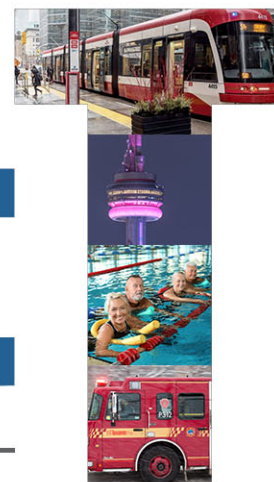


Auditor General's Office

Auditor General's Recommended 2019 Operating Budget

Budget Briefing to Budget Committee

budget
—2019—



February 6, 2019



Overview and Highlights

2019 Auditor General's Recommended Operating Budget

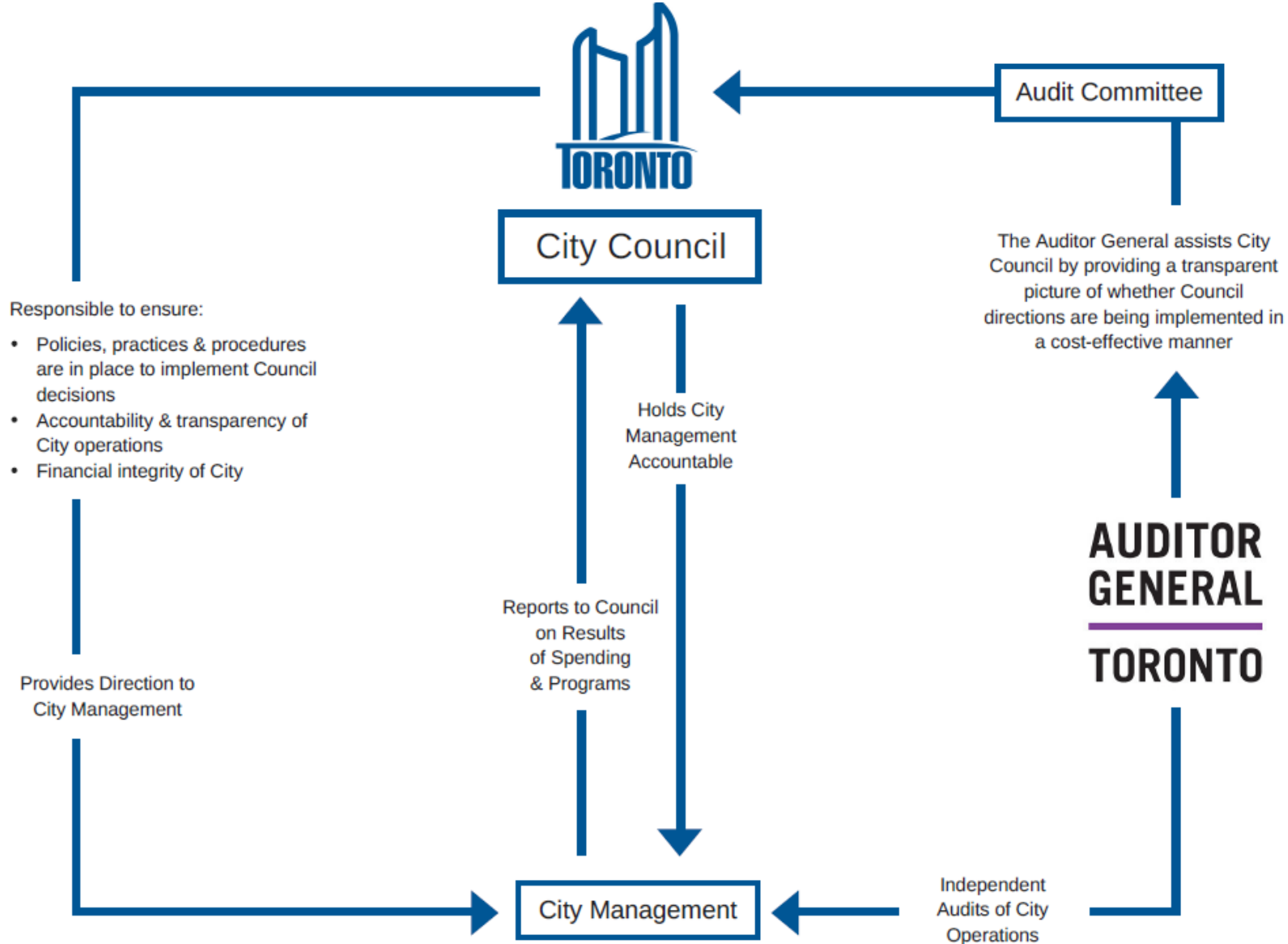


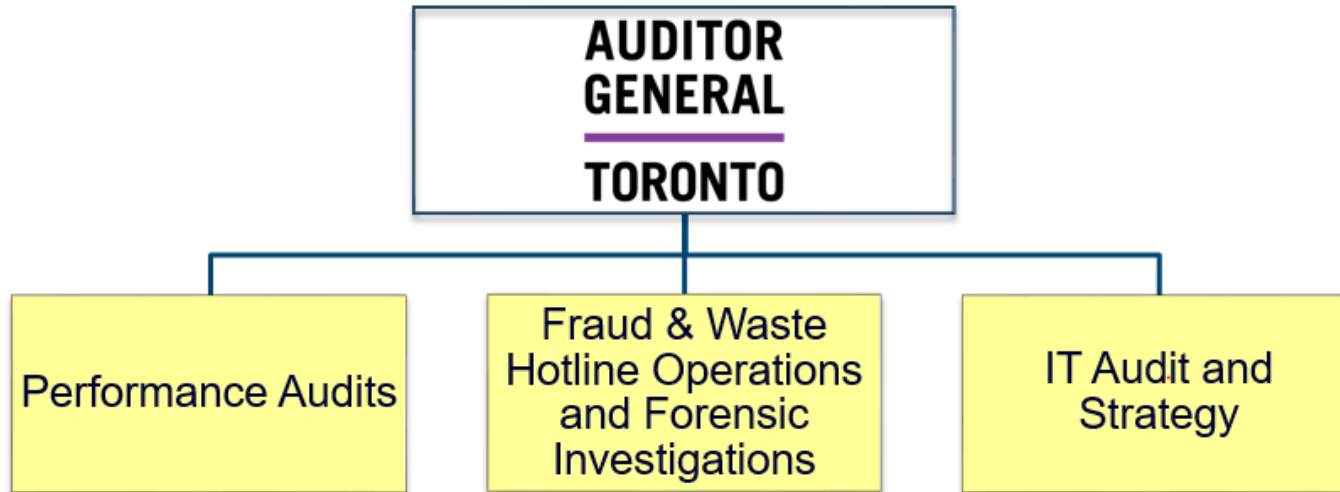
Service Area Overview



“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” (*City of Toronto Act, 2006*)

Our Services





Key Responsibilities:

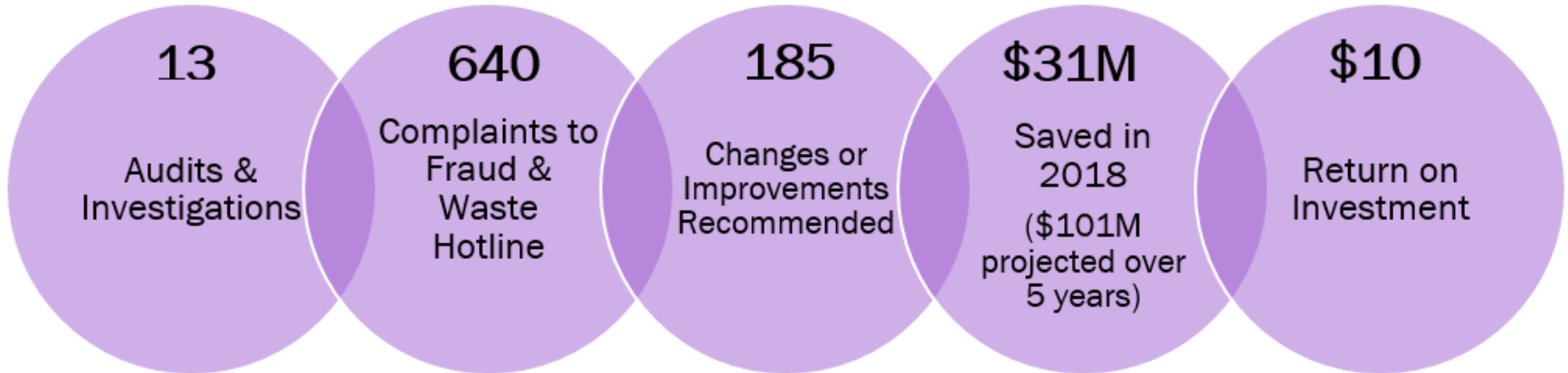
- a) Perform financial, compliance and performance (value for money) audits
- b) Operate the Fraud and Waste Hotline;
- c) Conduct investigations into fraud and other wrongdoing, as well as allegations of reprisals against employees under the Disclosure of Wrongdoing and Reprisal Protection rules;
- 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.



Budget Highlights



Our Activities & Outcomes

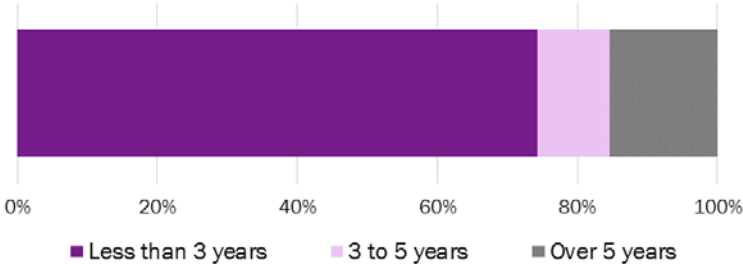


- Realized **significant savings** – \$10 return for every \$1 invested in Office
- Completed 13 audits and investigations, many with **important non-financial impacts**
- Received **highest quality rating** on an independent, international peer review of our audit operations

**More details in the Auditor General's 2019 Operating Budget report and 2018 Annual Report*



Length of Time Auditor General's Professional Staff Have Been in Their Current Roles



- **Retaining and developing staff:**
 - Temporary staff are a challenge to retain in a competitive market
 - Investments in developing and preparing staff for the future is put at risk with temporary positions
- **Meeting forensic and reprisal investigation demands in a timely manner:**
 - Unpredictable number and complexity of fraud and reprisal allegations
 - For the City's size and complexity, the Hotline team is small



1. **Stabilize workforce:** Make permanent the four existing Council-approved temporary positions
 - No net dollar impact in 2019
 - A base impact of less than \$0.4 million should the current temporary funding be rescinded in 2020

2. **Develop a skilled workforce:** Development at all levels is key
 - Continue to invest in skills transfer and professional development, including our CPA pre-approved training program

3. **Create capacity:** Cross-training forensic and investigative staff
 - Supplement with contracts to address volume issues

Auditor General's 2019 Work Plan



The Auditor General's 2019 Annual Work Plan will be presented to Audit Committee on February 22, 2019

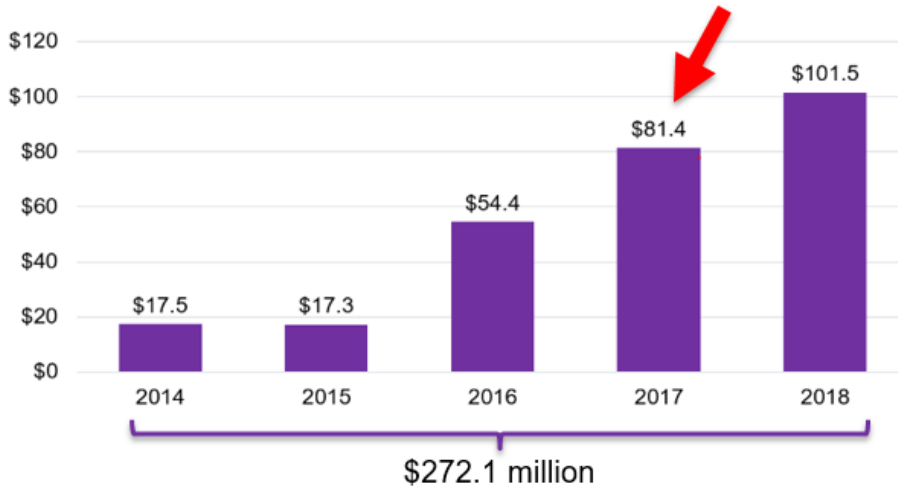
- 11 ongoing and upcoming audits in 2018-2019 and 14 potential new projects in our horizon to be started in 2019 or 2020
- City-wide risk assessment process to identify audit priorities will begin again in 2019
- In-depth forensic investigations into allegations of fraud, wrongdoing, and reprisals against employees will continue



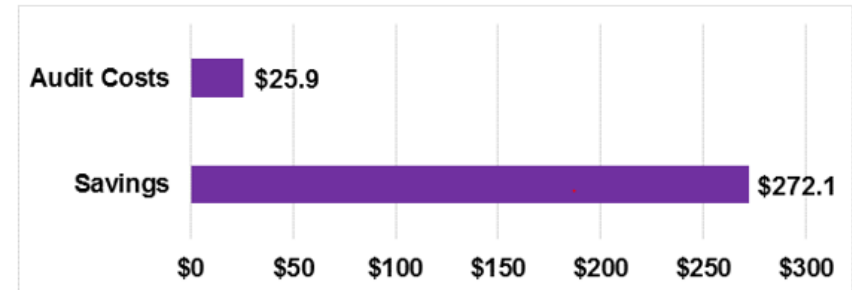
Value of the Auditor General's Office

Savings from our audits and investigations far outweigh our audit costs

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



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



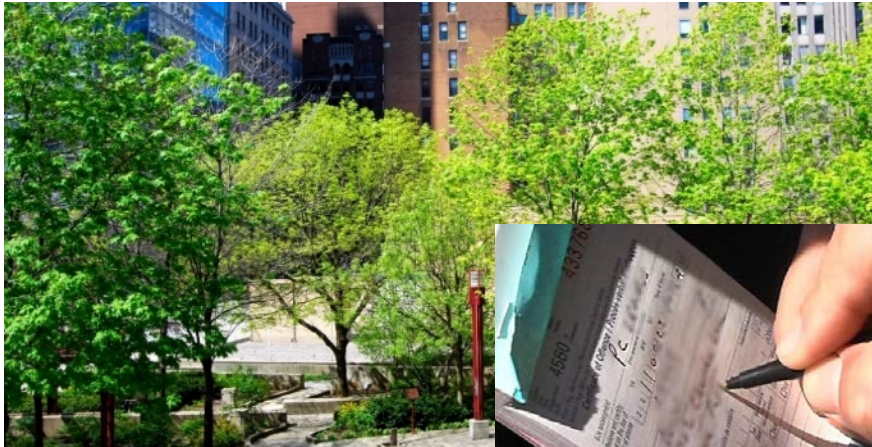
ROI: For every \$1 invested, the City achieves a return of over \$10

- *Our 2018 Annual Report provides additional detail on the savings*
- *The report will be presented to Audit Committee on February 22, 2019*



Value of the Auditor General's Office

Recommendations from audits and investigations lead to improved governance, accountability, risk management and internal controls





Operating Budget Overview

Auditor General's Recommended 2019 Operating Budget By Expenditure Category and Funding Source

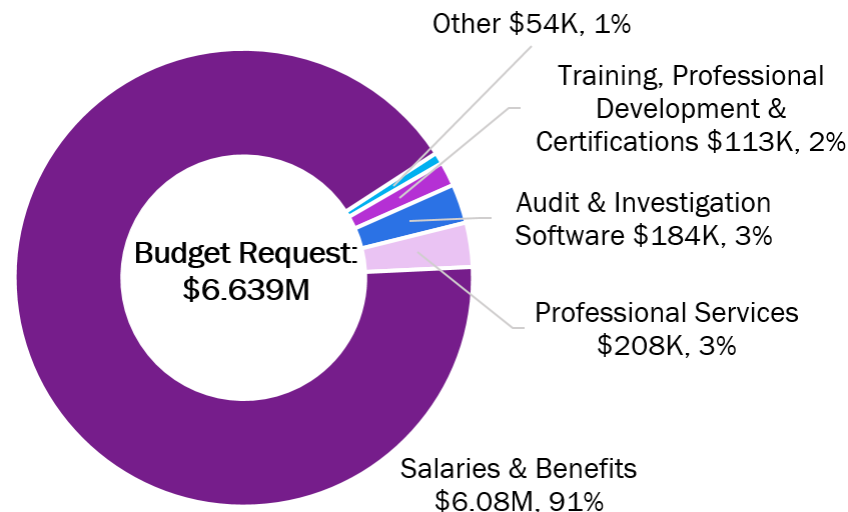


2019 Auditor General-Recommended Operating Budget: \$6.639 million



- **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.

Where the money goes



Auditor General's Recommended 2019 Net Operating Budget vs 2018



(In \$000s)	2018		2019			Changes	
	Budget	Projected Actual*	Base	New / Enhanced	Total Auditor General-Recommended Budget		
Office of the Auditor General	\$	\$	\$	\$	\$	\$	%
Gross Expenditure	6,503.5	6,488.5	6,638.6	0.0	6,638.6	135.2	2.1%
Revenue					0.0	0.0	-
Total Net Expenditures	6,503.5	6,488.5	6,638.6	0.0	6,638.6	135.2	2.1%
Approved Positions	36.0	36.0	36.0	0.0	36.0	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.

Key Cost Drivers

Office of the Auditor General (In \$000s)	Total Changes	
	\$	Position
Base Expenditure Changes		
Prior year impacts	(35.3)	
Inflationary Factors	4.0	
Salaries & Benefits	166.5	
Other Base Expenditure changes		
Base Revenue Changes		
Service Changes		
	135.2	

New / Enhanced Services

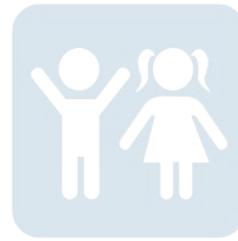


(In \$000s)

Office of the Auditor General (\$000s)	2019			Incremental Impact			
	Gross	Net	Position	2020 Plan		2021 Plan	
				Net	Position	Net	Position
Convert 4 temporary Audit Analyst positions to permanent	0.0	0.0	0.0	10.1	0.0	7.8	0.0
Total	0.0	0.0	0.0	10.1	0.0	7.8	0.0

Enhancement Request

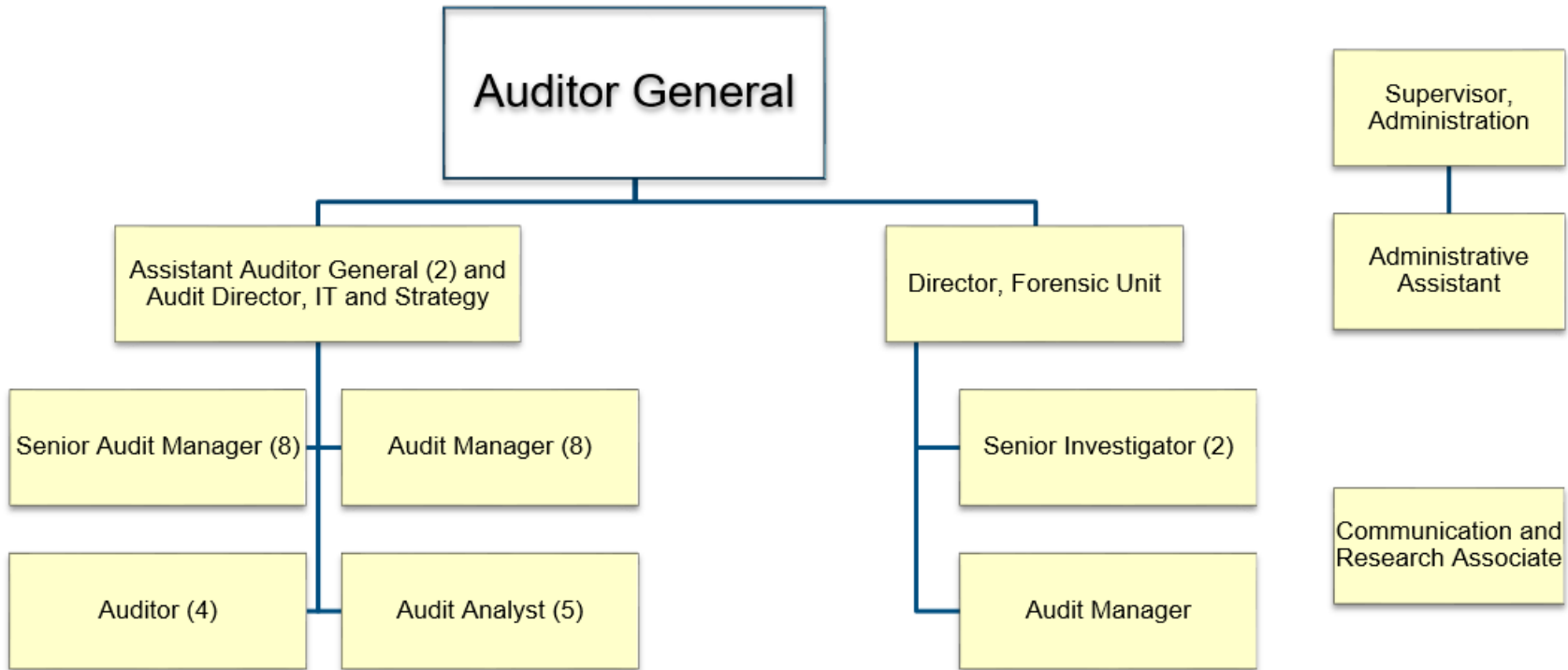
- The Auditor General’s 2019 Operating Budget includes a request to convert four existing Council-approved temporary positions to permanent positions
- This request has no net impact in 2019
 - It would permanently extend the prior year Council-approved budget increases related to the four temporary positions – a base impact in future years of less than \$0.400 million should the current temporary funding be rescinded in 2020



Appendices

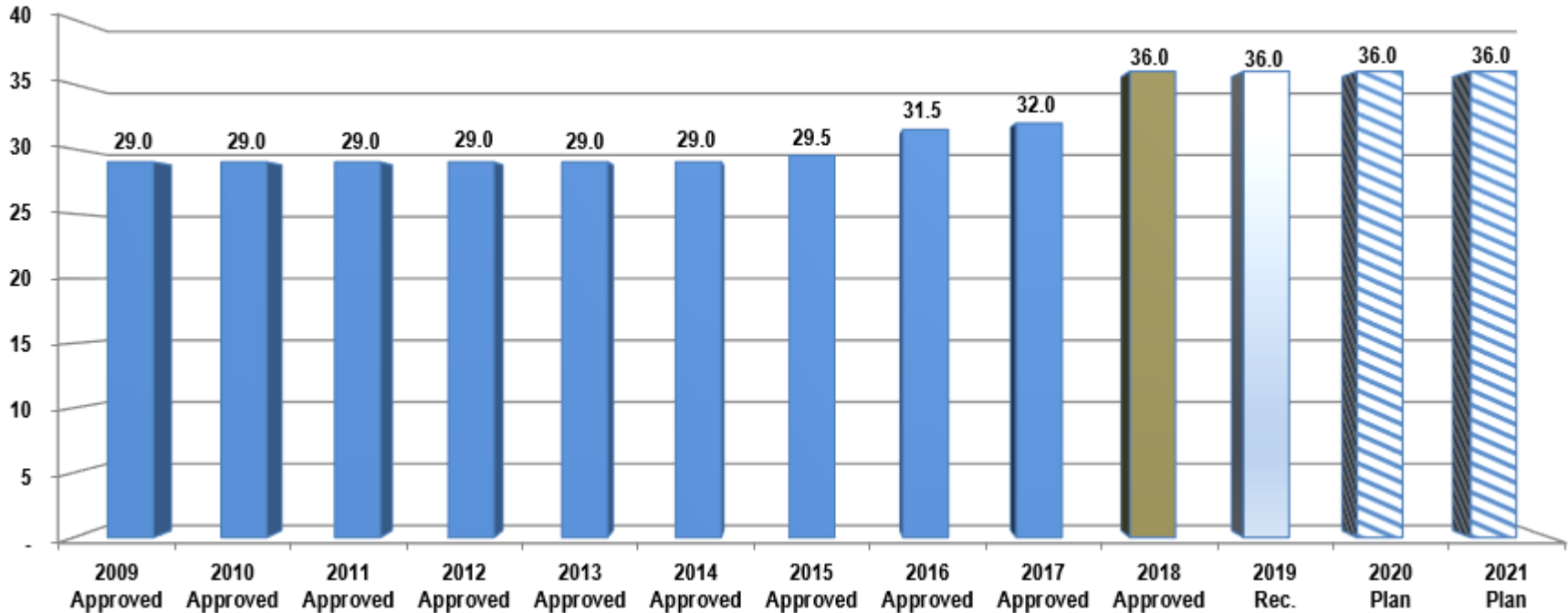


2019 Organizational Chart for Auditor General's Office



Budget	Category	Senior Management	Management with Direct Reports	Management without Direct Reports / Exempt Professional & Clerical	Union	Total
Operating	Permanent Pos	1.0	5.0	30.0	0.0	36.0
	Temporary Pos					0.0
Total	Total	1.0	5.0	30.0	0.0	36.0

Staffing Trend (Council-approved positions)



Key Points:

- The 2018 Council-approved complement is 36.0 positions (32 permanent; 4 temporary)
- Over 70% of audit and investigative staff are new to the City, or new in their positions (within the last 3 years)
- A significant investment of time and money has been made towards onboarding, training and developing staff hired in these permanent and temporary positions

Vacancy Analysis

Agency Name	2016			2017			2018			
	# of Vacancies	Vacancies % of Total Approved Position	Approved Position	# of Vacancies	Vacancies % of Total Approved Position	Approved Position	# of Vacancies as at Sept 30	# of Vacancies Projections to Dec 31	Vacancies % of Total Approved Position	Approved Position
Operating	2.5	7.9%	31.5	2.0	6.3%	32.0	3.0	0.0	0.0%	36.0
Capital										
Total	2.5	7.9%	31.5	2.0	6.3%	32.0	3.0	0.0	0.0%	36.0

Key Points:

- Vacancies at September 30, 2018 were filled by December 31, 2018
- The Office is operating at full complement

2019 Key Complement Changes

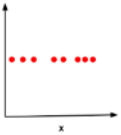


Auditor General's Office	2018 Approved Staff Complement	2019 Complement Changes									
		Prior Year Impact	Operating Impacts of Capital Projects	Capital Project Delivery	Base Changes	Efficiencies	Service Changes	Total 2019 Base Budget	New/Enh Service Priorities	Total 2019 Staff Recommended Budget	Change from 2018 Approved
Operating	36.0							36.0	0.0	36.0	
Total complement	36.0							36.0	0.0	36.0	

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

Operating Budget Variance



2018 Year-to-Date September 30 Variance and Year-End Variance Projection Summary
(In \$ Millions)

Accountability Office In \$ Millions	2017 Variance					2018 YTD September 30 Variance					2018 YE Projection Variance				
	Gross		Net		Alert	Gross		Net		Alert	Gross		Net		Alert
	\$	%	\$	%		\$	%	\$	%		\$	%			
Office of the Auditor General	(0.52)	(8.7%)	(0.52)	(8.7%)	G	(0.32)	(6.9%)	(0.32)	(6.9%)	G	(0.02)	(0.2%)	(0.02)	(0.2%)	G
Net Variance	Year End	G	R		Year-to-Date	G	Y	R		Year End	G	R			
		<=100%	>100%			85% - 105%	0% - 85%	>105%			<=100%	>100%			

Auditor General's Recommended 2019 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	
Benefits adjustments	11.6	
Other Base Expenditure Changes		
Time-Limited Increased Funding - Budget Reallocation		
Sub-Total Base Expenditure Changes	135.2	0.0
Base Revenue Changes		
Sub-Total Base Revenue Changes		
Service Changes		
Sub-Total Service Changes		
Total Base Changes	135.2	0.0
New & Enhanced Services		
Conversion of 4 temporary Audit Analyst positions to permanent	0.0	0.0
Sub-Total New & Enhanced Services		
Total 2019 Auditor General-Recommended Operating Budget (Net)	6,638.6	36.0

Auditor General's Office Description (\$000s)	2020 - Incremental Increase					2021 - Incremental Increase				
	Gross	Revenue	Net	% Change	Position	Gross	Revenue	Net	% Change	Position
Known Impacts:										
Prior Year Impact										
Annualization of 2019 Service Efficiencies										
Annualization of 2019 Service Changes										
Annualization of 2019 New/Enhanced	10.1		10.1	0.2%		7.8		7.8	0.1%	
Other Prior Year Impacts	(1,155.5)		(1,155.5)	(17.4%)						
Salaries and Benefits										
COLA & Progression Pay	61.8		61.8	0.9%		81.3		81.3	1.5%	
Other Adjustments	43.0		43.0	0.6%		2.0		2.0	0.0%	
Other Base Changes (specify)										
Economic Factors	6.4		6.4	0.1%		3.9		3.9	0.1%	
IDC/IDR Changes										
Volume Changes										
Contributions to Reserves										
Other Base Changes										
Sub-Total	(1,034.3)		(1,034.3)	(15.6%)		95.0		95.0	1.7%	
Anticipated Impacts:										
Anticipated Impacts (Base)										
Anticipated Service Changes										
Anticipated New / Enhanced										
Other (specify)										
Sub-Total										
Total Incremental Impact	(1,034.3)		(1,034.3)	(15.6%)		95.0		95.0	1.7%	

2020 and 2021 Outlook

- 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

