TO: Chair and Members
Audit, Finance and Administration Committee
WARD(S) AFFECTED: CITY WIDE

COMMITTEE DATE: October 4, 2012

SUBJECT/REPORT NO:
Value for Money Audit Program (AUD12019) (City Wide)

SUBMITTED BY:
Ann Pekaruk
Director, Audit Services
City Manager's Office

PREPARED BY:
Ann Pekaruk 905-546-2424 x4469

SIGNATURE:

RECOMMENDATION

(a) That Report AUD12019, respecting the Value for Money Audit Program, be received;

(b) That the City retain a search firm to provide suitable candidates for hire for the Value for Money Audit Program and that its fee be paid first from salary gapping in the Audit Services’ budget and then, if needed, from the initial reserve funding previously provided for by Council in the 2012 Audit Services’ budget;

(c) That Council approve an additional amount of up to a maximum of $177,790 from the Tax Stabilization Reserve to run the program through the 2013 fiscal year; and

(d) That the Director of Audit Services report back to the Audit, Finance and Administration Committee once the appropriate staff have been hired and a work plan has been developed.
EXECUTIVE SUMMARY

In June, 2012, Council approved a hybrid Auditor General model and the implementation of a Value for Money audit program. Initial funding was based on the hiring of two temporary contract positions. Job postings of the positions did not produce any suitable applicants. Staff are recommending the use of a search firm to provide qualified candidates with the fee (estimated at approximately $50,000 to $60,000) to be paid from gapping in the 2012 Internal Audit budget and the initial reserve funding provided to Audit Services for the Value for Money audit program.

In addition, Council is being asked to provide funding up to a maximum of $177,790 from the Tax Stabilization Reserve in order to continue the program throughout 2013 and realize its benefits. This would also improve the prospects for hiring qualified staff for a longer period.

Alternatives for Consideration – See Page 5

FINANCIAL / STAFFING / LEGAL IMPLICATIONS (for Recommendation(s) only)

Financial: Funding for the fee of a search agency, estimated at $50,000 to $60,000, would be provided from salary gapping in the Audit Services' budget and from the approved 2012 budget (from reserves) for the Value for Money audit program. In order to run the program for a reasonable time (to the end of 2013) to realize its benefits, a maximum of $177,790 is requested from reserves.

Staffing: This process would result in the hiring of two experienced value for money auditors to carry out the Value for Money audit program.

Legal: None.

HISTORICAL BACKGROUND (Chronology of events)

In June, 2012, Council approved the hiring of two contract positions in order to implement a Value for Money audit program. The jobs were posted in late July, 2012 on the City’s website (external and intranet) and on the website of a municipal auditors’ organization. Although over 50 applications were received, after pre-screening by Human Resources and Audit Services, it was determined that there were no adequately experienced applicants.

Council approved approximately $144,000 from the tax stabilization reserve. This represented five months of program operations. Due to staff hiring difficulties, the program has not yet been implemented.
POLICY IMPLICATIONS

None.

RELEVANT CONSULTATION

Aspects of this report were discussed with appropriate staff in Human Resources, the City Manager and the General Manager of Finance and Corporate Services.

ANALYSIS / RATIONALE FOR RECOMMENDATION

With the approval of the hybrid Auditor General model and the addition of value for money audits to the Audit Services Division’s work plan in June, 2012, the recruitment of two performance auditors (temporary contract) was provided for in Internal Audit’s budget in the amount of $143,880 representing salaries and benefits (for five months), $20,000 of consulting fees and $10,000 for one-time space allocation.

In late July, the two performance auditor positions were posted on the City’s website (both external and intranet) as well as on the website of an association of municipal auditors. Over 50 applications were received.

After pre-screening by both Human Resources and the Director of Audit Services, it was determined that there were no suitable candidates who had indicated adequate knowledge and experience in value for money auditing.

In order to proceed with the implementation of the value for money audit program, the search for qualified staff must first be completed. As the initial posting did not result in a suitable pool of candidates from which to select such employees, staff are recommending the use of a recruitment/search firm to provide such a pool. There are several such firms which are geared to auditing professionals. Only qualified candidates pre-screened in based on specific attributes provided by the City would be presented for hiring, saving time and staff resources. The staff that would be hired would already be experienced in the field and their knowledge could be further expanded as an inside resource. However, with this method, comes a placement fee of 25-30% of the hiring salary which, in the City’s case of two individuals, would total a fee of approximately $50,000 to $60,000.
As funding had been provided in the 2012 budget to run the value for money program but there has not been the opportunity to start it, staff are suggesting that these funds, if needed, beyond the salary gapping in the Audit Services’ budget, be used to pay the fees of the search firm.

Program Funding
In the 2012 budget process, $143,880 was set aside in the Tax Stabilization Reserve for the 2012 (five months) Value for Money audit program. In addition, $78,830 has been identified in salary gapping for the established Internal Audit program, in all providing $222,710 in approved available funding. If Council approves the use of a search agency, its fees estimated at $60,000 can be paid from this available funding. Working under the assumption that two value for money auditors can be in place by November, the operating costs of the balance of 2012 would also come from the $222,710.

As two months of the Value for Money audit program does not provide enough time to generate any reasonable results on which to base an evaluation of the program, funding for a further one year period (2013) would be necessary, accounting for costs of about $286,300. This results in an overall shortfall for the 14-month program costs of approximately $177,790 (see chart below). Staff are requesting that this amount be set aside from the Tax Stabilization Reserve.

<table>
<thead>
<tr>
<th>FUNDING SOURCES:</th>
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<tbody>
<tr>
<td>Identified Salary Gapping</td>
<td>$ 78,830</td>
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<tr>
<td>Approved Reserve Funding</td>
<td>143,880</td>
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<tr>
<td>Approved Available Funds</td>
<td>$222,710</td>
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</tbody>
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<table>
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<tr>
<th>USE OF FUNDING:</th>
<th></th>
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<tbody>
<tr>
<td>Search Agency Fees</td>
<td>$ 60,000</td>
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<tr>
<td>Value for Money Program (2012 – 2 months)</td>
<td>54,200</td>
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<tr>
<td>Value for Money Program (2013 – 12 months)</td>
<td>286,300</td>
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<tr>
<td>Total Funding Required</td>
<td>(400,500)</td>
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<tr>
<td>Shortfall (Maximum)</td>
<td>($177,790)</td>
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ALTERNATIVES FOR CONSIDERATION
(include Financial, Staffing, Legal and Policy Implications and pros and cons for each alternative)

Among the various options for the hiring of the performance auditors for the Value for Money audit program are:

a) Retain a search firm to provide suitable candidates. This would cost approximately $50,000 to $60,000 that could be covered by the salary gapping in the Internal Audit budget and/or the 2012 approved reserve funding for the program. This is staff’s recommended process due to time and staff savings and due to the fact that staff experience and knowledge would remain internal to the City.

b) Re-post the job offering. This process is not recommended as it would be a time waster and most likely would provide the same applicants.

c) Issue a Request for Proposal (RFP). Even though this process may provide experienced personnel, they would not be City employees (consultant’s staff) and their knowledge and experience would not be retained within the organization. This process would consume significant time to write the terms of RFP, allow time for responses, evaluate the proposals and negotiate the terms. This option is not recommended.

CORPORATE STRATEGIC PLAN  (Linkage to Desired End Results)


Financial Sustainability

- Delivery of municipal services and management of capital assets/liabilities in a sustainable, innovative and cost effective manner.

Skilled, Innovative and Respectful Organization

- A skilled, adaptive and diverse workforce, i.e. more flexible staff.

APPENDICES / SCHEDULES

None

ap:dt