

Attachment 1



Auditor General's Office 2023 Operating Budget

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Auditor General

**AUDITOR
GENERAL**

TORONTO

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2023 Budget Highlights

What We Do

Under Section 178(1) 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 assists City Council by providing independent assessments of the quality of stewardship over public funds and whether value for money is being achieved in operations, by conducting performance audits; cybersecurity, financial, operational and compliance audits and reviews; and forensic investigations, of City divisions and certain City agencies and corporations.

Why Our Work is Important

The Auditor General’s independent and objective lens has been a catalyst for changes that have resulted in both financial and non-financial benefits to the City. The Auditor General’s Office supports City Council in fulfilling its due diligence responsibilities by independently providing transparent information to help ensure Torontonians' tax dollars are spent as City Council intended.

Prior Auditor General recommendations have contributed to the City in the following ways:

- making IT information systems and critical infrastructure safer
- holding contractors accountable for delivering on and charging for services according to contract terms
- finding ways to improve police emergency response times and 9-1-1 call answering times
- identifying opportunities to make more shelter spaces available to people who need them, and getting more people into housing.

As reported in her past Annual Reports, audits completed by the Auditor General result in significant savings, improved controls, and operational efficiencies. Historically, every dollar invested in the Auditor General's Office has provided a positive return to the City. The Auditor General’s 2022 Annual Report highlights that the Office has generated a return of \$12.52 for every dollar invested in the Office from 2018 to 2022.

2023 Budget Request

The Auditor General is requesting \$7.35 million to continue delivering impactful audits and investigations in accordance with her mandate. The Auditor General’s 2023 Operating Budget is consistent with the Office’s 2022 Operating Budget and represents approximately 0.045 per cent of the City’s 2023 Proposed Operating Budget.

Year after year, the Auditor General has reported that the Office continues to be lean relative to the size and complexity of Toronto’s Government. The Auditor General’s budget, relative to the size of the City’s budget, remains among the lowest of major municipalities across Canada, as well as those of a number of municipalities in the United States. City Council’s commitment to maintaining the Auditor General’s Office budget will continue to help ensure that audits of priority areas and emerging risks, as well as investigations of high-risk complaints, are addressed in a timely manner.

The Auditor General's budget request reflects resources needed to address her 2023 Work Plan. More specifically, the Auditor General will continue to carry out her mandate by:

- delivering **high-priority audit projects** on the Auditor General's Work Plan that yield **both quantifiable and non-quantifiable benefits** to how the City delivers its services
- providing valuable independent oversight of critical systems to ensure the City is well-positioned to detect, mitigate, and respond to **IT and cybersecurity risks**
- conducting **high-risk investigations** that help address and deter fraud, waste, and wrongdoing in the City.

Auditor General's 2023 Work Plan

The Auditor General's 2023 Work Plan contains the following projects that are in-progress or will begin in 2023, and many new projects on the horizon to commence in either late 2023 or 2024. In addition, the Auditor General continues to carry out various investigations related to allegations of fraud or other wrongdoing and follow-up work of previous recommendations. Finally, there is a growing list of projects that we still need to give attention to. Although we cannot reasonably get to all of our planned horizon projects, and those in our backlog during 2023, continued support from City Council will help us address the projects on the 2023 Work Plan.

Audit Work Plan (2023)	Audit Horizon (2024)
<p><u>Agencies and Corporations</u></p> <ul style="list-style-type: none"> • TTC – Streetcars Operational Audit • TTC – Cybersecurity Assessment (Phase 2) Overall Network Security and Select Critical Systems • Toronto Hydro – Cybersecurity Review <p><u>City Divisions</u></p> <ul style="list-style-type: none"> • Housing Secretariat – Modular Housing • Transportation Services – Winter Maintenance • Toronto Building – Inspection Function • Toronto Building - Investigation • Toronto Building (Phase 2) – Plan Review & Customer Service • 911 Emergency Response Service – Toronto Fire Services, Toronto Paramedic Services and Other Divisions • IT – Enterprise Work Management System 	<p><u>Agencies and Corporations</u></p> <ul style="list-style-type: none"> • TCHC - Contract Management • Toronto Police Service – Operational Audit • Toronto Public Library – Cybersecurity Assessment • TTC – Workforce Planning and Management <p><u>City Divisions</u></p> <ul style="list-style-type: none"> • Housing Secretariat - Affordable Rental Housing • Parks, Forestry and Recreation - Parks Branch Operational Review • Street Construction and Utility Work • Toronto Water and Engineering & Construction Services - Basement Flooding Protection Program • Municipal Accommodation Tax • IT – Major IT Projects • IT – Software Acquisition and Licence Utilization • Transportation Services – Utility Cuts • Toronto Fire Services - Mechanical (Fleet) Maintenance • Toronto Office of Partnerships – Unsolicited Proposals • Non-Competitive Contract – Category Management & Strategic Sourcing

Note: a full list of projects (including other projects on the horizon and in our backlog), and descriptions can be found in the Auditor General's 2023 Work Plan.

A. Mandated Responsibilities of the Auditor General

Accountability and transparency of City operations

Under the City of Toronto Act, 2006, City Council's role includes evaluating the City's policies and programs, ensuring administrative and controllership policies, practices, and procedures are in place to implement Council's decisions, ensuring accountability and transparency of City operations, and maintaining the City's financial integrity.

Auditor General provides assurance to City Council regarding quality of stewardship over public funds

Under Section 178(1) 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."*

Auditor General provides an independent and objective lens

The Auditor General assists City Council by providing independent assessments of the quality of stewardship over public funds and whether value for money is being achieved in operations by conducting performance audits; cybersecurity, financial, operational and compliance audits and reviews; and forensic investigations, of City divisions and certain City agencies and corporations. The audits and investigations completed between 2018 and 2022 are summarized in Exhibit 1.

Auditor General's legislated responsibilities, powers, and duties

The Auditor General's legislated responsibilities, powers and duties are established in Section 178 of the *City of Toronto Act, 2006*. Chapter 3 of the Toronto Municipal Code sets out the Auditor General's specific responsibilities including:

- Undertaking performance, cyber, financial and compliance audits of City divisions, local boards, and City-controlled corporations. The Auditor General can also conduct audits, upon request from the Toronto Police Services Board, the 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. This responsibility is part of her mandate under Section 178 of the City of Toronto Act, 2006 and her specific 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 reprisal against employees under the City's disclosure of wrongdoing and reprisal protection rules.

B. Auditor General’s 2023 Budget Request

B.1 Breakdown of the 2023 Budget Request

2023 Operating Budget request is \$7.35 million

The Auditor General’s 2023 Operating Budget is \$7.35 million. This is a \$308,000 (or 4 per cent) decrease from the Approved 2022 Operating Budget. Table 1 compares the 2023 Operating Base Budget request to the 2022 Approved Budget and Projected Actuals to year-end. The categories of expenses included in the base budget are illustrated in Figure 1 and further described in Exhibit 2.

The Auditor General’s budget request is consistent with the 2022 Approved Operating Budget and reflects resources needed to address her 2023 Work Plan. More specifically, the Auditor General will continue to carry out her mandate by

- completing **high-priority** audit projects on the Auditor General’s Work Plan that yield **both quantifiable and non-quantifiable benefits** to how the City delivers its services
- providing valuable independent oversight of critical systems to ensure the City is well-positioned to detect, mitigate, and respond to **IT and cybersecurity risks**
- conducting **high-risk investigations**.

Table 1: 2023 Base Budget Relative to 2022 Approved Budget

2023 Budget Request	2022 Approved Budget	2022 Projected Actual*
\$7,350,000	\$7,657,700	\$6,958,000*

* Based on Q3 2022 Corporate Variance Report. At Q3 2022, the Auditor General's Office was projecting a budget surplus of \$0.700 million at year-end due to staff turnover and vacancies arising from challenges recruiting and retaining highly qualified professional staff to carry out performance audits, special investigations, and information technology reviews.

Figure 1: 2023 Operating Budget Request



Base Budget

Base budget decrease of 4.0% from 2022

The 2023 Budget of \$7.350 million (net) represents a decrease of \$0.308 million (4.0 per cent) from the 2022 Council-approved Budget of \$7.658 million (net). The decrease results from the reversal of \$0.325 million in unspent temporary funding in 2023 and anticipated one-time staff vacancy savings of \$0.270 million in Q1 2023 resulting from permanent positions that remain unfilled at the end of 2022 due to the challenges and delays in hiring new staff which reflects the current market situation.

Budget pressures from City-wide non-union salary adjustments in 2022

These budget decreases are offset by budget pressures predominantly arising from an:

- Increase in salaries and benefits budget to reflect \$0.260 million of City-wide non-union salary adjustments made in 2022, without an offsetting adjustment to the Office's budget (where the funding adjustment was only reflected in the City's corporate accounts) and to reflect the full complement required to deliver the proposed 2023 Work Plan.
- Increase to equipment budget to reflect anticipated spending for purchased computer software and cloud computing costs as a result of contract renewals.

The Auditor General's recommended 2023 Base Operating Budget reflects pressures from the 2022 salary increases. However, the Auditor General's 2023 Operating Budget does not reflect further pressures arising from new City-wide non-union salary adjustments effective January 1, 2023. Any cost-of-living or performance-based salary adjustments to be applied in 2023 are also not reflected as per the Financial Planning Division's 2023 operating budget guidelines.

Discretionary Reserve Fund for the Auditor General

Establishing a Reserve Fund for projects and contracts that span multiple years

In accordance with auditing standards, the Auditor General must determine the appropriate staffing for audits and investigations. This requires the Auditor General to have some flexibility within the Office's approved budget to choose between hiring staff and contracting external specialists. For example, information technology specialists are used to help assess cyber-security risks and forensic experts are used to support some investigations.

It is on this basis, that the Auditor General submitted a report¹ in mid 2022 highlighting that in light of ongoing staffing challenges, it was possible that planned audits and other projects requiring the assistance of contracted IT or investigative specialists initiated in 2022 would continue into 2023. The Auditor General requested that a new discretionary reserve fund be established in order to fund projects on the Auditor General's Work Plan that were initiated in one year but continue on into a subsequent year.

¹ [Auditor General's 2022 Work Plan Update and Request for Administrative Amendment to City Reserve Fund Accounts](#)

The discretionary reserve is not meant to accumulate a significant balance

It is not the Auditor General’s intent to accumulate a significant balance of uncommitted funds in a discretionary reserve. As noted in Appendix 1 to the Auditor General’s July 2022 report, contributions to the reserve fund would be limited to unused funds specifically budgeted for professional services (i.e. specialists supporting audits and investigations) and unused temporary Council-approved funding for specific projects in the Auditor General’s Work Plan.

Discretionary reserve fund balance would not exceed 5% of the prior year’s approved budget

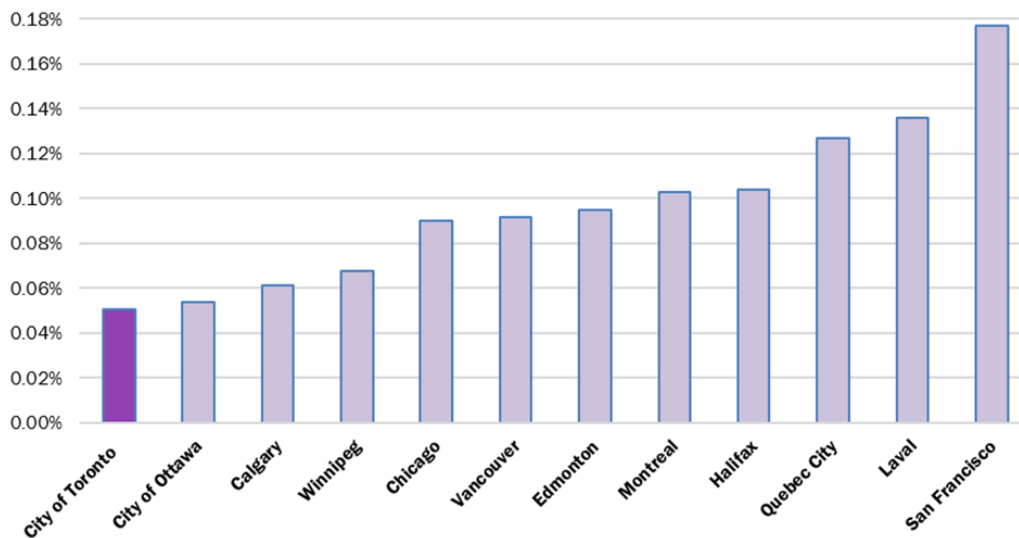
Moreover, the calendar year-end balance of any approved reserve fund will not exceed up to five per cent of the Auditor General’s Approved Operating Budget in that given year (or approximately \$0.383 million based on the 2022 approved Operating Budget). Draws from this reserve would be used to pay for staff and contracted specialists to complete projects in the Auditor General’s Work Plan.

Reserve fund request to be considered by Executive Committee because of changes to the City’s 2023 budget process

In light of the impacts of Bill 3 Strong Mayors, Building Homes Act, 2022 on the City’s budget process, and the change the Mayor made to Budget Committee’s mandate, the report was referred to the Executive Committee for consideration at its meeting on January 31, 2023.

The Auditor General’s 2023 Operating Budget request is 0.045 per cent of the City’s 2023 Proposed Operating Budget. The Office is lean relative to the size and complexity of Toronto’s government. As illustrated below in Figure 2, the Office budget is also among the lowest of major municipalities across Canada, as well as those of a number of municipalities in the United States.

Figure 2: Audit Costs as a Per Cent of Municipal Operating Budget



Source: 2022 Publicly Available Municipal Operating Budgets

B.2. Key Challenges and Risks

Staffing Challenges

Challenges recruiting and retaining highly qualified professional staff

In the current job market, where there is significant competition for in-demand technical and professional roles, the Auditor General's Office is experiencing challenges recruiting and retaining highly qualified professional staff to carry out performance audits, special investigations, and information technology reviews.

Challenges recruiting and retaining highly qualified professional staff resulted in underspending on Salary & Benefits in 2022 and led to certain projects in the 2022 Work Plan being delayed or deferred. The underspending is partially offset by cost-of-living and other salary adjustments, where there was no adjustment to the Office's budget in 2022. It is anticipated that the Auditor General's Office will be able to return to full staff complement by the end of Q1 2023².

Continued efforts to attract and retain highly qualified professional staff

In line with work the City is currently undertaking, the Auditor General will continue to work with the Chief People Officer and City Manager to come up with strategies to support the Office's ability to attract and retain top talent in order to address staff resourcing levels, turnover, and vacancies. There are currently several open competitions underway to fill the unfilled permanent positions. .

² The Auditor General's 2023 budget includes anticipated one-time staff vacancy savings of \$0.270 million in Q1 2023 resulting from permanent positions that remain unfilled at the end of 2022 due to the challenges and delays in hiring new staff which reflects the current market situation.

C. Annual Work Plan

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 2018 and 2022 are summarized in Exhibit 1.

Trade-off between what audits can be done now, versus those that will be delayed

Looking ahead to 2023, with an increasing backlog of audit projects and investigations, the Auditor General will continue to use a risk-based approach in deciding which audits and investigations can be completed within the existing base budget versus those that need to be delayed.

Preserving Office budget will result in more audits across the City

The Auditor General's 2023 Work Plan is being presented to Audit Committee at the same meeting as this Operating Budget report. The 2023 budget request supports about ten projects currently in progress or soon to be initiated, as well as additional new projects to commence in late 2023 or in 2024. With City Council's support to maintain the Auditor General's budget, the Auditor General can continue to address the 2023 Work Plan. Table 2 below provides a snapshot of the Auditor General's 2023 Work Plan.

Table 2: Auditor General’s 2023 Work Plan

Audit Work Plan (2023)	Audit Horizon
<p><u>Agencies and Corporations</u></p> <ul style="list-style-type: none"> • TTC – Streetcars Operational Audit • TTC – Cybersecurity Assessment (Phase 2) Overall Network Security and Select Critical Systems • Toronto Hydro – Cybersecurity Review <p><u>City Divisions</u></p> <ul style="list-style-type: none"> • Housing Secretariat – Modular Housing • Transportation Services – Winter Maintenance • Toronto Building – Inspection Function • Toronto Building - Investigation • Toronto Building (Phase 2) – Plan Review & Customer Service • 911 Emergency Response Service – Toronto Fire Services, Toronto Paramedic Services and Other Divisions • IT – Enterprise Work Management System 	<p><u>Agencies and Corporations</u></p> <ul style="list-style-type: none"> • TCHC - Contract Management • Toronto Police Service – Operational Audit • Toronto Public Library – Cybersecurity Assessment • TTC – Workforce Planning and Management <p><u>City Divisions</u></p> <ul style="list-style-type: none"> • Housing Secretariat - Affordable Rental Housing • Parks, Forestry and Recreation - Parks Branch Operational Review • Street Construction and Utility Work • Toronto Water and Engineering & Construction Services - Basement Flooding Protection Program • Municipal Accommodation Tax • IT – Major IT Projects • IT – Software Acquisition and Licence Utilization • Transportation Services – Utility Cuts • Toronto Fire Services - Mechanical (Fleet) Maintenance • Toronto Office of Partnerships – Unsolicited Proposals • Non-Competitive Contract – Category Management & Strategic Sourcing

Note: a full list of projects (including other projects on the horizon and in our backlog), and descriptions can be found in the Auditor General’s 2023 Work Plan.

Flexibility needed to respond to emerging risks and high-risk allegations of fraud, wrongdoing or reprisal

The Auditor General has also found it necessary to have a flexible work plan in order to conduct ad-hoc 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, complaints received by the Fraud & Waste Hotline, or City Council requests.

Completing Reviews to Mitigate and Address Cybersecurity Threats and IT risks

Auditor General provides an independent lens of IT and cybersecurity risks

While the City’s Office of the Chief Information Security Officer leads the City’s cybersecurity program, the Auditor General’s independent lens on reviewing IT and cybersecurity risks identified a number of areas where improvements were still needed.

Also, as the City continues to invest significant dollars towards implementing new systems, independent assessments by the Auditor General are needed to ensure that processes are in place to address privacy and cybersecurity risks, and that systems have adequate controls, are cost effective, and are achieving their intended outcomes.

Investigating Alleged Fraud, Wrongdoing, or Reprisals

More high-risk investigations waiting to be addressed

Research by the Association of Certified Fraud Examiners has shown that 51 per cent of organizations have discovered more fraud since the onset of the pandemic³. Our Office currently has several active investigations underway and there are still a number of investigations waiting to be addressed which are delayed due to limited resources.

Investigations can require significant staff resources

Conducting investigations can require significant staff resources, time, and in some cases, costs associated with hiring external specialists. In recent years, because of the backlog in high-risk investigations, the Auditor General has also supplemented the Forensic Unit with staff normally assigned to audits.

Growing number of high-risk and more complex files

Heading into 2023, there continues to be a growing number of high-risk and more complex files waiting to be addressed. The Auditor General may need to continue assigning audit staff to investigations and the Hotline.

Providing oversight over investigations conducted by City agencies and corporations

Currently, the Auditor General's Office is not actively reviewing complaints received by Agencies and Corporations. This could give the Auditor General a more complete City-wide view of potential fraud risks. Some oversight of their processes and investigation outcomes would support further accountability and transparency in the Toronto Public Service. Additional resources would be needed in order to commence this work.

The Auditor General continues to perform investigations and hire specialists when needed

The Auditor General will continue to operate the Fraud and Waste Hotline and respond to fraud risks as they emerge. Having the flexibility to leverage experts and specialized tools to supplement our investigations has been helpful in identifying and investigating high-risk and time sensitive matters.

³ <https://www.acfe.com/fraud-resources/covid-19-benchmarking-report>

Auditor General's Recommendation Follow-up Process Provides Accountability and Helps Motivate Management to Action our Recommendations

Follow-up of recommendations informs City Council on management's actions towards implementing recommendations

The Auditor General continues to focus on verifying the status of high-priority recommendations as resources permit. Certain recommendations are considered high priorities because of the potential for significant savings, health and safety risks, or potential risks to the City's reputation. As reported in our Follow-up Report, which is being presented at the February 13, 2023 Audit Committee meeting, there are 151 high-priority recommendations that still need to be verified by our Office.

Staff are needed to verify high-priority recommendations

In recent years, with staff being reallocated to other high-risk and competing projects, the Office's annual recommendation follow-up was also affected. Regardless, it is management's responsibility to continue taking action on the Auditor General's recommendations⁴. The Auditor General follows up on recommendations from previous audit and investigative reports until they are fully implemented. This process involves verifying management's actions so that the Auditor General can inform City Council where more action is needed from management in order to fully realize financial and non-financial benefits and address high-priority risks to the City.

⁴ Urgency of reviewing management's actions is lower when management takes appropriate action to implement the Auditor General's recommendations.

D. Demonstrating our Value

D.1 How Well We Are Doing

As reported in her past Annual Reports, audits completed by the Auditor General result in significant savings, improved controls, and operational efficiencies. Table 3 below provides a snapshot of the Office's recent and forward-looking outcomes.

Table 3: How Well we are Doing

Service	Outcome	2020 Actual	2021 Actual	2022 Target	2022 Actual	2023 Target	2024 Target
Deliver impactful performance audits, investigations, and other reports	Reports with findings and recommendations to achieve improved outcomes, financial and non-financial benefits for the City (e.g. savings, better cyber security, etc.) as described in our Annual Reports	7+ reports ¹	14+ reports	10 – 15 reports	9+ reports	10 – 15 reports	10 – 15 reports
	Implemented recommendations that led to financial and non-financial benefits (from inception)	Not reported ¹	81% ²	90%	80% ²	85%	90%
Demonstrate value through quantifiable financial benefits	Positive return on investment (ratio of five-year audit costs to five-year estimated realized savings)	\$12.7	\$14.9	\$10.0	\$12.5	\$10.0	\$10.0
Review and investigate complaints and allegations to the Fraud & Waste Hotline	Prevention, detection, and deterrence of fraud, waste, and other wrongdoing by operating a 24/7 hotline. Activities and outcomes are further described in our Fraud and Waste Hotline annual reports.	848 complaints 1,350 allegations	820 complaints 1,200 allegations	N/A	1,032 complaints 1,200 allegations	N/A	N/A
Maintain compliance with Government Auditing Standards	Successfully pass the external quality assurance review every three years	N/A	Review delayed ³	Pass	Pass	N/A	Pass

Notes:

¹ Some planned and in-progress audits were paused during the first year of the COVID-19 pandemic so that City staff could focus on service delivery and essential City services; this delayed completion and issuance of reports during the year.

² While management continues to make progress towards implementing recommendations, the Auditor General has not yet verified all recommendations reported as implemented. Management has reported by 2022 another 8 per cent of recommendations have been fully implemented or are no longer relevant which could bring the implementation rate to 88 per cent by 2022 once management's assertions have been verified. The Auditor General continues to focus on verifying the status of high-priority recommendations as resources permit.

³ In July 2021, City Council approved a one-time exemption from Toronto Municipal Code Chapter 3 requirements that the Auditor General undergo an external peer review once every three years, so that the external peer review of the Auditor General's Office originally due in 2021 would be completed by the end of 2022.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2021.AU9.18>

Auditor General conducts independent, objective audits

Year after year, the City continues to achieve considerable value from investing resources into the Auditor General's Office.

The Auditor General conducts independent, objective audits, reviews and investigations designed to add value and improve the effectiveness and efficiency of governance and operations across the City. Exhibit 1 of this report includes a list of reports issued from 2018 through 2022.

Investing in the Auditor General produces benefits and savings

The former Auditor General for Canada (Denis Desautels) led a taskforce that provided recommendations to City Council on the establishment of an Auditor General's Office. As noted by Denis Desautels in his 2002 report titled "*Serving Council and Citizens: Strengthening the Audit Function at the City of Toronto*⁵",

*"...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.

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

⁵ <https://www.toronto.ca/legdocs/2002/agendas/council/cc020521/pof7rpt/cl001.pdf>

**Annual Report –
Demonstrating the Value
of the Auditor General’s
Office**

The Toronto Municipal Code requires that the Auditor General report annually to City Council on the activities of the Office, including the savings achieved. 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.

**Council recommendation
to continue reporting on
savings achieved City-wide**

City Council reaffirmed the importance of this Annual Report in its March 2019 recommendation:

"City Council request the Auditor General to include in future Auditor General's Annual Report, beginning in 2020, savings achieved by City Divisions and Agencies resulting from the implementation of the Auditor General's reports and recommendations." (EX2.5, Recommendation #113)

The Auditor General is presenting the 2022 Annual Report to Audit Committee at its meeting on February 13, 2023.

D.2 Quantifiable Benefits from Auditor General Reports

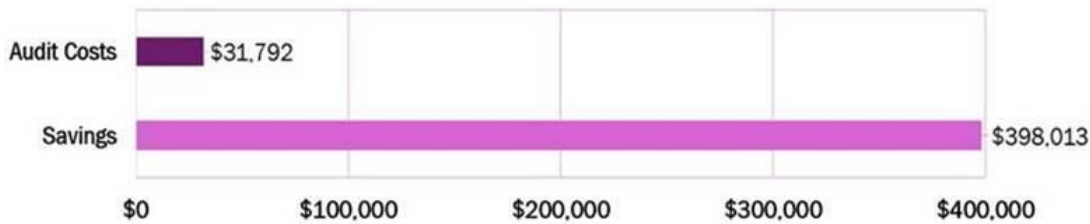
Potential savings are not included in return on investment calculation

In conducting our audits, whenever possible, we 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.⁶

Realized savings are reported in the Auditor General's Annual Report

The 2022 Annual Report highlighted that the total **one-time and projected five-year savings** realized in 2022 was **\$14.6 million**. The estimated one-time and projected five-year savings (cost reductions and revenue increases) **for the years 2018 to 2022** were approximately **\$398.0 million**. Our cumulative Office expenditures over the same period were \$31.8 million.

Figure 3: Five-Year Audit Costs Compared to Estimated Realized Savings (\$000's), 2018 to 2022, Auditor General's Office



Source: Auditor General's 2022 Annual Report – Demonstrating the Value of the Auditor General's Office

Every \$1 invested in the Office resulted in \$12.52 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 2018 to 2022 is \$12.52**.

⁶ The approach used to calculate savings is discussed in the 2022 Annual Report, "Demonstrating the Value of the Auditor General's Office".

D.3 Non-quantifiable Benefits from Auditor General Reports

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, cybersecurity 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 4 includes examples of the reports the Office completed in 2022 where the benefits were either non-financial in nature, or could not be conservatively quantified at the time the reports were issued.

Table 4: Examples of Non-Quantifiable Benefits from Auditor General's Reports Issued in 2022

Report	Non-quantifiable benefit
<i>Part 1 of the Audit of Emergency Shelters: A Focus on Case Management</i>	Improving how City (and agency) staff guide shelter clients more efficiently and effectively towards stable housing.
<i>Part 2 of the Audit of Emergency Shelters: Lessons Learned from Hotel Operations</i>	Strengthening contract management and contract monitoring mechanisms to achieve better value for money, provide more emergency shelter spaces or re-direct more funds towards permanent housing solutions for individuals and families experiencing homelessness.
<i>Toronto Police Service – Audit of 9-1-1 Public Safety Answering Point Operations</i>	Improving the timeliness and effectiveness of call answering for 9-1-1 emergency calls so that people receive the appropriate emergency response as soon as possible, as a person's life or safety can often be at risk.
<i>Review of Toronto Police Service – Opportunities to Support More Effective Responses to Calls for Service</i>	Identifying the importance and need of a whole-of-government approach, investment, and strategies in exploring police and non-police alternative responses to calls for service, improving front-line police response times for emergency calls, and leveraging technology and automation to improve efficiency.
<i>Cybersecurity Review: Toronto Fire Services Critical Systems Review Phase 2</i> <i>Toronto Transit Commission Cybersecurity Audit Phase 1: Critical IT Assets and User Access Management</i> <i>Cybersecurity Review: Open-Source Internet Data Intelligence Review</i>	Strengthening cybersecurity controls at the City and its agencies and corporations.
<i>Revisiting Legacy Rental Replacement Policies to Align them with the City's Affordable Rental Housing Expectations</i>	Improving alignment of City agreements and processes with the City's priorities for making available affordable rental replacement housing accessible to households based on financial need.

D.4 Benefits of the Fraud and Waste Hotline

The Auditor General's Fraud and 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.

1,032 complaints representing 1,200 allegations to the Hotline

In 2022, the Hotline Program received 1,032 complaints representing approximately 1,200 allegations, the highest in a year since the launch of the Hotline Program. The volume of complaints continues to rise and is approximately 26 per cent higher than the number received in 2021, 22 per cent higher than in 2020, and 76 per cent higher than in 2019.

Evaluating trends in allegations to the Hotline have led to important audits

Hotline data also provides a picture of trends and potential risks that have led to audits with significant findings, including the recent audits of contracted property management services at Toronto Community Housing Corporation, software license subscriptions, and tree maintenance services.

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 and Waste Hotline does not depend on the number of complaints reported in any given year, but on the action taken to investigate, manage and reduce the risk of fraud and other wrongdoing and the deterrence created by having such a tool.

Conclusion

The Auditor General is committed to continue:

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

Auditor General's Office adds value to City operations

The Auditor General's 2023 Operating Budget request of \$7.35 million will allow the Office to continue to carry out audits and investigations across the City and its agencies and corporations.

Preserving Council's investment in the Office will continue to support timely and impactful audits and investigations

The Auditor General's budget request reflects funding to:

- complete high-priority audits on the Auditor General's Work Plan that yield both quantifiable and non-quantifiable benefits to how the City delivers its services
- provide valuable independent oversight of critical systems to ensure the City is well-positioned to detect, mitigate, and respond to IT and cybersecurity risks
- conduct high-risk investigations.

The independent and objective lens we bring through our audits and investigations has resulted in both financial and non-financial benefits to the City. Looking ahead to 2023 and beyond, 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.

Exhibit 1: Audit, Investigation and IT / Cybersecurity Reports Issued from 2018 to 2022

2022

1. Revisiting Legacy **Rental Replacement Policies** to Align them with the City's Affordable Rental Housing Expectations
2. Part 1 of the Audit of **Emergency Shelters: A Focus on Case Management**
3. Part 2 of the Audit of **Emergency Shelters: Lessons Learned from Hotel Operations**
4. Auditor General's **Cybersecurity Review: Toronto Fire Services** Critical Systems Review Phase 2
5. Auditor General's **Cybersecurity Review: Open-Source Internet Data Intelligence Review**
6. **Toronto Transit Commission Cybersecurity** Audit Phase 1: Critical IT Assets and User Access Management
7. **Toronto Police Service - Audit of 9-1-1 Public Safety** Answering Point Operations Better Support for Staff, Improved Information Management and Outcomes**
8. Review of **Toronto Police Service - Opportunities to Support More Effective Responses to Calls for Service****
9. **Installation and Maintenance of Traffic Signs Contract** - Follow up on Complaints Received

* The Auditor General also issued a supplementary report to summarize the overall key messages and themes common to both of the Toronto Police Service reports. The report was issued in June 2022 and entitled "Key Common Themes: Toronto Police Service – Audit of 911 Operations & Review of Opportunities to Support More Effective Responses to Calls for Service"

** Due to the municipal election, fewer reports were tabled in 2022 because there was no Audit Committee meeting in the second half of 2022.

2021

1. Getting to the Root of the Issues: A Follow-Up to the 2019 **Tree Maintenance Services Audit****
2. Toronto Business Improvement Areas (**BIAs**) **Accounts Payable Fraud** Investigation
3. Information Technology Projects Implementation: **Information Privacy and Cybersecurity Review of Human Resource System**
4. **Cybersecurity Incidents at the City and its Agencies and Corporations: Integrated Incident Response Plan is Needed**
5. **Winter Road Maintenance Program - Phase 2 Analysis: Deploying Resources**
6. **Toronto Police Service** Information Technology (IT) Infrastructure: **Cyber Security Assessment Phase 1**
7. City Needs to Improve **Software License** Subscription Tracking, Utilization and Compliance
8. **Supplementary Report: City Needs to Improve Software License** Subscription Tracking, Utilization and Compliance
9. Challenges in **Contract Management** - Auditor General's Review of the Corporate Real Estate Management Division
10. Investigation into **Allegations of Reprisal: Insufficient Evidence to Support Reprisal**
11. Results of Agreed-Upon Procedures to Assess Controls over **Pay and Display Credit Card Revenues**
12. Toronto **Fire Services Cybersecurity Assessment** – Vulnerability Assessment and Penetration Testing of Computer-Aided Dispatch System
13. Toronto Water Supervisory Control and Data Acquisition (**SCADA**) **System Security: Results of the Follow-Up of Previous Audit Recommendations**

14. **Toronto Community Housing Corporation** - Embedding Accountability into Service Delivery: Lessons Learned from the Audit of **Contracted Property Management Services**

2020*

1. **Cyber Safety – Critical Infrastructure Systems: Toronto Water SCADA System**
2. Audit of **Winter Road Maintenance Program** - Phase One: **Leveraging Technology** and Improving Design and **Management of Contracts to Achieve Service Level Outcomes**
3. Employee **Health Benefits Fraud** Involving a Medical Spa
4. Strengthening Accountability and **Outcomes for Affordable Housing**: Understanding the Impact of the Affordable Home Ownership Program
5. Continuous Controls Monitoring Program: Opportunities to **Reduce Cost of Dental Benefits**
6. Review of 260 Eighth Street **Land Transaction**: No Wrongdoing Identified
7. Getting at the Root of the Issues - A Follow-Up to 2019 **Tree Maintenance Services** Audit**

* The COVID-19 pandemic delayed some audits temporarily and other audits were deferred given the impact on operations and City staff time. This impacted the typical annual volume of audit and investigation reports for 2020. We conducted our 2020 City-Wide Risk and Opportunities assessment to set out the audit priorities for the next five years, and this is a significant undertaking completed by our Office every five years.

We also leveraged this time to implement a new electronic audit management system and continue the roll out of a newly implemented complaint management system. These modernization initiatives set the Auditor General's Office up well, not only for remote work during the current period with COVID-19, but also for the longer term.

** Due to the need to perform additional audit fieldwork to support the audit findings, this audit report was not issued in 2020, as reported in our 2021 budget report, but was issued in February 2021.

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. Review of **Toronto Transit Commission's Revenue Operations**: Phase Two – **PRESTO/TTC** Fare Equipment and PRESTO Revenue
10. **Fleet** Services Operational Review: Phase Two – Stronger **Asset Management** Needed
11. Safeguarding **Rent-Geared-to-Income Assistance**: Ensuring Only Eligible People Benefit
12. Cyber Safety: A Robust **Cybersecurity** Program Needed to Mitigate Current and Emerging Threats
13. **Investigation Into Allegations of Reprisal**: Reprisal Not Found, But Lessons Learned

14. Toronto **Building** Division: **Conditional Permits** – Follow-up Investigation⁷

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
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**

⁷ Although work was completed in 2019, due to a technical update, the report was issued at the February 10, 2020 Audit Committee

Exhibit 2: Composition of Auditor General's 2023 Base Budget

Salaries and benefits make up 88% of base budget	The Auditor General's 2023 Operating Base Budget request is \$7.35 million. Salaries and benefits make up about 88 per cent of the base budget.
7% 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 seven per cent of the budget.
3% of budget is for licences for Audit, Complaint and Investigation Management software	The Auditor General's Office uses software to effectively and efficiently administer the Fraud & Waste Hotline 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.
1.5% of base 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. 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. The costs associated with maintaining required levels of professional proficiency and professional certifications make up approximately 1.5 per cent of the Auditor General's budget.
Maintaining professional education requirements	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.

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