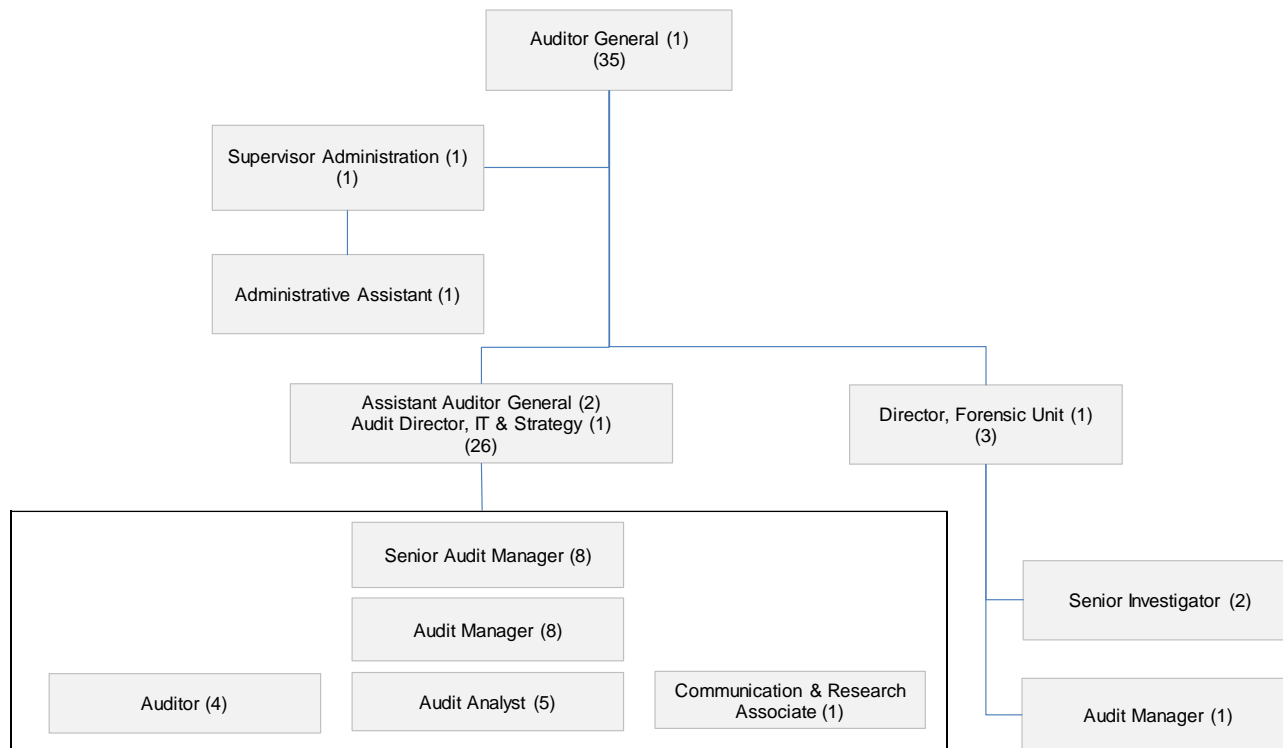
Mr. Desautels' perspective is particularly relevant in light of recent changes stemming from the Province of Ontario's *Better Local Government Act*, 2018. The reduced number of Toronto's municipal wards and Councillors for the 2018 to 2022 term will place increased demands on Council Members' time to carry out both their legislative and constituency duties. Therefore, Councillors must be able to count upon the work of the Auditor General in order to fulfill their own oversight responsibilities.



APPENDICES

Appendix 1

2019 Organization Chart



The 2019 total staff complement has 36 positions as summarized in the table below.

2019 Total Complement

| | Category | Senior Management | Management with Direct Reports | Management without Direct Reports/Exempt Professional & Clerical | Union | Total |
|--------------------|------------------------|-------------------|--------------------------------|--|----------|-------------|
| Operating | Permanent | 1.0 | 5.0 | 30.0 | - | 36.0 |
| | Temporary | | | | - | - |
| | Total Operating | 1.0 | 5.0 | 30.0 | - | 36.0 |
| Capital | Permanent | | | - | - | - |
| | Temporary | | | - | - | - |
| | Total Capital | - | - | - | - | - |
| Grand Total | | 1.0 | 5.0 | 30.0 | - | 36.0 |

Appendix 2

Inflows and Outflows to/from Reserves and Reserve Funds 2019 Operating Budget

Corporate Reserve / Reserve Funds

| Reserve / Reserve Fund Name (In \$000s) | Reserve / Reserve Fund Number | Withdrawals (-) / Contributions (+) | | |
|---|----------------------------------|-------------------------------------|------------|------------|
| | | 2019 | 2020 | 2021 |
| | | \$ | \$ | \$ |
| Insurance Reserve Fund | XR1010 | | | |
| <i>Withdrawals (-)</i> | | | | |
| <i>Contributions (+)</i> | | 8.2 | 8.2 | 8.2 |
| Total Reserve / Reserve Fund Draws / Contributions | | 8.2 | 8.2 | 8.2 |

* Based on 9-month 2018 Reserve Fund Variance Report