

# Analyst Briefing Notes

## Budget Committee

(January 28, 2008)

**2008 OPERATING BUDGET**

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## 2008 OPERATING BUDGET

### Executive Summary

- The 2007 preliminary year-end net expenditure of \$3.920 million is \$0.068 million or 1.7% is projected to be under the 2007 Approved Budget as per the 3<sup>rd</sup> Quarter Variance Report. This is mainly due to the delay in filling one vacant position and savings in business travel and staff training.
- The 3-Year Operating Budget for the Auditor General's Office will be focusing on directing audit resources to the areas which have the greatest risk and greatest amount of return to the City.
- The Auditor General's Office challenges include:
  - Allocating appropriate resources to perform audits and follow up on previous audit recommendations.
  - The activity relating to the Fraud and Waste Hotline has increased significantly and requires additional resources to investigate the calls.
- The 2008 Recommended Operating Budget of \$4.147 million is \$0.159 million or 4.0% over the 2007 Approved Operating Budget of \$3.988 million and will provide the same level of service in 2008 as in 2007.

**Table 1: 2008 Recommended Budget**

(In \$000s)	2007		2008 Recommended Operating Budget			Change - 2008 Recommended from 2007 Approved Budget		FY Incremental Outlook	
	2007 Approved Budget	2007 Projected Actual	2008 Base	2008 New /Enhanced	2008 Operating Budget			2009	2010
	\$	\$	\$	\$	\$	\$	%	\$	\$
<b>GROSS EXP.</b>	3,988.8	3,920.4	4,147.4	0.0	4,147.4	158.6	4.0	59.1	65.1
<b>REVENUE</b>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>NET EXP.</b>	3,988.8	3,920.4	4,147.4	0.0	4,147.4	158.6	4.0	59.1	65.1
<b>Approved Positions</b>	29.0	29.0	29.0	0.0	29.0	0.0	0.0	0.0	0.0
<b>TARGET</b>			<b>3,988.8</b>		<b>3,988.8</b>				
<b>\$ Over / (Under) Program Target</b>			<b>158.6</b>		<b>158.6</b>				
<b>% Over / (Under) Program Target</b>			<b>4.0%</b>		<b>4.0%</b>				

- The 2008 Recommended Operating Budget of \$4.147 million net is comprised of base funding of \$4.147 million and no new/enhanced service priorities. The base funding increase of \$0.159 million is primarily due to an increase in Cost-of-Living Adjustments (COLA) of \$0.090 million and merit and step increases of \$0.050 million.
  - The 2009 Outlook includes an increase of \$0.059 million for merit and step increases, reduced by one working day. The 2010 Outlook includes an estimate for merit and step increases in the amount of \$0.65 million.
- The 2008 Recommended Base Budget provides funding to maintain the same level of service as in 2007. The Auditor General's Office will continue to conduct operational audits, conduct forensic investigations and manage and support the Fraud and Waste Hotline.

### **Recommendations**

The City Manager and Chief Financial Officer recommend that:

1. the 2008 Recommended Operating Budget for the Auditor General's Office of \$4.147 million gross and \$4.147 million net, comprised of the following service, be approved:

<u>Service:</u>	Gross <u>(\$000s)</u>	Net <u>(\$000s)</u>
Audit Services	4,147.4	4,147.4
Total Program Budget	4,147.4	4,147.4

## Section A: 2007 Budget Variance Analysis

**Table 2: 2007 Budget Variance Review**

	2006 Actuals	2007 Approved Budget	2007 Projected Actuals*	2007 Appvd. Budget vs Projected Actuals Variance	
(In \$000s)	\$	\$	\$	\$	%
<b>GROSS EXP.</b>	3,845.6	3,988.8	3,920.4	(68.4)	(1.7)
<b>REVENUES</b>	0.0	0.0	0.0	0.0	0.0
<b>NET EXP.</b>	3,845.6	3,988.8	3,920.4	(68.4)	(1.7)
<b>Approved Positions</b>	29.0	29.0	29.0	0.0	0.0

Source: \*Projected Actuals Based on the September 30, 2007 Variance Report.

### 2007 Experience

The Auditor General's Office's project to year end is \$3.920 million based on the third quarter variance report. This represents a favourable variance of \$0.068 million or 1.7% under the 2007 Approved Operating Budget.

The net favourable variances are attributed to:

- Delay in filling one vacancy.
- Cost containment measures primarily attributed to savings in staff training, business travel and supplies.

### 2007 Cost Containment Savings

- The Auditor General's Office expects to achieve cost containment savings of \$0.039 million in 2007 through the measures itemized in the table below.

Net Cost Containment Savings	2007 (\$000s) Savings	2008 (\$000s) Continued Savings	Comments
<b>Hiring Freeze Savings:</b>			
<b>Sub-total</b>	<b>0.0</b>	<b>0.0</b>	
<b>Service Level Adjustments:</b>			
<b>Sub-total</b>	<b>0.0</b>	<b>0.0</b>	
<b>Discretionary Savings:</b>			
Reduction in Business Travel	5.2		
Reduction in Equipment	2.7		
Reduction in Supplies	7.0		
Miscellaneous(Primarily staff training)	24.2		
<b>Sub-total</b>	<b>39.1</b>	<b>0.0</b>	
<b>TOTAL COST CONTAINMENT</b>	<b>39.1</b>	<b>0.0</b>	

### Impact of 2007 Operating Variance on the 2008 Recommended Budget

There are no impacts of the 2007 Operating Variance on the 2008 Recommended Budget. The 2007 cost containment measures have not been continued into 2008.

**Section B: 2008 Operating Budget Overview****3-Year Operating Budget Overview**

- The 3-Year Operating Budget for the Auditor General's Office will be focusing on:
  - Allocating the appropriate audit resources in the areas which are the highest risk or provide the greatest return to the City.
  - Completing a formal follow-up process for City Local board audit recommendations and for City program audit recommendations from prior audit reports.
  - Reviewing resources to address future staffing to maintain the current and future demands relating to the increase in activity for the Fraud Waste Hotline.
  - Conducting Information and Technology reviews.
  - Conducting special assignments and forensic investigations.
  - Improving internal controls.
- The Auditor General's Office annual work plans are developed based on a Corporate-wide risk assessment and priority setting exercise. The Auditor General directs audit resources to highest risk areas that provide the greatest value to the City.
- The Auditor General's Office will be evaluating the adequacy of the City's policies and systems of internal control, from a financial and an operational perspective. The Auditor General will also be conducting forensic investigations in areas suspected of fraudulent activities and misuse of City resources.
- The Auditor General's Office 2008 Recommended Operating Budget is \$0.159 million or 4.0% over the 2008 Approved Budget. Service levels delivered in 2008 will be essentially the same as in 2007.

**Challenges and Issues**

The mission of the Auditor General's Office is:

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.

The Auditor General's Office is faced with a number of challenges which include:

- Managing the Fraud Waste Hotline Activity which has increased significantly requiring an increase in administrative and audit time to operate and conduct investigations.
- The increase in resources being devoted to the formal process of following-up on all previously issued audit reports to ensure that the recommendations were properly implemented.

- Allocating adequate resources to ensure that the appropriate level of auditing is conducted for the City. This includes special requests approved by Council and reviews of City agencies at the request of their boards. The agencies include the Toronto Police Services, Toronto Public Library Board and Toronto Board of Health.
- The Auditor General has been designated to be the City's representative under the shareholder directions of Toronto Hydro, Toronto Community Housing Corporation and their subsidiaries. This will require allocating appropriate resources.

**Strategic Priorities**

- The Auditor General's Office will be completing a comprehensive City-wide risk assessment. This is a significant exercise that is done, in detail, every five years. The exercise assists the Auditor General in prioritizing potential audits, assessing the level of risk and evaluating the liabilities to the City. Performing the assessment provides the Auditor General the ability to allocate audit resources and ensure that the level of auditing is appropriate for the City.
- Implementing proactive Fraud Hotline initiatives to eliminate fraud and provide management with effective fraud deterrent solutions.



### Section C: 2008 Recommended Base Budget

**Table 3: 2008 Recommended Base Budget**

(In \$000s)	2007 Approved. Budget	2008 Recommended Base	Change 2008 Recommended Base vs. 2007 Approved Budget		FY Incremental Outlook	
					2009	2010
	\$	\$	\$	%	\$	\$
<b>GROSS EXP.</b>	3,988.8	4,147.4	158.6	4.0	59.1	65.1
<b>REVENUE</b>	0.0	0.0	0.0	0.0	0.0	0.0
<b>NET EXP.</b>	3,988.8	4,147.4	158.6	4.0	59.1	65.1
<b>Approved Positions</b>	29.0	29.0	0.0	0.0	0.0	0.0
<b>NET TARGET</b>		<b>3,988.8</b>			<b>0.0</b>	<b>0.0</b>
<b>\$ Over / (Under) Program Target</b>		<b>158.6</b>			<b>59.1</b>	<b>65.1</b>
<b>% Over / (Under) Program Target</b>		<b>4.0%</b>			<b>1.48%</b>	<b>1.63%</b>

### 2008 Recommended Base Budget

- The 2008 Recommended Base Budget of \$4.147 million net represents a 4.0% or \$0.159 million increase over the 2007 Approved Base Budget for the Auditor General's Office and provides the same level of service as in 2007.

### 2008 Key Cost Drivers and Reduction Strategies

The 2008 key cost drivers for the Auditor General's Office include:

- Cost-of-Living-Adjustment (COLA) of \$0.090 million.
- Merit and Step increases of \$0.050 million.
- Salary adjustments of \$0.019 million and non-salary adjustments of \$0.013 million

### 2009 and 2010 Outlook: Net Incremental Impact

The 2009 Outlook includes \$0.059 million for preliminary merit/step estimates, reduced by one working day. The 2010 Outlook includes a merit/step estimate of \$0.065 million.

**Section E: Issues for Discussion****2008 Operating Budget Issues**

The five-year contract with Ernst & Young LLP for external services is set to expire with the completion of the 2007 financial statement audit. A report titled "External Audit Services Contract – Request for Extension" requesting authority to allow the Auditor General, in consultation, with the Treasurer, to negotiate a two year contract extension with Ernst & Young LLP was approved by Council at its meeting of December 11, 12 and 13, 2007.

City staff are currently working on a number of major projects, some of which include the Capital Asset Accounting System and the Document Management System projects. Ernst & Young are familiar with the projects as well as the City's internal controls. An extension of the existing contract will avoid retraining prior to completing these major projects. Note: Any changes to the contract costs have not been included in the Auditor General's 2008 Recommended Operating Budget.

# Appendix 1

## Summary of Recommended Base Budget Changes From 2007 Approved Budget

(In \$000s)	Summary of 2008 Base Budget Adjustments				Net Incremental Outlook	
	Approved Positions	Gross Expenditures	Revenues	Net	2009	2010
		\$	\$	\$	\$	\$
<b>2007 Council Approved Operating Budget</b>	<b>29.0</b>	<b>3,988.4</b>	<b>0.0</b>	<b>3,988.4</b>	<b>0.0</b>	<b>0.0</b>
Reallocation of Insurance from Non-Program Corporate adjustments	0.0	0.4	0.0	0.4		
<b>2007 Approved Operating Budget</b>	<b>29.0</b>	<b>3,988.8</b>	<b>0.0</b>	<b>3,988.8</b>	<b>0.0</b>	<b>0.0</b>
Prior year impacts						
Zero base items				0.0		
Economic factors		192.3	0.0	192.3	59.1	65.1
<b>Adjusted Base Budget</b>	<b>29.0</b>	<b>4,181.1</b>	<b>0.0</b>	<b>4,181.1</b>	<b>59.1</b>	<b>65.1</b>
Other base changes	0.0	(33.7)	0.0	(33.7)		
Base revenue changes						
Recommended Service Level Adjustments:						
Service efficiencies						
Revenue adjustments						
Minor service impact						
Major service impact						
<b>Total Recommended Base Adjustments</b>	<b>0.0</b>	<b>(33.7)</b>	<b>0.0</b>	<b>(33.7)</b>	<b>0.0</b>	<b>0.0</b>
<b>2008 Recommended Base Budget</b>	<b>29.0</b>	<b>4,147.4</b>	<b>0.0</b>	<b>4,147.4</b>	<b>59.1</b>	<b>65.1</b>
<b>2008 Program Operating Target</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>3,988.8</b>	<b>0.0</b>	<b>0.0</b>
<b>% Over (Under) Program Target</b>				<b>4.0%</b>	<b>1.5%</b>	<b>1.63%</b>
<b>% Over (Under) 2007 Appvd. Budget</b>				<b>4.0%</b>	<b>1.5%</b>	<b>1.63%</b>

## Appendix 4

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

Reserve / Reserve Fund Name	Reserve / Reserve Fund Number	Balance as of December 2007	Proposed Withdrawals (-) / Contributions (+)		
			2008	2009	2010
		\$	\$	\$	\$
Insurance Reserve Fund	XR1010	28,136.6	5.6	0.0	0.0
<b>Total Reserve / Reserve Fund Draws / Contributions</b>		<b>28,136.6</b>	<b>5.6</b>	<b>0.0</b>	<b>0.0</b>