

# Analyst Briefing Notes

## Budget Committee - February 16, 2010

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## PART I: 2010 OPERATING BUDGET

### Executive Summary

- In May 2002, City Council approved an independent Auditor General's Office for the City of Toronto in conjunction with the implementation of a new audit framework. The *City of Toronto Act, 2006* (the *Act*) subsequently formalized the establishment of the Auditor General. Section 177 of the *Act* requires that "The City shall appoint an Auditor General".
- The Auditor General is independent from the City's administration and reports directly to City Council through the Audit Committee.
- The Analyst Notes present the 2010 Audit Committee Recommended Operating Budget for the Auditor General's Office.
- For 2009, the Auditor General is projecting net expenditures of \$4.307 million which are \$0.030 million or 0.7% below the 2009 Approved Budget of \$4.337 million. The projected year-end favourable variance is mainly due to salary savings relating to a staff member on maternity leave.

**Table 1: 2010 Audit Committee Recommended Budget**

	2009		2010 ACR Operating Budget			Change - 2010 ACR Budget v. 2009 Appvd. Budget		FY Incremental Outlook	
	2009 Appvd. Budget	2009 Projected Actual	2010 ACR Base	2010 ACR New/Enhanced	2010 ACR Budget			2011	2012
	\$	\$	\$	\$	\$	\$	%	\$	\$
<b>GROSS EXP.</b>	4,379.9	4,306.9	4,465.5	43.6	4,509.1	129.2	2.9	83.2	40.1
<b>REVENUE</b>	0.0	0.0	0.0	0.0	0.0	0.0	NA	0.0	0.0
<b>NET EXP.</b>	4,379.9	4,306.9	4,465.5	43.6	4,509.1	129.2	2.9	83.2	40.1
<b>Approved Positions</b>	29.0	29.0	29.0	0.6	29.6	0.6	2.1	0.0	0.0

*Note: ACR - Audit Committee Recommended*

- The 2010 Audit Committee Recommended Operating Budget for the Auditor General's Office of \$4.509 million net is \$0.130 million or 2.9% above the 2009 Approved Operating Budget.
- The 2010 Audit Committee Recommended Operating Budget includes new/enhanced service priority funding for .6 of one Administrative position (part-time) to assist with the Fraud and Waste Hotline unit, resulting in an increase to the staff complement from 29 to 29.6 approved positions.
- The 2010 Audit Committee Recommended Operating Budget for the Auditor General's Office results in incremental future year net increases to the Program of \$0.083 million in 2011 and \$0.040 million in 2012.

- The 2011 Outlook net increase of \$0.083 million includes COLA and progression pay increases.
- The 2012 Outlook anticipates incremental increases of \$0.040 million for progression pay increases.
- The 2010 Audit Committee Recommended Operating Base Budget provides funding for the following key cost drivers:
  - A Cost of living adjustment (COLA) of 1% for exempt staff and progression pay increases resulting in an increase to salaries and benefits of \$0.064 million.
  - Fringe benefit increases and salary adjustments resulting in an increase to salaries and benefits of \$0.022 million.
- The Program's 2010 Audit Committee Recommended Operating Budget includes no recommended service level changes.
- The 2010 Audit Committee Recommended Operating Budget for the Auditor General's Office provides funding to complete, continue and initiate the following activities:
  - Conduct audit projects identified by the Auditor General through the Auditor General's risk assessment process. Such projects are included in the Auditor General's annual work plan.
  - Conduct forensic investigations including those involving suspected fraudulent activities.
  - Conduct special assignments identified by the Auditor General, or approved by a two-thirds majority resolution of Council.
  - Oversee the work and the contract of the external auditors performing annual financial statement audits.
  - Manage the Fraud and Waste Hotline Program, including the investigation of complaints, as well as the referral of certain concerns and issues to divisional management.

**Audit Committee Recommendations**

1. Budget Committee consider, for recommendation to City Council, the 2010 Audit Committee Recommended Operating Budget for the Auditor General's Office of \$4.509 million gross and \$4.509 million net, comprised of the following service:

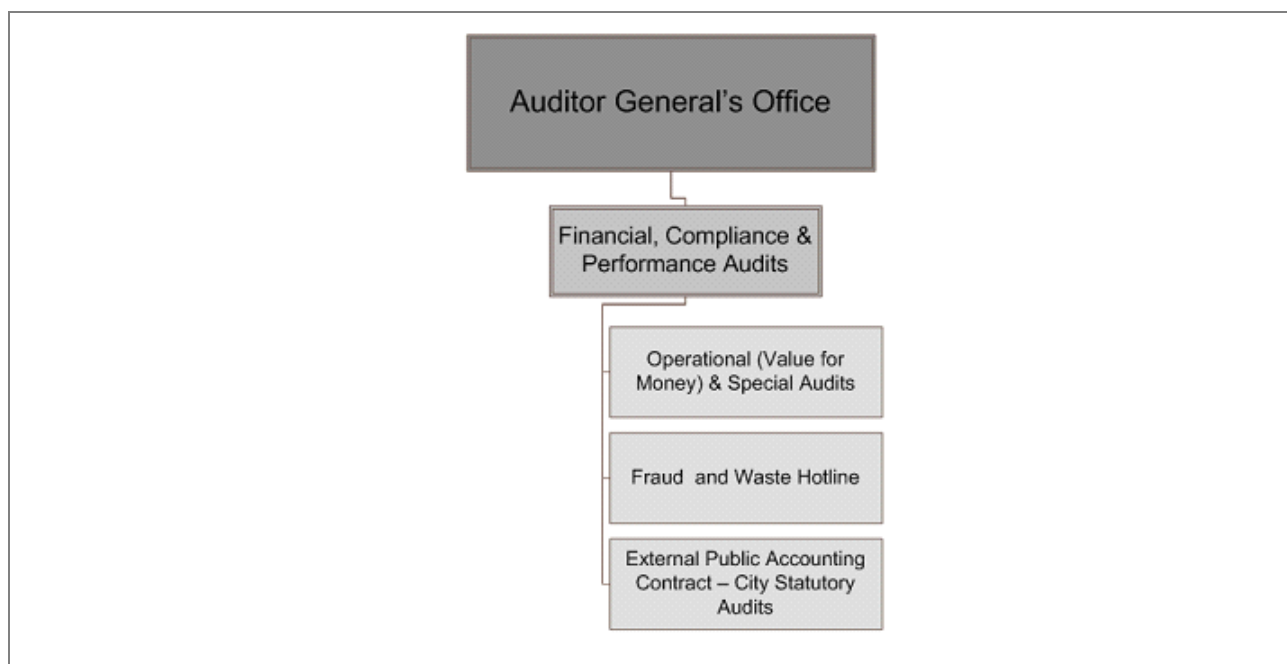
<u>Service:</u>	Gross <u>(\$000s)</u>	Net <u>(\$000s)</u>
Audit Services	4,509.1	4,509.1
Total Program Budget	4,509.1	4,509.1

## PART II: 2010 SERVICE OVERVIEW AND PLAN

### Mission Statement

To be recognized as a leading audit organization, respected by our clients and peers for excellence, innovation and integrity, in supporting the City of Toronto to become a world class organization.

### Program Map



#### *Financial, Compliance & Performance Audits*

The Auditor is appointed under section 177 of the *City of Toronto Act, 2006* and is responsible for carrying out financial (excluding attest), compliance and performance audits of all programs, activities and functions of all City divisions, the offices of the Mayor and members of Council, local boards (restricted definition) and City-controlled Corporations. Activities include:

- Operational (Value for Money) & Special Audits
  - Conducting Special Assignments requested by Council
  - Providing assurance that the information technology infrastructure contains adequate controls and security
  - Coordinating audit activities with the Internal Audit Division and any contracted work plus Internal Audit, Police and the Toronto Transit Commission (TTC).

- Fraud and Waste Hotline
  - Managing the Fraud and Waste Hotline
  - Conducting Forensic Investigations
  - Coordinating Investigations with City management
- External Public Accounting Contract – City Statutory Audits
  - Overseeing the work and the contract of the external auditors performing financial statement/attest audits of the City and its local boards
  - Maintaining regular ongoing contract with external audit firm to address issues and concerns

### **Service Objectives**

The service objectives for the Auditor General's Office focus on directing the appropriate audit resources to the areas which have the greatest risk and greatest amount of return to the City and supporting the Fraud and Waste Hotline. The following summarizes the Auditor General's service objectives:

- Auditing the high risk areas that provide the greatest return to the City.
- Ensuring that communication with the external auditors are properly managed and in compliance with the terms and conditions of the service agreement.
- Establishing and maintaining links and associations with various municipal audit administrators within Canada and throughout the United States.
- Ensuring that adequate organizational supports and quality assurance reviews required under GAAS are in place for ongoing auditing reviews.
- Completing the projects that have been identified in the Auditor General's annual work plan.
- Ensuring that all staff have the necessary technical tools and management skills to effectively carry out their duties and responsibilities.
- Following-up on recommendations made in prior audit reports with respect to City operations as well as Agencies, Boards and Commissions.
- Implementing proactive initiatives to assist in identifying areas of risk, with a view to preventing and detecting instances of fraud and other wrongdoing.
- Managing the increase in activity for the Fraud and Waste Hotline.

## PART III: 2009 EXPERIENCE

### 2009 Accomplishments

The Auditor General's Office major accomplishments for 2009 include:

- Auditor General' second External Quality Assurance Review
- Recieved Knighton Award from the Association of Local Government Auditors (ALGA)
- Coordinated completion of new service agreement for external audit services for five year period over 2010 and 2014
- Issued 11 major reports in 2008 containing 97 recommendations to improve divisional operations. Estimated savings form implementing these recommendations are in excess of \$3.5 million
- Follow up on all previously approved audit recommendations to ensure they have been implemented
- Completed a City wide Risk Assessment to identify audible units as high, medium and low risk
- Development of a System for Continuous Controls Monitoring Reports. This will assist to identify "red flags" for the detection of potential fraud or operational problems
- Completed pro-active Fraud Waste Hotline initiatives including a communications briefing package for management
- Reviewed long-term staffing levels for the Fraud and Waste Hotline

**Table 2: 2009 Budget Variance Review (\$000s)**

(In \$000s)	2008 Actuals	2009 Approved Budget	2009 Projected Actuals*	2009 Appvd. Budget vs Projected Actuals Variance	
	\$	\$	\$	\$	%
<b>GROSS EXP.</b>	4,148.7	4,336.9	4,306.9	(30.0)	(0.7)
<b>REVENUES</b>	0.0	0.0	0.0	0.0	0.0
<b>NET EXP.</b>	4,148.7	4,336.9	4,306.9	(30.0)	(0.7)
<b>Approved Positions</b>	29.0	29.0	29.0	0.0	0.0

\*Projected Actuals Based on the September 30, 2009 Variance Report

**2009 Budget Variance Analysis**

The Auditor General's Office Third Quarter Variance report projects that the Program will be \$0.030 million or 0.7% below the 2009 Approved Operating Budget of \$4.337 million by year-end.

- Under-expenditures are primarily attributed to savings in salary and benefits due one staff on maternity leave.

**Impact of 2009 Operating Variance on the 2010 Audit Committee Recommended Budget**

- There are no operating impacts arising from the 2009 Operating Variance on the 2010 Audit Committee Recommended Operating Budget.



## PART IV: 2010 AUDIT COMMITTEE RECOMMENDED BASE BUDGET

**Table 3: 2010 Audit Committee Recommended Base Budget (\$000s)**

	2009 Appvd. Budget	2010 ACR Base	Change 2010 ACR Base v. 2009 Appvd. Budget		FY Incremental Outlook	
					2011	2012
(In \$000s)	\$	\$	\$	%	\$	\$
<b>GROSS EXP.</b>	4,379.9	4,465.5	85.6	2.0	83.2	43.1
<b>REVENUE</b>	0.0	0.0	0.0	0.0	0.0	0.0
<b>NET EXP.</b>	4,379.9	4,465.5	85.6	2.0	83.2	43.1
<b>Approved Positions</b>	29.0	29.0	0.0	0.0	1.0	0.0

*Note: ACR - Audit Committee Recommended*

### ***2010 Audit Committee Recommended Base Budget***

The 2010 Audit Committee Recommended Base Budget of \$4.466 million net represents a \$0.086 million or 2% increase over the Auditor General's Office 2009 Approved Operating Budget of \$4.380 million. The 2010 Audit Committee Recommended Base Budget includes funding of \$0.086 million for base budget increases.

The 2010 Audit Committee Recommended Base Budget of \$4.466 million net includes no recommended service change savings.

The 2010 Audit Committee Recommended Base Budget accommodates increased labour costs arising from inflationary and progression pay increases.

The 2010 Audit Committee Recommended Base Budget includes \$0.483 million for external audit fees. This amount is subject to an adjustment pursuant to the request for proposal in process for a new five year term contract starting January 1, 2010. Refer to 2010 Budget Issues on page 13.

Approval of the 2010 Audit Committee Recommended Base Budget will result in no change to the Program's total staff complement of 29 approved positions. Approximately 95% of the budget is comprised of salaries and benefits. There are currently no vacancies.

### **2010 Base Budget Key Cost Drivers**

The 2010 Audit Committee Recommended Base Budget provides funding for the following key cost drivers:

- Cost of living allowance (COLA) 1% for exempt staff resulting in an increase of \$0.031 million.
- Progression pay increases of \$0.031 million.

- Fringe Benefit increase of \$0.018 million.
- Any reduction to service changes will result in lay offs.

**2010 Service Changes**

- The Auditor General's Office 2010 Audit Committee Recommended Operating Base Budget includes no recommended service change savings.

**2011 and 2012 Outlook: Net Incremental Impact**

Approval of the 2010 Audit Committee Recommended Operating Base Budget for the Auditor General's Office will result in a 2011 and 2012 incremental increase of \$0.083 million and \$0.040 million respectively to maintain the 2010 level of service and staff complement. Future year costs are primarily attributed to the following:

- The 2011 Outlook for the Auditor General's Office anticipates incremental net expenditure increases of \$0.083 million for COLA and progression pay increases.
- The 2012 Outlook anticipates incremental increases of \$0.040 million for progression pay increases.

**PART V: 2010 AUDIT COMMITTEE RECOMMENDED  
SERVICE CHANGES**

**2010 Service Changes**

The Audit Committee did not recommend any service level changes.

**PART VI:  
2010 AUDIT COMMITTEE RECOMMENDED  
NEW SERVICE PRIORITY ACTIONS**

**Table 5: 2010 New / Enhanced Service Priority Actions: Summary**

(In \$000s)

Description	2010 Operating			Net Incremental Impact			
	Gross Exp.	Net Exp.	New Positions	2011		2012	
	\$	\$	#	\$	# Pos	\$	# Pos
<b>Enhanced Services:</b>							
(a) Enhanced Services - Council Approved							
(b) Enhanced Services - Program Initiated Administrative Assistant	43.6	43.6	0.6				
<b>Sub-Total Enhanced Services</b>	<b>43.6</b>	<b>43.6</b>	<b>0.6</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>New Services:</b>							
(a) New Services - Council Approved							
(b) New Services - Program Initiated							
<b>Sub-Total New Services</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Total Enhanced/New Services</b>	<b>43.6</b>	<b>43.6</b>	<b>0.6</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

## 2009 Audit Committee Recommended New / Enhanced Service Priority Actions

### New Service Priority Actions

#### *Program Initiated*

*Administrative Assistant (\$0.044 million net, .6 of one permanent Administrative Assistant position (part-time))*

Funding in the amount of \$0.044 million gross and net is recommended by the Audit Committee to fund one part time (.6) administrative position to assist and address the significant increase in the Auditor General's Office due to the operation of the Fraud and Waste Hotline Program. The Administrative position will assist with the maintenance of records, issuing timely correspondence and inputting data related to complaint intake activities.

**PART VII: ISSUES FOR DISCUSSION****2010 Budget Issues****External Audit Services**

A report will be going forward to the Audit Committee on February 12, 2010, entitled “Results of Request for Proposal 9171-09-7137 External Audit Services for the City of Toronto and its Major Agencies, Boards, and Commissions’. The report recommends approval to enter into an agreement with Price WaterhouseCoopers LLP for external audit services for fiscal years 2010 through 2014. Approval of the report will result in 2010 budget savings of \$0.498 million city-wide. External audit costs are borne by various City Programs and agencies, boards and commissions. The estimated savings for the Office of the Auditor General is \$0.183 million in 2010. The estimated savings are not included in the 2010 Audit Committee Recommended Operating Budget.

## Appendix A

## 2010 Audit Committee Recommended Base Budget Changes vs. 2009 Approved Budget

(In \$000s)	Summary of 2010 Base Budget Adjustments				Net Incremental Outlook	
	Approved Positions	Gross Expenditures	Revenues	Net	2011	2012
		\$	\$	\$	\$	\$
<b>2009 Council Approved Operating Budget</b>	<b>29.0</b>	<b>4,336.9</b>	<b>0.0</b>	<b>4,336.9</b>	<b>0.0</b>	<b>0.0</b>
Ernst & Young - Contract Extension		43.0		43.0		
<b>2009 Approved Operating Budget</b>	<b>29.0</b>	<b>4,379.9</b>	<b>0.0</b>	<b>4,379.9</b>	<b>0.0</b>	<b>0.0</b>
Prior Year Impacts:						
Annualizations from Prior Year						
Reversals from Prior Year						
Operating Impacts of Capital						
Zero Base Items						
Economic Increases:						
Salary		62.0		62.0	83.2	40.1
Non Salary		1.6		1.6		
<b>Adjusted Base Budget</b>	<b>29.0</b>	<b>4,443.5</b>		<b>4,443.5</b>	<b>83.2</b>	<b>40.1</b>
Base Expenditure Changes		22.0		22.0		
Base Revenue Changes						
<b>2010 Base Budget Prior to Service Changes</b>	<b>29.0</b>	<b>4,465.5</b>	<b>0.0</b>	<b>4,465.5</b>	<b>83.2</b>	<b>40.1</b>
Operating Service Changes:						
Service Efficiencies						
Revenue Changes						
Minor Service Level Changes						
Major Service Level Changes						
<b>Total Audit Committee Recommended Operating Base</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>2010 Audit Committee Recommended Base Budget</b>	<b>29.0</b>	<b>4,465.5</b>	<b>0.0</b>	<b>4,465.5</b>	<b>83.2</b>	<b>40.1</b>

**Appendix C**

**Summary of 2010 Audit Committee Recommended Budget  
New/Enhanced Service Priority Actions**

## Appendix D

## Program Summary by Expenditure Category

<b>CLUSTER: Other City Programs</b> <b>PROGRAM: Auditor General's Office</b>							
	2009 Approved Budget	2009 Projected Actuals	2010 Audit Committee Rec. Budget	Change from 2009 Approved Budget		2011 Outlook	2012 Outlook
	\$	\$	\$	\$	%	\$	\$
Salaries and Benefits	3,759.8	3,770.1	3,887.5	127.7	3.4%	3,970.8	4,010.9
Materials and Supplies	15.4	7.3	15.6	0.2	1.3%	16.0	16.0
Equipment	8.4	5.8	8.6	0.2	2.4%	8.7	8.7
Services & Rents	567.9	535.5	569.0	1.1	0.2%	569.0	569.0
Contributions to Capital	0.0	0.0	0.0	0.0	n/a	0.0	0.0
Contributions to Reserve/Res Funds	8.0	6.4	6.4	(1.6)	(20.0%)	6.4	6.4
Other Expenditures	0.0	0.0	0.0	0.0	n/a	0.0	0.0
Interdivisional Charges	22.1	22.5	22.1	0.0	0.0%	22.5	22.5
<b>TOTAL GROSS EXPENDITURES</b>	4,381.6	4,347.6	4,509.2	127.6	2.9%	4,593.4	4,633.5
Interdivisional Recoveries	0.0	0.0	0.0	0.0	n/a	0.0	0.0
Provincial Subsidies	0.0	0.0	0.0	0.0	n/a	0.0	0.0
Federal Subsidies	0.0	0.0	0.0	0.0	n/a	0.0	0.0
Other Subsidies	0.0	0.0	0.0	0.0	n/a	0.0	0.0
User Fees & Donations	0.0	0.0	0.0	0.0	n/a	0.0	0.0
Transfers from Capital Fund	0.0	0.0	0.0	0.0	n/a	0.0	0.0
Contribution from Reserve Funds	0.0	0.0	0.0	0.0	n/a	0.0	0.0
Contribution from Reserve	0.0	0.0	0.0	0.0	n/a	0.0	0.0
Sundry Revenues	0.0	0.0	0.0	0.0	n/a	0.0	0.0
<b>TOTAL REVENUE</b>	0.0	0.0	0.0	0.0	n/a	0.0	0.0
<b>TOTAL NET EXPENDITURES</b>	4,381.6	4,347.6	4,509.2	127.6	2.9%	4,593.4	4,633.5
<b>APPROVED POSITIONS</b>	29.0	29.0	30.0	1.0	3.4%	30.0	30.0



## Appendix E

### Inflows / Outflows to / from Reserves & Reserve Funds

Reserve / Reserve Fund Name (In \$000s)	Reserve / Reserve Fund Number	Balance as of December 2009	Proposed Withdrawals (-) / Contributions (+)		
			2010	2011	2012
		\$	\$	\$	\$
Insurance Reserve Fund	XR1010	32,534.1	6.4		
<b>Total Reserve / Reserve Fund Draws / Contributions</b>			<b>6.4</b>	<b>0.0</b>	<b>0.0</b>