



Internal Audit: 2017 Budget

Item 3A

November 17, 2016

Building Investment, Finance and Audit Committee

Report:	BIFAC:2016-151
To:	Building Investment, Finance and Audit Committee (BIFAC)
From:	Chief Internal Auditor
Date:	October 26, 2016

PURPOSE:

To provide the Building Investment, Finance and Audit Committee (“the Committee”) with the 2017 Internal Audit Department budget (“the 2017 Budget”).

RECOMMENDATIONS:

It is recommended that the Committee approve the 2017 Budget.

REASONS FOR RECOMMENDATIONS:

Internal Audit Department

The Internal Audit Department consists of three distinct functions – (i) Internal Audit; (ii) Investigations; and (iii) Employee Expense Control Clerk.

Internal Audit

The Internal Audit function (“Internal Audit”) is an independent, objective assurance and consulting activity designed to add value and improve the organization’s operations. It helps TCHC to accomplish its objectives by bringing a systemic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Internal Audit promotes continuous improvement by evaluating the adequacy and effectiveness of internal controls, identifying significant risk exposures, and monitoring and evaluating the effectiveness of TCHC’s risk management systems in TCHC related to:

- Adequacy, reliability, and integrity of financial and operational information;
- Compliance with contracts, policies, plans, procedures, laws and regulations;
- Achievement of established objectives and goals;
- Economical and efficient management of resources; and
- Safeguarding of assets.

In addition, Internal Audit provides consultation services to management on a regular basis.

Investigations

In general, Investigations is responsible for:

- Conducting investigations about tenants, employees and contractors;
- Overseeing the operation of TCHC Do What's Right fraud hotlines;
- Educating staff on matters related to ethical conduct;
- Providing subject matter expertise in policy and procedures development; and
- Developing a network of contacts with law enforcement, other government agencies and organizations, and other regulatory bodies.

Employee Expense Control Clerk

This position is responsible for reviewing all TCHC employee expense claims for accuracy and compliance with TCHC expense policies prior them being sent to Accounts Payable for processing. The position also frequently educates staff on the nuances of the various employee expense policies.

Staff Complement

The staff complement of the Internal Audit Department consists of a Full Time Equivalent (FTE) of 10 staff. The Internal Audit organization chart is set out in **Attachment 1** to this report.

2017 Budget Request

The table below sets out the proposed 2017 Budget for the Internal Audit Department:

	2016 Budget	2016 Forecast	2017 Budget	2017 % Increase
Salaries	837,517	834,922	858,956	2.6%
Benefits	226,967	236,525	223,557	(1.5)%
Other Expenses	<u>60,843</u>	<u>56,694</u>	<u>60,843</u>	0.0%
Total	<u>1,125,327</u>	<u>1,128,141</u>	<u>1,143,356</u>	1.6%

The 2017 Budget represents a 1.6% increase over the 2016 Budget.

Salaries

Though the 2017 salaries budget represents an increase of 2.6% over the 2016 Salaries Budget, it does not reflect any additional staff. The staffing complement remains at 10 FTEs.

The 2.6% increase is comprised solely of annual salary increases anticipated to be approved by the TCHC Board in 2017.

Benefits

The 2017 Benefits Budget has decreased by 1.5%.

As has been noted in previous budget reports to the Committee, the TCHC Finance Department requires all departments to calculate their Benefits costs as a % of budgeted salaries.

In 2016, that percentage was 27.1%. In 2017, we have been instructed to use 26.03%.

Other Expenses

Other Expenses include such items as:

- Staff training and tuition;
- Mileage charges and other staff travel;
- Professional development courses and conferences;
- Overhead items (office supplies etc.);
- Cell phones; and
- The annual fee to operate the TCHC Fraud Hotline.

These expenses are essentially non-discretionary. They are necessary to operate the department. It should be noted that Other Expenses represents only 5.3% of the total Internal Audit budget.

We have requested no increase in the 2017 Other Expenses budget from what was approved in 2016.

Administrative Audit Assistants

At the Committee's October 19, 2016 meeting it approved Asset Management's request to

- Revise the internal process of reviewing RGI calculations to a sample based program;
- Transfer responsibility for the revised RGI calculation review program from the Program Services Department of Asset Management to Internal Audit; and
- Transfer three Administrative Audit Assistant¹ positions from Program Services to Internal Audit in order to continue the revised RGI calculation review program.

The actual timing of the transfer of the three positions to Internal Audit has not yet been finalized. As such, and in consultation with the TCHC Chief Financial Officer (interim), those three positions have NOT been included in the 2017 budget request. They will remain in the Program Services 2017 budget until the transfer has been finalized. At that time, we will present a revised budget to the Committee reflecting the addition positions in Internal Audit.

We would like to emphasize that the transfer of these three positions from Program Services to Internal Audit represents no increase in TCHC's FTEs. It is simply a transfer of budget money from one department to another.

Chief Financial Officer Support

The 2017 Budget has been reviewed by the TCHC Executive Leadership Team, which includes the TCHC Chief Financial Officer (interim). The Executive Leadership Team is supportive of the 2017 Internal Audit Budget being presented to the Committee.

IMPLICATIONS AND RISKS:

The 2017 Internal Audit Budget attempts to strike a balance between cost and benefit, taking into consideration the limited resources available to the organization.

SIGNATURE:

"Michael Vear"

Michael Vear, CPA, CA, CPA (Illinois)
Chief Internal Auditor

¹ The Administrative Audit Assistant position conducts the RGI calculation reviews.

ATTACHMENT:

1. Internal Audit Department – Organization Chart – October 26, 2016

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Internal Audit Department Organization Chart - October 16, 2016

