

2021 Budget Notes

Office of the Auditor General

Budget submissions from the Accountability Officers (Auditor General, Integrity Commissioner, Lobbyist Registrar and Ombudsman) have not been the subject of an administrative review and have not been submitted to the City Manager or Chief Financial Officer and Treasurer for review, approval or recommendation prior to submission to the Budget Committee as set out in Chapter 3 of the Toronto Municipal Code, "Accountability Officers."

While we aim to provide fully accessible content, there is no text alternative available for some of the content within these pages. If you require alternate formats or need assistance understanding our charts, graphs, or any other content, please contact us at AuditorGeneral@toronto.ca.

Description

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 conducts financial, operational, compliance, information systems, forensic and other special audits and reviews of City divisions, and certain City agencies and corporations.

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 supports City Council** in fulfilling its due diligence responsibilities by independently providing transparent information to City Council on whether City programs are run effectively and Torontonians' tax dollars are spent as intended by City Council.

Mandated responsibilities

Specific responsibilities of the Auditor General are set out in Chapter 3 of the Toronto Municipal Code, including:

- Undertaking financial (excluding attest), performance and cybersecurity audits of City divisions, local boards, and City-controlled corporations, as well as audits upon request of the Toronto Police Services Board, Toronto Public Library Board and the Toronto Board of Health
- Following up on recommendations from previous audit reports
- Reporting to City Council on annual Office activities, including savings achieved

The Auditor General also has an independent oversight role in the investigation of reported wrongdoing. Under section 178 of the City of Toronto Act, the Auditor General must assess the quality of stewardship over public funds. Part of this includes the Auditor General's responsibilities for investigating complaints and alleged wrongdoing are set out in Chapter 192 of the Toronto Municipal Code. Her work includes:

- Operating the Fraud and Waste Hotline Program, including the referral of issues to divisional management
- Conducting investigations into allegations of fraud and other wrongdoing, as well as allegations of employee reprisals

What Service We Provide

Auditor General's Office

Who We Serve: City Council

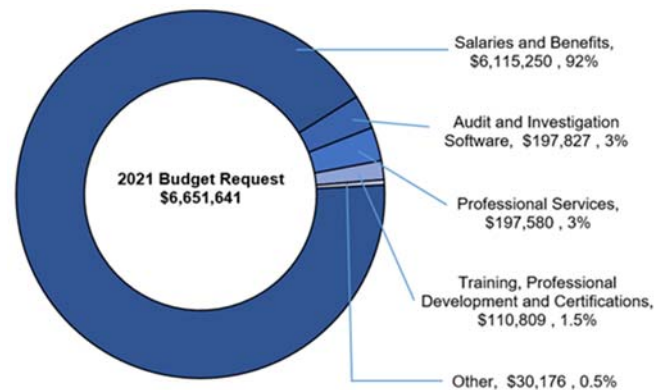
What We Deliver: The Auditor General's audits and investigations provide independent information for City Council to hold City administrators accountable for providing stewardship over public funds. The Auditor General's work helps to identify and mitigate risks the City faces, improve accountability, strengthen management controls, and enhance the efficiency and effectiveness of City operations. The Auditor General's report on her 2021 Work Plan was considered by City Council on December 16, 2020 and is available at: <http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.AU7.5>.

How Much Resources (gross operating budget): \$6.652 million

Budget at a Glance

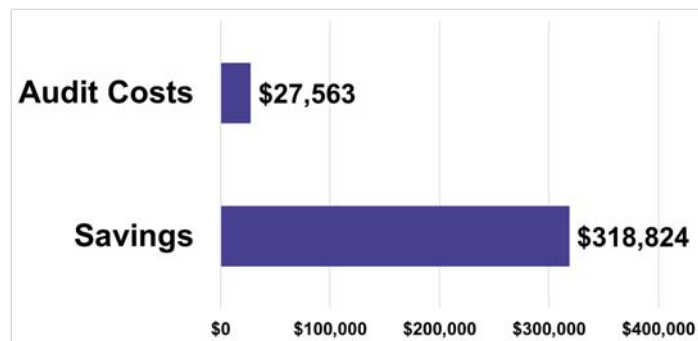
We have decreased our budget by nearly 10% but our mandate has increased, including conducting work at Toronto Police Service and Toronto Public Library, along with high-risk cybersecurity work.

| 2021 OPERATING BUDGET | | | |
|-----------------------|-------|-------|-------|
| \$ Millions | 2021 | 2022 | 2023 |
| Revenues | \$0.0 | \$0.0 | \$0.0 |
| Gross Expenditures | \$6.7 | \$6.7 | \$6.7 |
| Net Expenditures | \$6.7 | \$6.7 | \$6.7 |
| Approved Positions | 41.0 | 41.0 | 41.0 |



Value of the Auditor General's Office

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



*Figures are from the [2019 Annual Report - Demonstrating the Value of the Auditor General's Office](#). Updated savings figures will be provided in the 2020 Annual Report, which will be presented to Audit Committee in early 2021.

- Management's implementation of our recommendations have resulted in various financial benefits, including increased revenues, development of new revenue streams, operating cost reductions, cost avoidance, better use of City resources, and the elimination of inefficiencies.
- Over five years, City Council invested \$27.6 million in the Office (2015-2019). Over the same period, the City has realized \$318.8 million in savings and revenue increases for the City after implementing Auditor General recommendations.
- A return of \$11.5 to the City for every \$1 invested in our Office.

Non-financial Benefits

Identifying opportunities to increase cost savings and revenues is only one component of the Auditor General's mandate. Equally important are the non-financial benefits that come from Auditor General recommendations. These include strengthened internal control including cyber security 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.

The following are examples of reports the Office completed in 2020 where the benefits were either non-financial in nature, or could not be conservatively quantified at the time the reports were issued.

| Non-quantifiable benefit | Report |
|---|---|
| Better cyber security for Toronto's Water system | <i>Cyber Safety - Critical Infrastructure Systems: Toronto Water SCADA System</i> |
| Improving contract design and contract management controls and improving efficiency of processes by leveraging technology | <i>Audit of Winter Road Maintenance Program - Phase One: Leveraging Technology and Improving Design and Management of Contracts to Achieve Service Level Outcomes</i> |
| Strengthening accountability and delivering on objectives and expected outcomes for providing quality, safe, affordable housing to households in need | <i>Strengthening Accountability and Outcomes for Affordable Housing: Understanding the Impact of the Affordable Home Ownership Program</i> |
| Deterring employee benefit fraud | <i>Employee Health Benefits Fraud Involving a Medical Spa Continuous Controls Monitoring Program: Opportunities to Reduce Cost of Dental Benefits</i> |

How Well We Are Doing

The Toronto Municipal Code requires that the Auditor General report annually to City Council on the activities of the Office, including the savings achieved. Accordingly, the Auditor General has consistently provided annual reports on the benefits of the work completed by the Office for over 15 years. The Auditor General's [2019 Annual Report - Demonstrating the Value of the Auditor General's Office](#) was considered by City Council on June 29, 2020. The Auditor General will present the Office's 2020 Annual Report to Audit Committee in early 2021.

| Service | Outcome | 2018 Actual | 2019 Actual | 2020 Target | 2020 Projection | 2021 Target | 2022 Target | Status |
|--|---|-------------------------------------|-----------------------------------|----------------|---|-----------------|-----------------|--------|
| By the Numbers | | | | | | | | |
| Deliver impactful performance audits, investigations, and other reports | Reports to achieve financial and non-financial benefits - outcomes (savings, better cyber security, etc.) described in our Annual Reports | 13+ reports | 14+ reports | 8 - 10 reports | 7+ reports and 5-year City-wide risk assessment including Police and Library* | 10 - 15 reports | 10 – 15 reports | ● |
| | Implemented recommendations that led to financial and non-financial benefits (from inception) | 89% | 88% | 90% | 90%** | 90% | 90% | ● |
| Demonstrate value through quantifiable financial benefits | Positive return on investment (ratio of five-year audit costs to five-year estimated realized savings) | \$11.7 | \$11.5 | \$11.0 | \$10.5 ** | \$10.0 | \$10.0 | ● |
| Review and investigate complaints and allegations to the Fraud & Waste Hotline | Prevention, detection, and deterrence of Fraud and Waste by operating a 24/7 hotline. Activities further described in our Fraud and Waste Hotline Annual Reports. | 643 complaints 1,000 allegations | 587 complaints 950 allegations | N/A | 800 complaints 1,250 allegations | N/A | N/A | ● |
| Maintain compliance with Government Auditing Standards | External quality assurance review every three years | Successful pass | N/A | N/A | N/A | To be scheduled | N/A | ● |

*Many planned and in-progress audits were paused so that City staff could focus on service delivery and essential City services; this delayed completion and issuance of reports during the year.

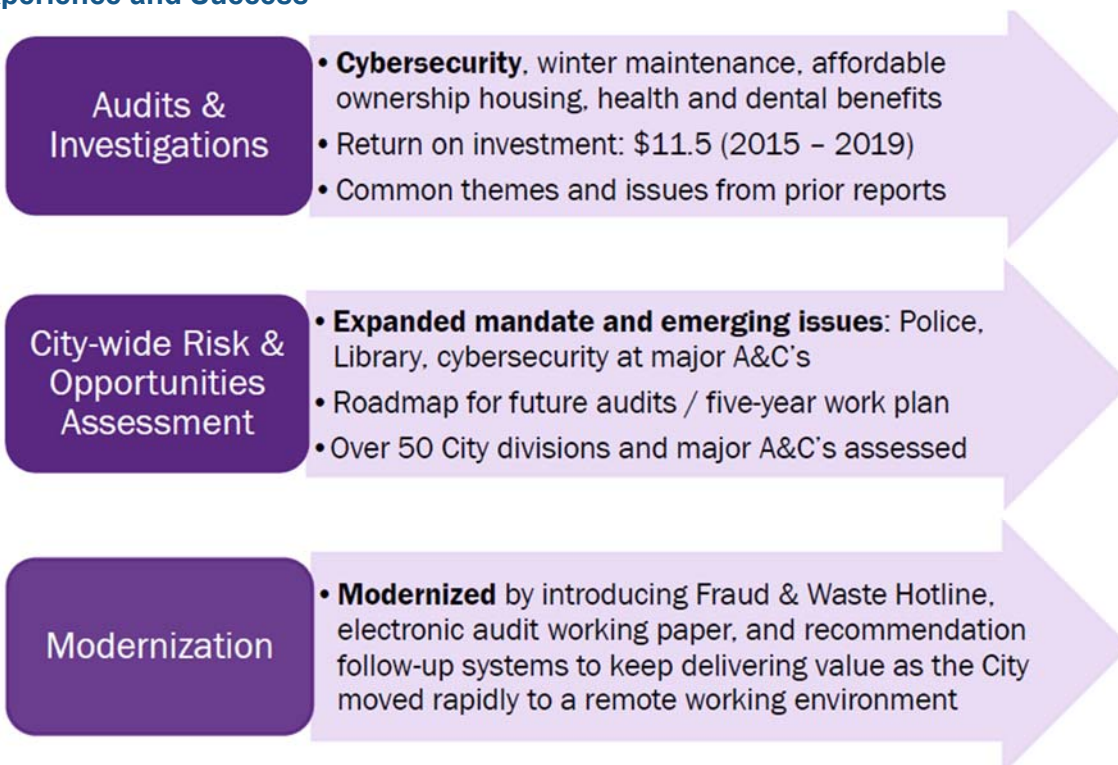
** As a result of the COVID-19 emergency, management's attention to implementing past Auditor General recommendations was sometimes delayed.

COVID-19 IMPACT AND RECOVERY

| 2020 Impact | 2021 Impact and Recovery |
|--|---|
| Financial Impact (Operating) <ul style="list-style-type: none"> There are no significant budget impacts due to the COVID-19 emergency situation. | Financial Impact (Operating) <ul style="list-style-type: none"> There are no significant budget impacts expected in 2021 related to COVID-19. |
| Financial Impact (Capital) <ul style="list-style-type: none"> N/A | Financial Impact (Capital) <ul style="list-style-type: none"> N/A |
| Service Level Changes <ul style="list-style-type: none"> In the early phases of COVID-19, some planned and in-progress audits were paused so that City staff could focus on service delivery and essential City services. We used this time to modernize our audit systems, including implementing an audit working paper system and a 24/7 online portal to facilitate our recommendation follow-up; and conducted a City-wide risk and opportunities assessment to identify and prioritize audit projects for the next five years. | Service Level Changes <ul style="list-style-type: none"> There are no anticipated impacts to service levels as a result of COVID-19 during 2021. The 2021 Work Plan incorporates a breadth of audit projects that provide the flexibility and agility needed to keep all resources working effectively as the Office responds to key priorities and emerging risk areas. |

EXPERIENCES, CHALLENGES AND PRIORITIES

Our Experience and Success



Key Challenges and Risks

The Auditor General's recommended 2021 budget for the Office is 1/20th of one per cent (.05%) of the City's 2020 Approved Adjusted Budget.

Recognizing the City's current financial constraints, the requested 2021 budget is 9.8 per cent lower than the Council-approved 2020 operating budget.

The Office continues 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.

1. Addressing an **expanded mandate with reduced funding**. Upon invitations from the respective boards of the Toronto Police Service and Toronto Public Library, the Auditor General conducted risk assessments of these agencies in 2020. The Auditor General's 2021 Work Plan includes four audits of operations governed by these boards.
2. Responding to **key priorities** and **emerging risk areas** in a timely manner. Cyber security risks have increased as more City operations were forced to transition to online, remote work. In order to quickly address and respond to certain information technology risks, the Auditor General may need to delay some other audits included in her Annual Work Plan. Within the 2021 base budget request, the Auditor General has capacity to perform two or three cyber security audits.
3. Reviewing and investigating a **higher volume** and backlog of Fraud & Waste Hotline **complaints**. A number of high-risk complaints are waiting to be addressed and 2020 saw an increase in complaints and allegations to the Auditor General's Fraud and Waste Hotline. A number of investigations have been delayed, primarily due to resource constraints and COVID-19 considerations.

Priority Actions

1. Confirm **organizational restructure** – securing staff resources to support expanded mandate. Through this budget request, the Auditor General is seeking to confirm her organizational restructure by converting five temporary contract staff positions to permanent positions. The restructuring of five positions will have a net zero impact – where reorganization costs will be absorbed in the base budget.
 2. **Agility** in delivering a range of projects – pivoting when needed to respond to emerging issues. 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. Broadening the areas the Office examines, to include audits at the Toronto Police Service and Toronto Public Library, opens up opportunities to identify additional cost savings and efficiencies to help the City address its financial pressures.
 3. **Cross-training** to build capacity – multi-disciplinary audit and investigations teams, leveraging technical resources when needed. With 2021 being the last year of the current Auditor General's term, solidifying a strong, stable, highly trained workforce at the right approved staff complement levels to continue with project delivery is critical.
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RECOMMENDATIONS

The Auditor General recommends that:

1. City Council approve the 2021 Operating Budget for the Auditor General's Office of \$6.652 million gross and net:

| | Gross Expenditures (\$000s) | Revenue (\$000s) | Net Expenditures (\$000s) |
|----------------------------|--|-----------------------------|--|
| Total Office Budget | 6,651.6 | 0.0 | 6,651.6 |

2. City Council approve the 2021 staff complement for the Auditor General's Office of 41.0 positions.

Auditor General's Office:

Beverly Romeo-Beehler

Auditor General

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**2021 AUDITOR GENERAL'S
RECOMMENDED
OPERATING BUDGET**

2021 OPERATING BUDGET OVERVIEW

Table 1: 2021 Operating Budget

| (In \$000s) | 2019 Actual | 2020 Budget | 2020 Projection* | 2021 Base Budget | 2021 New / Enhanced Requests | 2021 Budget | Change v. 2020 Projection | |
|---------------------------------|----------------|----------------|---------------------|------------------------|------------------------------------|----------------|------------------------------|---------------|
| By Service | \$ | \$ | \$ | \$ | \$ | \$ | \$ | % |
| Revenues | | | | | | | | |
| Auditor General's Office | | | | | | | | |
| Total Revenues | | | | | | | | |
| Expenditures | | | | | | | | |
| Auditor General's Office | 6,282.3 | 7,375.8 | 7,375.8 | 6,651.6 | | 6,651.6 | (724.2) | (9.8%) |
| Total Gross Expenditures | 6,282.3 | 7,375.8 | 7,375.8 | 6,651.6 | | 6,651.6 | (724.2) | (9.8%) |
| Net Expenditures | 6,282.3 | 7,375.8 | 7,375.8 | 6,651.6 | | 6,651.6 | (724.2) | (9.8%) |
| Approved Positions | 36.0 | 36.0 | 36.0 | 41.0 | | 41.0 | 5.0 | 13.9% |

*2020 Projection based on Q3 Variance Report

COSTS TO MAINTAIN EXISTING SERVICES

Total 2021 Base Budget of \$6.652 million gross and net reflecting a decrease of \$0.724 million in spending from 2020 projected year-end actuals, predominantly arising from:

- Reversal of temporary funding of \$0.675 million approved in 2020.
- Salary & benefit adjustments related to realignment of budget to actual.
- Conversion of five temporary contract staff positions to permanent audit and forensic unit positions as part of an organizational restructure to align resources with mandate. This will result in a net zero budget impact; conversion costs will be absorbed within the base budget.

EQUITY IMPACTS OF BUDGET CHANGES

Equity impacts are not determinable at this time: The Auditor General's 2021 Annual Work Plan was considered by City Council on December 16, 2020 includes audits where there may be equity impacts resulting from findings and recommendations (e.g. Audits of Toronto Police Service, Toronto Public Library, Toronto Community Housing Corporation, Shelter, Support and Housing Administration - Emergency Shelter Operations). Any changes to the Auditor General's Recommended Budget may impact the 2021 Work Plan that was considered by City Council on December 16, 2020.

The Auditor General's Office 2021 Work Plan can be found at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.AU7.5>

2021 OPERATING BUDGET KEY DRIVERS

The 2021 Operating Base Budget for the Auditor General's Office is \$6.652 million gross or 9.8% lower than the 2020 Projected Actuals. Table 2 below summarizes the key cost drivers for the base budget.

Table 2: 2021 Key Drivers – Base Budget

| Key Cost Drivers | 2019 Actuals** | 2020 Budget | 2020 Projection* | 2021 Base Budget | Change Vs. 2020 Projection | | |
|-------------------------------|----------------|----------------|------------------|------------------|----------------------------|--------------|--|
| | | | | | \$ | % | |
| Expenditures | | | | | | | |
| 1 Salaries and Benefits | 5,537.2 | 6,184.3 | 5,916.1 | 6,115.2 | 199.1 | 3.4% | |
| 2 Materials and Supplies | 7.5 | 7.7 | 8.3 | 7.8 | (0.5) | -6.2% | |
| 3 Equipment | 46.0 | 65.9 | 75.4 | 67.3 | (8.2) | -10.8% | |
| 4 Service and Rent | 681.1 | 1,107.2 | 1,365.3 | 450.3 | (915.0) | -67.0% | |
| 5 Contribution To Capital | | | | | | | |
| 6 Contribution To Reserves | 10.6 | 10.6 | 10.6 | 11.1 | 0.4 | 4.2% | |
| Total Expenditures | 6,282.3 | 7,375.8 | 7,375.8 | 6,651.6 | (724.2) | -9.8% | |
| Revenues | | | | | | | |
| 1 Provincial Subsidies | | | | | | | |
| 2 User Fees & Donations | | | | | | | |
| 3 Draw from Reserve Funds | | | | | | | |
| 4 Other Revenues (Inc. IDR's) | | | | | | | |
| Total Revenues | | | | | | | |
| Net Expenditures | 6,282.3 | 7,375.8 | 7,375.8 | 6,651.6 | (724.2) | -9.8% | |
| Approved Positions | 36.0 | 36.0 | 36.0 | 41.0 | 5.0 | 13.9% | |

*2020 Projection based on Q3 Variance Report

** 2019 Actuals adjusted retroactively to remove interdepartmental charges and recoveries

Salaries & Benefits:

- Salary & benefit adjustments related to realignment of budget to actual.
- Conversion of five temporary contract staff positions to permanent audit and forensic unit positions as part of an organizational restructure to align resources with mandate. This will result in a net zero budget impact; conversion costs will be absorbed within the base budget.
- In accordance with auditing standards, the Auditor General must determine the appropriate staffing for audit and investigations. This requires the Auditor General to have some flexibility within the Office's approved budget to choose between hiring staff (which are considered "salaries and benefits" expenditures) and contracting external specialists (which are considered "services and rents" expenditures). For example, information technology specialists are used to help assess cyber-security risks and forensic experts are used to support some investigations. For the purposes of the budget, the funds needed to carry out the 2021 Work Plan are allocated to salaries and benefits for permanent and temporary staff. However, on a project-by-project basis (as was the case in 2020), the Auditor General may need to re-allocate funding within the Office's approved budget to "Services and Rent" to instead leverage contracted specialists.

Equipment:

- Decrease due to one-time spending related to workplace reconfiguration in 2020.

Services and Rents:

- Reversal of one-time temporary funding of \$0.675 million gross approved in 2020 towards contracted specialists needed to support cyber security audits and forensic investigations.
- For the purposes of the budget, the funds needed to carry out the 2021 Work Plan are allocated to salaries and benefits for permanent and temporary staff. However, on a project-by-project basis (as was the case in 2020), the Auditor General may need to re-allocate funding within the Office's approved budget to "Services and Rent" to instead leverage contracted specialists.

Note:

1. For additional information on 2021 key cost drivers refer to [Appendix 2](#).

2022 & 2023 OUTLOOKS**Table 3: 2022 and 2023 Outlooks**

| (\$000s) | 2020 Projection* | 2021 Budget | 2022 Outlook | 2023 Outlook |
|---------------------------|------------------|----------------|----------------|----------------|
| Revenues | | | | |
| Gross Expenditures | 7,375.8 | 6,651.6 | 6,668.7 | 6,689.0 |
| Net Expenditures | 7,375.8 | 6,651.6 | 6,668.7 | 6,689.0 |
| Approved Positions | 36.0 | 41.0 | 41.0 | 41.0 |

*2020 Projection based on Q3 Variance Report

Key drivers

The 2022 Outlook with total gross expenditures of \$6.669 million reflects an anticipated \$0.017 million or 0.26% increase in gross expenditures above the 2021 Operating Budget; The 2023 Outlooks expects a further increase of \$0.020 million or 0.3% above 2022 gross expenditures.

These changes arise from the following:

- Benefit rate adjustments
- Economic factor adjustments for non-payroll items

APPENDICES

Appendix 1

COVID-19 Financial Impact - Operating

N/A

Appendix 2

2021 Operating Budget by Revenue / Expenditure Category

| Category (In \$000s) | 2018 | 2019 | 2020 | 2020 | 2021 Total Auditor General Budget | 2021 Change from 2020 Projected Actual | |
|--|----------|----------|---------|-------------|--|---|---------|
| | Actual** | Actual** | Budget | Projection* | | \$ | % |
| | \$ | \$ | \$ | \$ | \$ | \$ | |
| Provincial Subsidies | | | | | | | |
| Federal Subsidies | | | | | | | |
| Other Subsidies | | | | | | | |
| User Fees & Donations | | | | | | | |
| Licences & Permits Revenue | | | | | | | |
| Transfers From Capital | | | | | | | |
| Contribution From Reserves/Reserve Funds | | | | | | | |
| Sundry and Other Revenues | 0.2 | | | | | | |
| Inter-Divisional Recoveries | | | | | | | |
| Total Revenues | 0.2 | | | | | | |
| Salaries and Benefits | 5,628.6 | 5,537.2 | 6,184.3 | 5,916.1 | 6,115.2 | 199.1 | 3.4% |
| Materials & Supplies | 6.4 | 7.5 | 7.7 | 8.3 | 7.8 | (0.5) | (6.2%) |
| Equipment | 188.9 | 46.0 | 65.9 | 75.4 | 67.3 | (8.2) | (10.8%) |
| Service and Rent | 411.8 | 681.1 | 1,107.2 | 1,365.3 | 450.3 | (915.0) | (67.0%) |
| Contribution To Capital | | | | | | | |
| Contribution To Reserves/Reserve Funds | 8.2 | 10.6 | 10.6 | 10.6 | 11.1 | 0.4 | 4.2% |
| Other Expenditures | | | | | | | |
| Inter-Divisional Charges | | | | | | | |
| Total Gross Expenditures | 6,243.9 | 6,282.3 | 7,375.8 | 7,375.8 | 6,651.6 | (724.2) | (9.8%) |
| Net Expenditures | 6,243.7 | 6,282.3 | 7,375.8 | 7,375.8 | 6,651.6 | (724.2) | (9.8%) |
| Approved Positions | 36.0 | 36.0 | 36.0 | 36.0 | 41.0 | 5.0 | 13.9% |

* Year-End Projection Based on Q3 2020 Variance Report

** Prior Year Actuals adjusted retroactively to remove interdepartmental charges and recoveries

Appendix 3

Summary of 2021 Service Changes

N/A

Appendix 4

Summary of 2021 New / Enhanced Service Priorities Included in Budget

N/A

Appendix 5

Summary of 2021 New / Enhanced Service Priorities Not Included in Budget

N/A

Appendix 6

2021 Capital Budget; 2022 - 2030 Capital Plan Including Carry Forward Funding

N/A

Appendix 6a

2021 Cash Flow and Future Year Commitments Including Carry Forward Funding

N/A

Appendix 6b

2022 - 2030 Capital Plan

N/A

Appendix 7

Reporting on Major Capital Projects: Status Update

N/A

Appendix 8

Summary of Capital Needs Constraints (In \$ Millions)

N/A

Appendix 9

2021 User Fee Changes (Excludes User Fees Adjusted for Inflation)

Table 9a - New User Fees

N/A

Table 9b – Fees Above Inflation

N/A

Table 9c - User Fees for Discontinuation

N/A

Table 9d - User Fees for Technical Adjustments

N/A

Table 9e - User Fees for Transfers

N/A

Table 9f - User Fees for Rationalization

N/A

Appendix 10

Inflows and Outflows to/from Reserves and Reserve Funds

2021 Operating Budget

Corporate Reserve / Reserve Funds

| Reserve / Reserve Fund Name (In \$000s) | Reserve / Reserve Fund Number | Withdrawals (-) / Contributions (+) | | |
|--|----------------------------------|-------------------------------------|------|------|
| | | 2021 | 2022 | 2023 |
| | | \$ | \$ | \$ |
| Insurance Reserve Fund | XR1010 | | | |
| <i>Withdrawals (-)</i> | | | | |
| <i>Contributions (+)</i> | | 11.1 | 11.1 | 11.1 |

* Based on 9-month 2020 Reserve Fund Variance Report

Appendix 11

Glossary

Actuals: An actual financial amount paid (or received) for the delivery of City services (these exclude any commitments to be paid in the future).

Complement: Positions that support the delivery of City services and service levels as approved by Council.

Operating Budget: An Operating Budget is the City's annual plan to provide services to the residents of Toronto; the budget includes all revenues and expenses needed to provided services; an example of an operating cost would be the cost to run the TTC subways.

Recommended Operating Budget: An operating budget recommended by Accountability Officer to City Council for consideration and approval.