



AGENDA

AUDIT COMMITTEE

January 26, 2018, 9:30 AM
IN THE COUNCIL CHAMBER
Members

Councillor E. Woolley, Chair
Councillor G. Chahal, Vice-Chair
Councillor J. Farkas
Councillor D. Farrell
Citizen Representative L. Caltagirone
Citizen Representative M. Dalton
Citizen Representative M. Lambert
Mayor N. Nenshi, Ex-Officio

1. CALL TO ORDER
2. OPENING REMARKS
3. CONFIRMATION OF AGENDA
4. CONFIRMATION OF MINUTES
 - 4.1 Minutes of the Regular Meeting of the Audit Committee, 2017 December 14
5. POSTPONED REPORTS
(including related/supplemental reports)
None
6. ITEMS FROM OFFICERS, ADMINISTRATION AND COMMITTEES
 - 6.1 Corporate Credit Card (Data Analytics) Audit, AC2018-0035
 - 6.2 Green Line Engagement Audit, AC2018-0088
 - 6.3 External Auditor 2016 Management Letter Update, AC2018-0026
 - 6.4 Audit Committee 2017 Year-End Annual Status Report, AC2018-0040
 - 6.5 Audit Committee 2018 April Meeting Date Change, AC2018-0027

- 6.6 Annual Principal Corporate Risk Report, AC2018-0066
All attachments held confidential pursuant to Section 24 of FOIP

7. ITEMS DIRECTLY TO COMMITTEE

- 7.1 REFERRED REPORTS
None

- 7.2 NOTICE(S) OF MOTION
None

8. URGENT BUSINESS

9. CONFIDENTIAL ITEMS

9.1 ITEMS FROM OFFICERS, ADMINISTRATION AND COMMITTEES

- 9.1.1 External Auditor - Provision of Additional Services - AC2018-0064
Held confidential pursuant to Sections 16 and 24 of FOIP
- 9.1.2 Audit Forum (Verbal Report) - AC2018-0028
Held confidential pursuant to Sections 24 and 26 of FOIP
- 9.1.3 City Auditor 2018 City Auditor (Verbal Report) - AC2018-0029
Held confidential pursuant to Section 24 and 26 of FOIP
- 9.1.4 External Auditor (Verbal Report) - AC2018-0030
Held confidential pursuant to Sections 24 and 26 of FOIP
- 9.1.5 City Auditor Performance Review (Verbal Report) - AC2018-0071
Held confidential pursuant to Sections 17 and 19 of FOIP

9.2 URGENT BUSINESS

10. ADJOURNMENT



**MINUTES
AUDIT COMMITTEE**

**December 14, 2017, 9:30 AM
IN THE COUNCIL CHAMBER**

PRESENT: Councillor E. Woolley, Chair
Councillor G. Chahal, Vice-Chair
Councillor J. Farkas
Councillor D. Farrell
Citizen Representative L. Caltagirone
Citizen Representative M. Dalton
Citizen Representative M. Lambert

ALSO PRESENT: Chief Financial Officer E. Sawyer
City Auditor K. Palmer
Executive Assistant C. Smillie
Legislative Assistant L. McDougall
Acting City Clerk D. Williams

1. CALL TO ORDER

Acting City Clerk Williams called the Audit Committee meeting to order at 9:30 a.m.

2. ELECTION OF CHAIR

Following nomination procedures, Councillor Woolley was elected Chair, to the Audit Committee, by acclamation.

3. ELECTION OF VICE-CHAIR

Following nomination procedures, Councillor Chahal was elected Vice-Chair, to the Audit Committee, by acclamation.

4. OPENING REMARKS

Councillor Woolley welcomed all present and new members of the Audit Committee to the first meeting of the Audit Committee following the election of the new Council

5. CONFIRMATION OF AGENDA

Moved by Citizen Representative Dalton

CONFIRM AGENDA, that the Agenda for the
2017 December 14 Regular Meeting of the Audit Committee be confirmed.

MOTION CARRIED

6. CONFIRMATION OF MINUTES

6.1 MINUTES OF THE REGULAR MEETING OF THE AUDIT COMMITTEE, 2017
SEPTEMBER 14

Moved by Citizen Representative Dalton

That the Minutes of the Regular Meeting of the Audit Committee, dated 2017
September 14 be approved.

MOTION CARRIED

7. ITEMS FROM OFFICERS, ADMINISTRATION AND COMMITTEES

7.1 Calgary Housing Company 2016 Annual Report - AC2017-1230

Moved by Citizen Representative Dalton

That with respect to Report AC2017-1230, the following be approved:

That the Audit Committee receives this report for information.

MOTION CARRIED

7.2 Corporate Structures List Audit - AC2017-1201

Moved by Councillor Farkas

That with respect to Report AC2017-1201 the following be approved:

1. That the Audit Committee receive this report for information; and
2. That the Audit Committee recommends that Council receive this report for information.

MOTION CARRIED

7.3 City Auditor's Office 3rd Quarter 2017 Report - AC2017-1204

A clerical correction was noted to the Attachment of Report AC2017-1204, Page
7 of 8, in the Risk Assessed Priority: 2018, under column "Status", by adding the
words "new addition to plan" following the words "Not started".

Moved by Councillor Chahal

That with respect to Report AC2017-1204 the following be approved, **as
corrected in Attachment 1**, as follows:

1. That Audit Committee receive this report for information; and
2. That Audit Committee recommend that Council receive this report
for information.

MOTION CARRIED

7.4 Audit Committee 2018 Work Plan, AC2017-1136

Distribution with respect to Report AC2017-1136:

A copy of a Revised Attachment to Report AC2017-1136.

Moved by Councillor Farrell

That with respect to Report AC2017-1136, the following be approved:

That the Audit Committee:

1. Approves the Audit Committee's **Revised** 2018 Work Plan; and
2. Recommends that Council receive this Report and the **Revised** 2018 Work Plan (Attachment) for Information.

And further, that this Report be forwarded to the 2018 December 18 Regular Meeting of Council as an Item of Urgent Business.

MOTION CARRIED

7.5 External Auditor – Provision of Additional Services, AC2017-1246

Moved by Councillor Chahal

That with respect to Report AC2017-1246, the following be approved:

That the Audit Committee approve the provision of additional services to The City by Integration New Media, Inc., a recent acquisition of Deloitte LLP, External Auditor.

MOTION CARRIED

7.6 Status of Community Associations and Social Recreation Organizations on City-Owned Land, AC2017-1149

Clerical Corrections were noted to Report AC2017-1149, as follows:

- In the Report header by deleting the words "Community & Protective and by substituting the words "Community Services"; and
- in Attachment 1, page 2, in the footer, by deleting the words "Status of Community Associations and Social Recreation Organizations on City-Owned Land" following the Report number "AC2017-1149 and by substituting the words "Definitions of Rating Terms".

Moved by Citizen Representative Caltagirone

That with respect to Report AC2017-1149, the following be approved:

That Audit Committee recommends that Council:

1. Receive this report for information;

ISC: Unrestricted 2017 December 14

2. Approve that the following policy be rescinded: *Status of Community Organizations on City-Owned Land* (CSPS015) (Attachment 7);

3. Direct that attachments 3, 4 and 5 of this report remain confidential pursuant to sections 23(1), 24(1) and 16(1) of the FOIP Act and remain so until such time as section 16 is no longer satisfied.

MOTION CARRIED

8. URGENT BUSINESS

9. CONFIDENTIAL ITEMS

Moved by Councillor Chahal

That, subject to Section 197 of the *Municipal Government Act*, and Sections 16, 17, 19 and 24 of the *Freedom of Information and Protection of Privacy Act*, the Audit Committee move into Closed meeting at 11:10 a.m. to consider several confidential matters with respect to the following Reports:

- Item 9.1 Audit Forum (Verbal Report), AC2017-1158
- Item 9.2 City Auditor (Verbal Report), AC2017-1159
- Item 9.3 External Auditor (Verbal Report), AC2017-1160
- Item 9.4 Personnel Matter (Verbal Report) AC2017-1223.

MOTION CARRIED

The Audit Committee moved into public session at 11:39 a.m. with Councillor Woolley in the Chair.

Moved by Councillor Farrell

That Audit Committee Rise and Report.

MOTION CARRIED

9.1.1 Audit Forum (Verbal Report) - AC2017-1158

That, subject to Section 197 of the *Municipal Government Act*, the following members were in attendance, in Closed Meeting:

Administration: D. Williams (Clerk), E. Sawyer (Advice), C. Male (Advice), C. Smillie (Advice)

City Auditor: K. Palmer (Advice)

External Auditors: H. Gill (Advice), N. Torglimson (Advice).

That with respect to Report AC2017-1158, the following be adopted:

1. Receives the Audit Forum (Verbal Report); and
2. Directs that the Verbal Report and closed meeting discussions remain confidential under sections 16 and 24 of the *Freedom of Information and Protection of Privacy Act*.

MOTION CARRIED

9.2 City Auditor (Verbal Report) - AC2017-1159

No Report was given for this item.

9.3 External Auditor (Verbal Report) - AC2017-1160

That, subject to Section 197 of the *Municipal Government Act*, the following members were in attendance, in Closed Meeting:

Administration: D. Williams (Clerk), E. Sawyer (Advice), C. Male (Advice), C. Smillie (Advice)

City Auditor: K. Palmer (Advice)

External Auditors: H. Gill (Advice), N. Torgrimson (Advice).

That with respect to Report AC2017-1160, the following be approved:

That the Audit Committee:

1. Receives the External Auditor (Verbal Report) for information; and
2. Directs that the Verbal Report and closed meeting discussions remain confidential under sections 16 and 24 of the *Freedom of Information and Protection of Privacy Act*.

9.4 Personnel Matter - AC2017-1223

That, subject to Section 197 of the *Municipal Government Act*, the following members of Administration were in attendance, in Closed Meeting: D. Williams (Clerk), E. Sawyer (Advice), H. Gardner (Advice), R. Andersen (Advice).

DISTRIBUTION with respect to Report AC2017-1223

Copies of Report AC2017-1223 were distributed in the Closed Meeting.

Moved by Councillor Farrell

That with respect to Report AC2017-1223, the following be approved:

That the Audit Committee:

1. Approves the Recommendations contained in Report AC2017-1223; and
2. Directs that the distributed Report and closed meeting discussions remain confidential under Sections 17 and 19 of the *Freedom of Information and Protection of Privacy Act*, and further, that the Recommendations of this Report remain confidential until the amendments are executed and Council has made an announcement.

MOTION CARRIED

10. ADJOURNMENT

Moved by Citizen Representative Caltagirone

ADJOURN, that this meeting adjourn at 11:41 a.m.

MOTION CARRIED

The following item has been forwarded to the 2017 December 18 Regular Meeting of Council as Urgent Business:

7.4 Audit Committee 2018 Work Plan, AC2017-1136

The following items have been forwarded to the 2018 January 29 Regular Meeting of Council:

Consent:

7.2 Corporate Structures List Audit - AC2017-1201

7.3 City Auditor's Office 3rd Quarter 2017 Report - AC2017-1204

7.6 Status of Community Associations and Social Recreation Organizations on City-Owned Land, AC2017-1149

Closed Meeting:

9.4 Personnel Matter - AC2017-1223

The next Regular Meeting of the Audit Committee is scheduled to be held, 2018 January 26.

CONFIRMED BY COMMITTEE 2018

CHAIR

ACTING CITY CLERK

CORPORATE CREDIT CARD (DATA ANALYTICS) AUDIT

EXECUTIVE SUMMARY

The City Auditor's Office issued the Corporate Credit Card (CCC) Audit Report to Administration on January 16, 2018. The report includes Administration's response to four recommendations to further enhance controls and efficiencies of the CCC process. Administration accepted all recommendations and has committed to the implementation of action plans no later than September 30, 2018. The City Auditor's Office will track the implementation of these commitments as part of our on-going follow-up process.

RECOMMENDATIONS

1. That Audit Committee receive this report for information; and
2. That Audit Committee recommend that Council receive this report for information.

PREVIOUS COUNCIL DIRECTION / POLICY

Bylaw 30M2004 (as amended) established the position of City Auditor and the powers, duties and functions of the position. Under the City Auditor's Office Charter, the City Auditor presents an annual risk-based audit plan to Audit Committee for approval. The City Auditor's Office 2017/2018 Annual Audit Plan was approved on November 10, 2016. The City Auditor is accountable to Council and subject to the oversight of Audit Committee under Bylaw 48M2012 (as amended).

BACKGROUND

This audit was undertaken as part of the approved City Auditor's Office 2017/2018 Annual Audit Plan. The objective of this audit was to review the anomalies in the CCC data analytic results and provide assurance on the effectiveness of related compliance and fraud prevention controls. This was achieved through testing associated credit card monitoring controls and validating the results of our data anomalies with Accounts Payable (AP).

INVESTIGATION: ALTERNATIVES AND ANALYSIS

The audit utilized data analytics to examine anomalies in credit card data from June 2016 to June 2017. Through our review of these anomalies we confirmed that a majority were indicative of non-compliance to CCC policy and procedures. We determined that existing monitoring controls over CCC were generally operating as designed, however, despite AP's monitoring practices, non-compliance to CCC policy continues to occur. Therefore, there is an opportunity to improve on and enhance current controls over the CCC to reduce instances of non-compliance. We made three recommendations related to employee training and communication, enforcing accountability to individual cardholders, developing escalation steps to support card suspension and improving efficiency and effectiveness of CCC processes. We also made one recommendation to re-evaluate the process to capture GST on foreign transactions.

Stakeholder Engagement, Research and Communication

This audit was conducted with Accounts Payable acting as the principal audit contact within Administration. Additional support was provided by Supply.

CORPORATE CREDIT CARD (DATA ANALYTICS) AUDIT

Strategic Alignment

Audit reports assist Council in its oversight of the City Manager's administration and accountability for stewardship over public funds and achievement on value for money in City operations.

Social, Environmental, Economic (External)

N/A

Financial Capacity

Current and Future Operating Budget:

N/A

Current and Future Capital Budget:

N/A

Risk Assessment

The activities of the City Auditor's Office serve to promote accountability, mitigate risk, and support an effective governance structure.

Credit card purchases average approximately \$65 million per year and as of June 2017, there were approximately 3000 credit cards in use across The City. While CCC offers significant benefits such as increased purchasing flexibility for low-dollar value purchases, there are also associated risks of improper use by cardholders. Non-compliance to CCC policy and procedures increases The City's exposure to financial and reputational risks.

REASONS FOR RECOMMENDATIONS:

Bylaw 48M2012 (as amended) states: "Audit Committee receives directly from the City Auditor any individual Audit Report and forwards these to Council for information".

ATTACHMENT

AC2018-0035 CORPORATE CREDIT CARD (DATA ANALYTICS) AUDIT



Calgary

City Auditor's Office

Corporate Credit Card (Data Analytics) Audit

January 16, 2018

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The City Auditor's Office completes all projects in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

Executive Summary

The Corporate Credit Card (CCC) provides employees of The City of Calgary (The City) with a convenient method of procurement for low-dollar value purchases, including employee-related business expenses under \$5,000. On average, from 2008 to 2016, credit card purchases totaled \$65 million per year¹. As of June 2017, there were approximately 3000 credit cards in use across The City.

The CCC is a major component of The City's procurement activities, allowing The City to achieve improvements in efficiency while reducing processing costs. CCC usage is governed by policy which defines the business rules, restrictions and the roles and responsibilities of the individuals and business areas involved in the program. Accounts Payable (AP) is responsible for the issuance and ongoing monitoring of the CCC. AP's role is to ensure CCC policies, procedures and monitoring controls prevent and mitigate fraudulent transactions and reduce financial and reputational risk to the organization. The policy applies to all CCCs and CCC transactions, to all Cardholders and Dept. ID owners and all employees who have responsibility under the program.

For purposes of this audit, data analytics software was utilized to identify potential anomalies in the CCC data from June 2016 to June 2017. Our objective was to review the anomalies in the CCC data analytic results and provide assurance on the effectiveness of related compliance and fraud prevention controls. This was achieved through testing associated credit card monitoring controls and validating the results of our data anomalies with AP.

In our review of anomalies we confirmed that a majority were indicative of non-compliance, although some were false indicators such as duplicate payments. Overall, we determined that existing monitoring controls over CCC were generally operating as designed. We recognize that AP has numerous CCC monitoring practices currently in place. These include conducting risk based audits, monitoring split transactions and outstanding statements, monitoring for fraudulent transactions, enforcing mandatory CCC training before a card is issued and reviewing the terminated employee report to ensure CCCs are canceled following an employee departure.

In our evaluation of non-compliance activity we made three recommendations related to employee training and communication, enforcing accountability to individual cardholders, developing escalation steps to support card suspension and improving efficiency and effectiveness of CCC processes. We also made one recommendation to re-evaluate the process to capture GST on foreign transactions.

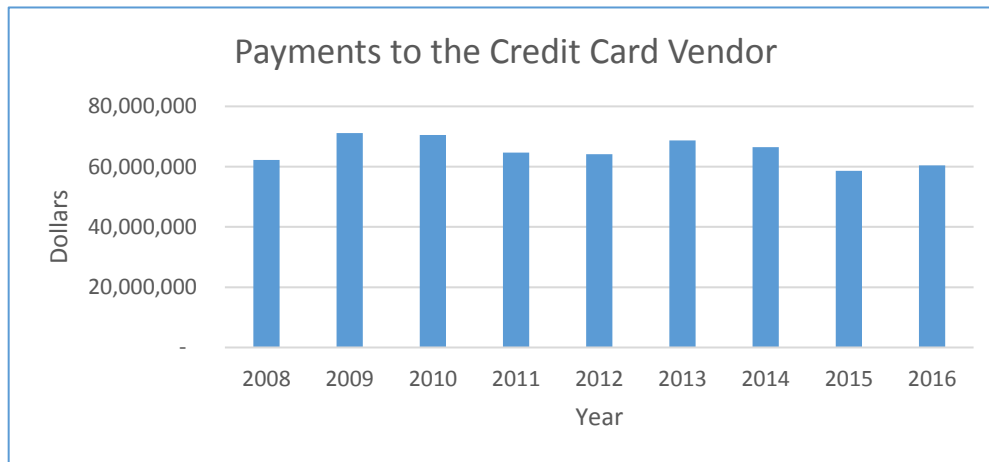
AP has agreed to all recommendations and committed to implementing the recommendations by September 30, 2018. The City Auditor's Office will monitor the status of commitments as part of its ongoing recommendation follow-up process.

¹ Payments to the CCC vendor from the PeopleSoft system. Excludes Police data.

1.0 Background

The City began its CCC program in 2008 to provide a more efficient and cost-effective means of procuring small dollar goods and services valued at \$5000 or less. Since its inception the average annual purchases are about \$65 million per year as shown in Chart A below.

Chart A:



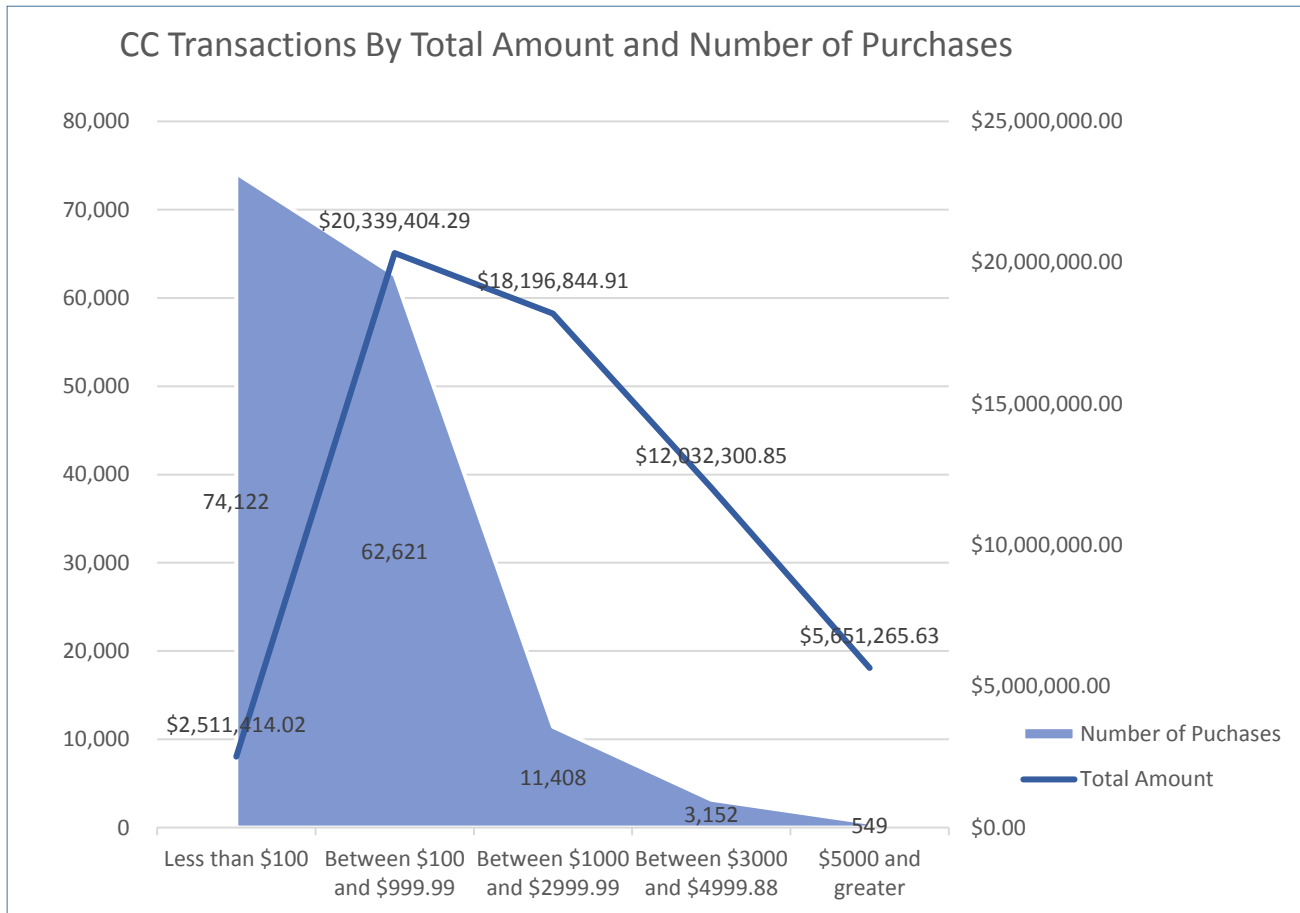
Both AP and Supply manage the CCC. Any exceptions to standard transaction limits, monthly limits and obtaining multiple cards must be extended under an approved business case. AP and Supply jointly review and approve all business case exceptions. AP is the primary monitor of the integrity of the CCC policy to ensure financial and reputational risks associated with the program are managed. Currently, AP have three staff members who monitor approximately 3000 CCCs. Supply provides a supporting role and holds responsibility for monitoring business case exceptions to credit limits and provides custom reports to the Business Units on CCC trends and spend analysis. Supply also reviews approved business case exceptions on a yearly basis.

CCC usage is governed by policy FA-016 (E) and associated procedures for the CCC program. The policy defines the business rules, restrictions and roles and responsibilities of the individuals and business areas involved in managing the CCC. The policy requires that cardholders with transactions must submit a monthly credit card statement and all required supporting documentation to their Dept. ID owner. The Dept. ID owner reviews, approves and submits the statement and supporting documentation to AP within the required timelines. The Dept. ID owner is the primary monitor to ensure that the cardholder adheres to applicable City policies and procedures.

The CCC procedures also requires that cardholders must obtain CCC training and sign a CCC Employee Acknowledgement of Responsibilities and Obligations Form before they can receive a new CCC.

Chart B categorizes CCC transactions by number and dollar value from June 2016 to June 2017. This chart shows that the CCC is being used primarily as intended, that is, for the purchase of small dollar goods and services. The majority of CCC purchases (approx. 49%) are under \$100 totalling \$2.5 million. The largest dollar value purchases were in the \$100 to \$1000 range amounting to \$20 million and representing approximately 41% of the number of purchases.

Chart B:



Data from June 2016 to June 2017

This audit was undertaken as part of the City Auditor's Office 2017/2018 Annual Audit Plan, and reflects the City Auditor's Office utilization of data analytics to enhance the effectiveness and efficiencies of audits. Through the use of data analytic tools, which involved analyzing and classifying data to provide insight into areas of potential risk exposure, we identified anomalies in the CCC. These anomalies in turn highlighted areas of potential risk exposure which warranted further investigation to determine if the anomalies represented true risk events as well as likely causation.

2.0 Audit Objectives, Scope and Approach

2.1 Audit Objective

The objective of this audit was to review the anomalies in the CCC data analytic results and provide assurance on the effectiveness of related compliance and fraud prevention CCC controls.

2.2 Audit Scope

Data analytics were utilized to examine anomalies in the credit card data available from June 26, 2016, through to June 25, 2017. As a result our assurance focused on the effectiveness of controls that were operating during the time these anomalies occurred.

2.3 Audit Approach

Our audit approach included the following:

- Reviewed relevant documentation, policies, procedures, and guidelines.
- Validated the results of the data anomalies with AP and Supply.
- Tested associated credit card monitoring processes and controls.
- Where appropriate, we recommended control enhancements, and identified opportunities to improve efficiencies.

3.0 Results

This audit employed data analytics to analyze the CCC data from June 2016 to June 2017. Data analytics identified anomalies and based on these anomalies we assessed the adequacy of controls to effectively monitor CCC use throughout The City. We focused on the following types of anomalies: split transactions, duplicate payments, deactivated cards for terminated employees, transaction limits, monthly credit limits, foreign exchange transactions, multiple cards per employee, low activity cards and monitoring of CCC transactions.

Overall we assessed AP has reasonable CCC monitoring practices in place to identify non-compliance. These practices include monitoring the Declined Transaction Report weekly to identify split transactions or other irregularities as well as a Merchant Category Code Watch List to identify possible high risk transactions. These irregularities are validated with the cardholder. Furthermore, AP runs a monthly report to ensure CCCs are immediately cancelled for those employees no longer employed by The City.

During testing of controls on monthly credit limits we confirmed that an effective system control is in place which prevents CCCs from exceeding their monthly credit limit. Procedures allow monthly credit limits to be exceeded on an exception basis with the support of an appropriate business case. The employees that did exceed their monthly limit, through the sample of anomalies tested, all had a valid business case. Data analytics also identified three employees who had multiple credit cards. We confirmed each also had a valid business case or a valid business reason for having more than one card assigned to them.

In our validation testing of anomalies some were confirmed to be false indicators. In particular our testing did not confirm the existence of duplicate payments. Our testing also did not confirm any malfeasance or fraudulent activity. Overall, we determined that AP effectively monitors the CCCs. However, despite their best efforts non-compliance to CCC policy continues to occur. We raised four recommendations to further enhance controls and efficiencies of the CCC process.

3.1 Split Transactions

A split transactions is defined as occurring when a cardholder circumvents a single transaction limit by dividing a single purchase with a vendor into two or more smaller transactions. As part of the monthly file download process, AP identifies splits over \$5000. This triggers an audit on that cardholder for that statement period. Although AP actively monitors potential splits, non-compliance continues to occur. There is a need to reinforce cardholder's responsibility to use The City's procurement process for purchases over \$5000 which will reduce split payments. Reducing the volume of split payments will also allow AP to more effectively utilize their resources. In order to address these issues of non-compliance we recommended that AP increase awareness of the policy to cardholders, develop summary reports of trends of non-compliance to senior management and define escalation steps to support card suspensions for employees who do not comply with the policy. See recommendation #1.

3.2 Monthly CCC Statements

In addition to continued non-compliance by the cardholder regarding split transactions, late monthly CCC submissions are also an ongoing issue. AP monitors late statements daily. Our analysis of AP's 2016 data, indicated that 198 statements or 171 cardholders had statements

submissions greater than 90 days. As with split transactions there is a need to reinforce responsibility with the Dept. ID owner and cardholder to reduce instances of non-compliance. We made a recommendation to review internal processes to identify a more consistent approach to suspend cards, report on exceptions, and establish ongoing communication. See recommendation #2.

3.3 Foreign Transactions

Our testing identified foreign transactions totaling approximately \$2100 in GST paid but not claimed back by The City. Since 2007, The City has recorded GST on CCC foreign transactions at zero. Canada Revenue Agency (CRA) began a GST review in 2015, which included reviewing CCCs. Following the completion of this review, Finance plans to revisit the CCC GST recording process taking into account the impact of a possible new credit card provider and CRA's audit conclusions. See recommendation #3.

3.4 Accounts Payable Audits and Monitoring

To support compliance to CCC policy and procedures, AP monitors various activity reports and conducts risk based audits of CCC statements. This involves reviewing approximately 30% of CCC statements each month to ensure each complies with CCC policy and procedures. As the criteria methodology used to select CCC statements for audit uses constant parameters, we identified that approximately 43% of total cardholders have not been audited over the past two years.

Our audit identified additional areas of non-compliance within our sample review including transactions missing detailed receipts, incorrect invoices submitted and missing approvals. We also noted that two employee CCCs were not deactivated in a timely manner. We made a recommendation to reassess the audit methodology/criteria, provide refresher training and to reinforce the use of the Employee Departure/Transfer Checklist. See recommendation #4.

Throughout our testing we also identified an opportunity for improvement, which could enhance efficiency and effectiveness. We noted that current practices involve AP and Supply manually preparing reports from CCC vendor data. AP relies on complex spreadsheets to monitor compliance and Supply produces manually completed spreadsheets focused on CCC spend analysis. Low activity cards are not monitored as they are low risk to AP and we noted instances where some transactions are pushed past their limit by vendors or exchange rates. We suggested enhancement of vendor produced reports to reduce current reliance on manual reports and to improve system controls such as enforcing transaction limits. AP has responded by agreeing to investigate this opportunity.

We would like to thank staff from AP and Supply for their assistance and support throughout this audit.

4.0 Observations and Recommendations

4.1 Split Payments

Although AP actively monitors potential split payments ongoing non-compliance continues to occur. Higher volumes were identified during our testing within Recreation, Transit, Facility Management, Parks and Supply. Outside of normal identification of a potential split, there was no evidence of escalation or follow up.

Policy FA- 016 (E) "All CCCs have a single transaction credit limit and a monthly credit limit. Cardholders shall not circumvent these or any other usage limitations". Further, section 16.4 of the CCC procedures state that "AP is authorized to cancel a CCC at any time in the case of misuse or policy non-compliance". Examples of non-compliance include splitting transactions to avoid transaction limits.

Split transactions increase financial risk to The City as they circumvent the control of having a transaction limit in place. Transaction limits mitigate The City's financial exposure to unauthorized and fraudulent transactions, as well as ensure compliance with Supply policy which requires the purchase order process to be utilized when purchasing goods greater than \$5000.

Using data analytics we identified approximately 2000 potential split transactions² totaling \$8.4 million. From these possible split transactions we selected a sample (or subset) of 30 transactions and reviewed documentation to determine if splits actually occurred. Out of our sample of 30 transactions, 18 (60%) were identified as true splits. AP detected 13 out of the 18 (72%) through their monitoring processes. Cardholders have three transaction limits, \$1000, \$3000 and \$5000. AP actively tests for potential splits that exceed \$5000. For the splits not identified by AP only one was in the \$5000 limit, the remaining were in the \$1000 and \$3000 limits. AP tracks possible splits in a spreadsheet and when we reviewed the 2016 and 2017 spreadsheets we noted that non-compliance for split transactions continues to occur every month.

When AP identifies a split transaction, per their procedure, they send a standard email notification to the Dept. ID owner and copy the cardholder, Supply and Corporate Security. The current email does not direct the Dept. ID owner to take any action regarding this non-compliance. Although AP is monitoring and following up on splits, with the cardholder and Dept. ID owner, our testing identified that non-compliance continues to occur.

Recommendation 1

The Manager Tax, Receivables, Accounts Payable to:

- a) Define and implement summary reports of trends for non-compliance to one level up from Dept. ID owner (e.g. Directors).
- b) Reinforce accountability to credit card users and increase awareness of policy requirements through inclusion of policy reference in existing email notification process.
- c) Define escalation steps to support card suspension per Policy FA-016 (E) Section 5 Consequences of Non-Compliance.

² Potential splits are defined as: two or more transactions occurring on the same day, to the same vendor that exceed a cardholder's transaction limit.

Management Response

Agreed.

Action Plan	Responsibility
Accounts Payable will define and implement summary reports and define escalation steps to support credit card suspension per the applicable policy. Accounts Payable will reinforce the responsibilities of credit card users and increase awareness of associated policy requirements through inclusion of policy references in the existing email notification process	<u>Lead:</u> Manager, Tax, Receivables, Account Payables (TRaP) <u>Support:</u> Communications, Supply, Corporate Security <u>Commitment Date:</u> September 30, 2018

4.2 CCC Monthly Submissions

We analyzed the 2016 CCC Tracking Report which indicated 198 statements or 171 cardholders with statement submissions greater than 90 days.

Policy FA-016 (E) section 2 states “Cardholders with transactions must submit a monthly Credit Card Statement and all required supporting documentation to their Dept. ID owner. The Dept. ID owner shall review, approve and submit the Statement and supporting documentation to Finance within the required timelines.” AP procedures state that the Dept. ID owner “must submit the approved statement directly to AP by the 15th of the month following the statement date”.

Statements not submitted to AP within policy guidelines opens The City to greater financial risk as the deadline to dispute a transaction with the CCC provider is 60 days.

AP tracks late statements via the CCC Tracking Report and follows up with the cardholder via an email notifications every 15 days. AP informed us that after the 3rd notification they have the authority to suspend the card and indicated that as of 2016 card suspensions are occurring.

A review of comments in the vendor credit card system relating to suspension of cards as well as sample emails received from AP indicated that there were a total of seven suspension requests for four cardholders in 2016 versus 171 cardholders with late statements over 90 days (less than 2.5%). In 2017, there were 17 suspension requests for 13 cardholders. We noted that cardholder suspensions have increased, however, suspension requests are not completed on a consistent basis.

We identified the following statistics in the 2016 CCC Tracking Report:

Days Outstanding	Number of Cardholders with Late Statements	Number of Statements
Over 60 Days	418 (9%)	583 (3%)
Over 90 Days ³	171 (4%)	198 (1%)
Total	4,473 cardholders	22,195 statements

Late statements may be occurring as the cardholder and Dept. ID owner may not be aware of the statement submission requirements outlined in the CCC policy and procedures.

Recommendation 2

The Manager Tax, Receivables, Accounts Payable to:

- Review internal processes to identify a more consistent approach to suspend cards when cardholders do not comply with monthly statement submission requirements.
- Create a critical summary exception report to identify trends for outstanding statements over 60 days and report to the corresponding Dept. ID owner and one management level up.
- Establish ongoing communication of current policy, and procedures on a periodic basis to all relevant CCC and Dept. ID owners for trends of non-compliance.

Management Response

Agreed.

Action Plan	Responsibility
Accounts Payable will review internal processes to identify a more consistent approach to card suspension for cardholders that do not comply with monthly submission requirements. Accounts Payable will develop exception reporting to identify trends of non-compliance with monthly statement submission requirements, and will establish opportunities for periodic ongoing communication of the current policy and procedures related to credit cardholders and Dept. ID owners displaying trends of non-compliance.	<u>Lead:</u> Manager, TRaP <u>Support:</u> Communications <u>Commitment Date:</u> September 30, 2018

³ Note that the number of cardholders and statements for over 90 days are also included in the over 60 days statistic.

4.3 Foreign Transactions

Our data analysis identified 4,645 foreign transactions totaling just over two million dollars. Out of these 4,645 transactions we tested a sample of invoices (selected a subset) of 75 foreign transactions. In this sample we identified 17 out of the 75 invoices that had approximately \$2,100 in GST paid, which was not claimed back by The City. These 17 invoices included five percent GST but were paid in US dollars and the GST was not accounted for.

In 2007, a decision was made by Finance to calculate five percent GST on all Canadian transactions, and zero percent GST on all foreign transactions. At that time it was determined that there might be some individual overstatement and understatement of GST but the savings in employee time would outweigh any minor differences. There has been no process change in recording GST for foreign transactions since 2007. In 2015, CRA began a GST review which included CCC. Tax plans to revisit the CCC GST recording process taking into account the impact of a possible new credit card provider and CRA's audit conclusions.

Recommendation 3

The Manager Tax, Receivables, AP to re-evaluate the 2007 decision rationale and foreign CCC transaction process to accurately record GST.

Management Response

Agreed.

Action Plan	Responsibility
Accounts Payable will engage subject matter experts to ensure the appropriate treatment of GST on foreign CCC transactions	<u>Lead:</u> Manager, TRaP <u>Support:</u> Manager, Corporate Tax and Regulatory Affairs <u>Commitment Date:</u> March 31, 2018

4.4 Accounts Payable Audits and Monitoring

We identified opportunities to improve efficiencies and effectiveness of AP's audit methodology and re-enforce training and awareness for cardholders. AP conducts risk based audits and also monitors various reports to ensure cardholders comply with CCC policies and procedures. However, despite AP's monitoring efforts, non-compliance to CCC policies and procedures continues to occur by cardholders.

AP conducts risk based audits on CCCs and each month audits approximately 500 statement submissions. The selection of statements utilizes a large complex excel spreadsheet to determine who will be audited. AP then reviews each statement to determine compliance to the CCC policies and procedures. An email is sent to the Dept. ID owner and cardholder if non-compliance issues are found. Our review of the excel spreadsheet noted that 43% of cardholders are never audited as these individuals do not fall into one of the established high

risk categories. We identified that if a cardholder is in a pre-defined category, i.e. senior management, administrative assistance, they will always be selected for an audit. Throughout our fieldwork we also identified non-compliance issues such as transactions missing detailed receipts, incorrect invoices submitted and a missing approval. Therefore, it is important that AP conducts audits to ensure cardholders comply to CCC policies and procedures.

Our testing of timely card deactivations found that two employee CCCs were not terminated in a timely manner (past 60 days, which is the bank's target timeframe to dispute a transaction). In both cases the Dept. ID owner did not notify AP via the employee checklist to cancel the CCC in a timely manner.

Cardholders must complete CCC training and sign a CCC Employee Acknowledgement of Responsibilities and Obligations Form before they receive their card. No additional or on-going training is provided. Formal ongoing training and communication enhances the efficiency and effectiveness of existing processes by ensuring that key information is reinforced. Periodic communication reduces the risk that CCC policies and procedures will be inconsistently followed and non-compliance issues will occur.

Recommendation 4

Finance Lead, Accounts Payable:

- a) Review the audit methodology in order to improve efficiency and effectiveness. For instance, consider selecting a random sample, which may be lower in sample size than the current methodology but is more representative of the whole population.
- b) Provide CCC policy targeted refresher training for the cardholders and Dept. ID owners that have the most non-compliance issues.
- c) Reinforce awareness, through Corporate Take Five, to Dept. ID owners the use of the Employee Departure/Transfer Checklist.

Management Response

Agreed.

Action Plan	Responsibility
Accounts Payable will review the existing audit methodology and pursue opportunities to improve the overall efficiency and effectiveness of the process. This includes exploring opportunities to implement electronic routing and approval of CCC monthly statement submissions, and the enhanced reporting and analytical capabilities that an automated workflow would support. Automated workflow will also create resource capacity to allow Accounts Payable Analysts to conduct additional value-added audit analysis. Accounts Payable will continue to reinforce awareness of the impacts of non-compliance through general and	<p><u>Lead</u>: Manager, TRaP</p> <p><u>Support</u>: Enterprise Support Systems(ESS), Communications</p> <p><u>Commitment Date</u>: June 30, 2018</p>

Action Plan	Responsibility
targeted communication and training opportunities. The potential implementation of an automated workflow will also present additional training and communication opportunities through the change management process.	

GREEN LINE ENGAGEMENT AUDIT

EXECUTIVE SUMMARY

The City Auditor's Office issued the Green Line Engagement Audit report to Administration on January 15, 2018. The report includes Administration's response to six recommendations raised by the City Auditor's Office to improve the process to track and monitor communication and engagement costs, and improve the Reporting Back and Evaluation steps in the engagement process to further support transparency and accountability. Administration accepted all recommendations and has committed to the implementation of action plans no later than December 31, 2018. The City Auditor's Office will track the implementation of these commitments as part of our on-going follow-up process.

RECOMMENDATIONS

1. That Audit Committee receive this report for information; and
2. That Audit Committee recommend that Council receive this report for information.

PREVIOUS COUNCIL DIRECTION / POLICY

Bylaw 30M2004 (as amended) established the position of City Auditor and the powers, duties and functions of the position. Under the City Auditor's Office Charter, the City Auditor presents an annual risk-based audit plan to Audit Committee for approval. The City Auditor's Office 2017/2018 Annual Audit Plan was approved on November 10, 2016. The City Auditor is accountable to Council and subject to the oversight of Audit Committee under Bylaw 48M2012 (as amended).

BACKGROUND

The Green Line Project is a large public transit infrastructure project at The City with an estimated construction cost of \$4.65B for the first stage of construction extending from 16 Avenue North to 126 Avenue Southeast. In the long term, the Green Line is planned to extend 46 km from 160 Avenue North to Seton in the Southeast. The Engage Policy defines engagement as the purposeful dialogue between The City and stakeholders to gather information to influence decision making. The Engage Framework and Tools consists of six key process steps: Engage Assessment; Develop a Plan; Tell the Story; Raise Awareness; Connect; and Report Back and Evaluate.

This audit was undertaken as part of the approved City Auditor's Office 2017/2018 Annual Audit Plan. The objective of this audit was to assess the effectiveness of engagement control activities that supported the advancement of the Green Line Project. We evaluated the extent to which engagement activities were aligned with The City of Calgary's (The City's) Engage Policy (Engage Policy) and the criteria in The City's Engage Framework and Tools. We also evaluated the design of controls over engagement cost tracking and monitoring.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

Overall, engagement activities reviewed were executed in alignment with the guiding principles of the Engage Policy and the criteria identified in the Engage Framework and Tools. To support accountability and confidence in the engagement process, improvements should be made to the Reporting Back and Evaluation processes.

GREEN LINE ENGAGEMENT AUDIT

The last formal milestone evaluation of Green Line public engagement processes and outcomes occurred in November 2015, although annual lessons learned meetings were held that included a communication and engagement component and evaluations were performed at the individual event level. We recommended that the Green Line Project Manager establish processes to perform formal evaluations after completion of significant engagement milestones to help demonstrate increased accountability to Calgarians and identify potential improvements to the engagement process that can be applied to future engagement. Although the audit focused on engagement activity specific to Green Line, we also identified related opportunities to update the Engage Framework and Tools to provide further standards and guidance that will benefit all future engagement at The City.

The process to track and monitor communication and engagement costs requires improvement to provide clear visibility into the total budgeted and actual cost of all related communication and engagement. Engagement plans did not include a comprehensive breakdown of budgeted engagement resources and related staff hours required to plan, implement, facilitate and close-out engagement. In addition, there was insufficient communication and engagement detail in Green Line financial reports. Our recommendations for budgeting and regular reporting and monitoring of all communication and engagement costs will help improve accountability and stewardship, which will further support effective resource allocation and the ability to evaluate engagement cost effectiveness.

Stakeholder Engagement, Research and Communication

This audit was conducted with Customer Service & Communications and Transportation Infrastructure acting as the principal audit contacts within Administration.

Strategic Alignment

Audit reports assist Council in its oversight of the City Manager's administration and accountability for stewardship over public funds and achievement on value for money in City operations.

Social, Environmental, Economic (External)

N/A

Financial Capacity

Current and Future Operating Budget:

N/A

Current and Future Capital Budget:

N/A

Risk Assessment

The activities of the City Auditor's Office serve to promote accountability, mitigate risk, and support an effective governance structure.

GREEN LINE ENGAGEMENT AUDIT

The City Auditor's Office plans to conduct a series of audits on the Green Line over the lifespan of the project given the project's proposed complexity and significant capital budget. This first Green Line audit, focused on citizen engagement, was undertaken since obtaining input from Calgarians and other stakeholders on integration with existing communities, route alignment, station locations, and opportunities for Transit Oriented Development is critical, given the significant investment in the Green Line project. Recommendations raised are focused on improving transparency and accountability to further mitigate reputational and financial risk.

REASONS FOR RECOMMENDATIONS:

Bylaw 48M2012 (as amended) states: "Audit Committee receives directly from the City Auditor any individual Audit Report and forwards these to Council for information."

ATTACHMENT

AC2018-0007-GREEN LINE ENGAGEMENT AUDIT



Calgary

City Auditor's Office

Green Line Engagement Audit

January 15, 2018



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The City Auditor's Office completes all projects in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

Executive Summary

The Green Line Light Rail Transit (Green Line) project is a large public transit infrastructure project at the City of Calgary (The City) with an estimated construction cost of \$4.65B for the first stage of construction extending from 16 Avenue North to 126 Avenue Southeast. Given that the Green Line is planned to extend 46 km in the long term from 160 Avenue North to Seton in the Southeast, engaging citizens and stakeholders on integration of the Green Line with existing communities, route alignment, station locations and opportunities for Transit Oriented Development (TOD)¹ is critical. The City's Engage Policy (CS009) (Engage Policy) defines engagement as the purposeful dialogue between The City and stakeholders to gather information to influence decision making. Guiding principles include accountability, inclusiveness, transparency and responsiveness. The City's Engage Framework and Tools (Engage Framework and Tools) consists of six key process steps: Engage Assessment; Develop a Plan; Tell the Story; Raise Awareness; Connect; and Report Back and Evaluate.

The objective of the audit was to assess the effectiveness of engagement control activities that supported the advancement of the Green Line project. We evaluated the extent to which engagement activities were aligned with the Engage Policy and the criteria in the Engage Framework and Tools. We also evaluated the design of controls over engagement cost tracking and monitoring, given the extent of resources expended to support the significant amount of engagement to advance the Green Line project.

Overall, engagement activities reviewed were executed in alignment with the guiding principles of the Engage Policy and the criteria identified in the Engage Framework and Tools. The process to track and monitor communication and engagement costs requires improvement to provide clear visibility into the total budgeted and actual cost of all related communication and engagement. In addition, improvements should be made to the Reporting Back and Evaluation processes to further support transparency and accountability.

The engagement plans were consistent with the Green Line program's objectives of setting station locations and refining how the route alignment could fit along the north corridor and determining how to connect the north and southeast through the downtown, and opportunities for TOD. Based on our testing, engagement opportunities were made available to Calgarians and stakeholders and effectively communicated. In addition, engagement activities were executed as planned.

Engagement plans did not include a comprehensive breakdown of budgeted engagement resources and related staff hours required to plan, implement, facilitate and close-out engagement. In addition, there was insufficient communication and engagement detail in Green Line financial reports. Without clear visibility into the communication and engagement budget and actual costs, communication and engagement cost tracking and monitoring cannot be effectively performed and may result in ineffective resource allocation and an inability to evaluate engagement cost effectiveness. Our recommendations for budgeting and regular reporting and monitoring of all communication and engagement costs will help improve accountability and stewardship.

The last formal milestone evaluation of Green Line public engagement processes and outcomes occurred in November 2015, although annual lessons learned meetings were held that included a communication and engagement component and evaluations were performed at the individual

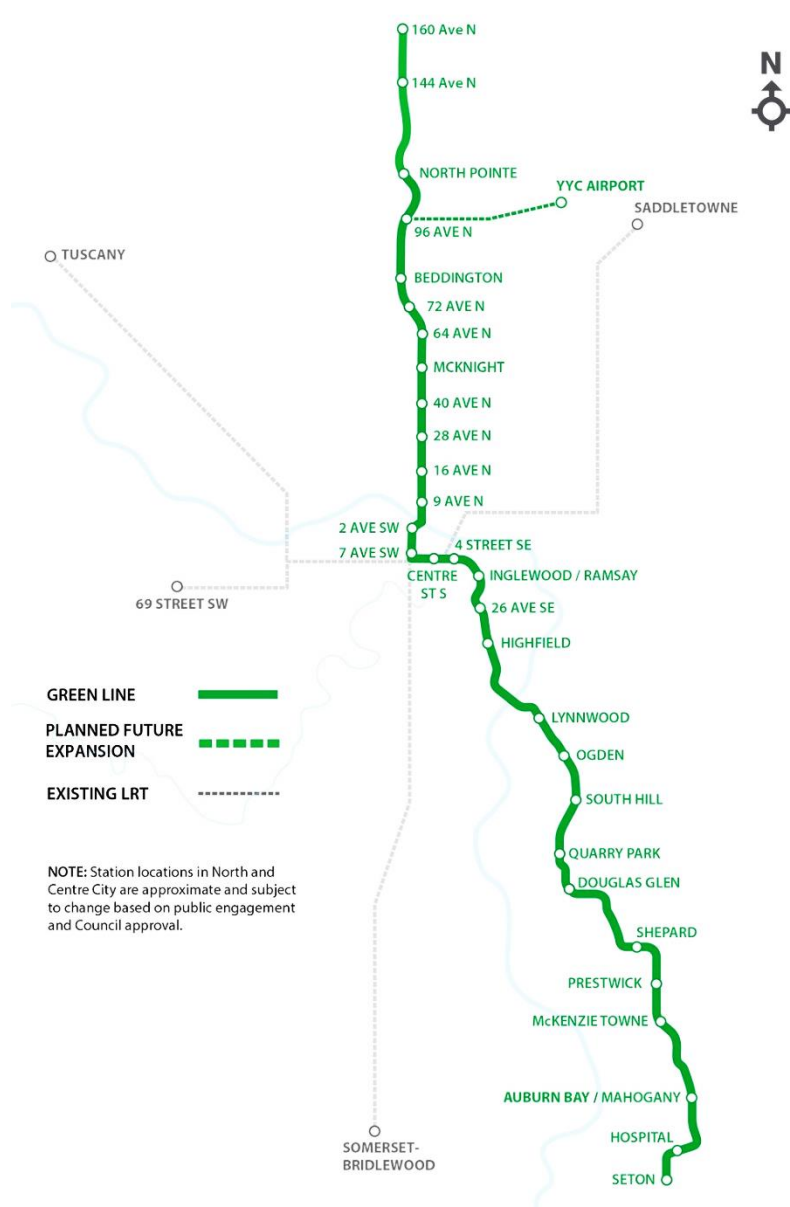
¹ Transit oriented development (TOD) is a walkable, mixed-use form of area development typically focused within a 600m radius of a primary transit station.

event level. Our recommendation that the Green Line Project Manager establish processes to perform formal evaluations after completion of significant engagement milestones will help demonstrate increased accountability to Calgarians and identify potential improvements to the engagement process that can be applied to future engagement. Although the audit focused on engagement activity specific to the Green Line project, we also identified related opportunities to update the Engage Framework and Tools to provide further standards and guidance that will benefit all future engagement at The City.

The Customer Service & Communication and Transportation Infrastructure Business Units have agreed to all six recommendations and have set action plan implementation dates no later than December 31, 2018. The City Auditor's Office will follow-up on all commitments as part of our ongoing recommendation follow-up process.

1.0 Background

The Green Line light rail transit (Green Line) project is a large public transit infrastructure project at the City of Calgary (The City). Since December 2012, the Green Line project has been in the Functional Planning phase, which includes corridor selection and alignment definition. Citizen engagement and technical studies began with the North segment of the project in 2013 and continued with the Southeast, Beltline and Centre City segments being added along the way. On June 26, 2017, Administration made a final recommendation to Council on station locations, TOD, stage I construction, and the vision for the full alignment of the Green Line project, which was approved.



At full community build-out, the Green Line is expected to carry an estimated 240,000 trips per day. The final route will stretch 46 km from 160 Avenue North to Seton in the Southeast and connect 28 stations. The Green Line was designed to be delivered in stages with completion of stage I (16 Avenue North to 126 Ave Southeast) scheduled for 2026 at an estimated construction cost of \$4.65B, based on a Class 3 capital estimate ².

Figure 1 source
<https://engage.calgary.ca/greenline>

² Class 3 capital estimates are generally prepared based on preliminary design information with an expected variance of -30% to +50% as defined in The City's Corporate Project Management Framework.

Given the scope of the Green Line project, engagement is critical to obtain input from Calgarians and other stakeholders on integration of the Green Line with existing communities, route alignment, station locations, and opportunities for TOD. The City's Engage Policy (Engage Policy), approved by Council on May 27, 2013, identifies the guiding principles of engagement and commits The City to conducting transparent and inclusive engagement processes that are responsive and accountable. Engagement is defined in the Engage Policy as the purposeful dialogue between The City and citizens and stakeholders to gather information to influence decision making.

The City's Engage Framework and Tools (Engage Framework and Tools) supports the Engage Policy by providing engagement guidance and tools and defines a six step Engage process to be used consistently across The City:

1. Engage Assessment: Identify whether engagement is needed and if so assess the impact and complexity of the project with respect to engagement and outline who should approve the engagement strategy.
2. Develop a Plan: Engage Resource Unit works with project manager to develop an engagement strategy and plan that serves as a roadmap for the engagement process and helps clarify engagement goals and objectives, what we are seeking input on and decisions that are not open to input, stakeholder identification and details such as scope, roles and responsibilities, budget and expected dates and timelines.
3. Tell the Story: Explain the project to stakeholders and share what has been done so far, why engagement is needed, what is being considered, what the constraints are, and how input is going to be used.
4. Raise Awareness: The engagement plan should work together with the communication plan to generate awareness about the engagement opportunities.
5. Connect: Work with stakeholders through the engagement opportunities in a genuine, open and honest manner.
6. Report Back and Evaluate: Tell stakeholders what was heard, how that input influenced the decision, and if it did not, why not. The final step is to evaluate the process and engagement outcomes to document lessons learned that can be applied to future projects and to refine and improve engagement efforts and approach.

Engage Resource Unit (ERU) resources were embedded in the Green Line team in mid-2016 and took on a more active role in leading Green Line engagement for Transportation Infrastructure (TI). In September of 2017, the planned creation of a new Green Line Business Unit (BU) was announced in recognition of the significance of the project and the resources to be expended. Green Line engagement will continue throughout the life of the project and include collaborative involvement from the Customer Service & Communication (CSC) BU, including the ERU, the Green Line project team, and consultants hired by the primary Green Line contractor.

The City Auditor's Office plans to conduct a series of audits on the Green Line over the lifespan of the project given its proposed complexity and significant capital budget. This first Green Line audit, with a focus on citizen engagement, was undertaken as part of the City Auditor's Office 2017/2018 Annual Audit Plan.

2.0 Audit Objectives, Scope and Approach

2.1 Audit Objective

The objective of this audit was to assess the effectiveness of engagement control activities that supported the Green Line project by:

- Evaluating the extent to which citizen engagement activities were aligned with the guiding principles of the Engage Policy and criteria identified in the Engage Framework and Tools; and
- Identifying potential improvements to The City's engagement policies and standards, if appropriate.

2.2 Audit Scope

The audit scope included engagement activities planned and undertaken during the period October 1, 2015 to June 30, 2017. We assessed the design of controls over engagement cost tracking and monitoring and tested control activities related to the six Engage process steps identified in the Engage Framework and Tools.

Limited reductions to scope occurred during fieldwork due to inconsistency and availability of engagement related documents as noted in sections 3.2, 3.3 and 3.4.

2.3 Audit Approach

Audit procedures included interviews, documentation review, and process testing and analysis. Green Line engagement plans, engagement activities (in-person and online), and project decisions were used as the basis for sample selection to test against criteria in the Engage Framework and Tools. All four Green Line segments (i.e. Southeast, North, City Centre and Beltline) were included in the audit testing program, but the extent to which each was covered was determined using a risk-based approach.

We would like to thank staff from the TI and CSC BUs for their assistance and support throughout this audit.

3.0 Results

Overall, engagement activities reviewed were executed in alignment with the guiding principles of the Engage Policy and the criteria identified in the Engage Framework and Tools for key engagement steps from initial engagement assessment and planning (Steps 1 and 2) to connecting (Step 5) with Calgarians. However, improvements should be made to the Reporting Back and Evaluation processes (Step 6) to further support transparency and accountability. The process to track and monitor communication and engagement costs requires improvement to provide clear visibility into the total budgeted and actual cost of communication and engagement.

Our testing included a review of the following:

- Engage Assessments at the initiation stage of engagement and a sample of engagement plans at the strategic level and annual work plans for the Southeast, North, City Center and Beltline segments;
- A sample of seven station area and alignment events for the North, City Centre and Beltline segments, which included three open houses, one Station Area workshop and three online events. Engagement events had largely been completed in the Southeast prior to the time period included within the scope of our audit and as a result no events were selected for this area; and
- A review of a sample of four Green Line recommendations for the Southeast, North, City Centre, and Beltline segments including two alignment Multiple Account Evaluations, one TOD and one station location infrastructure and connection recommendation.

3.1 Engagement Cost Tracking and Monitoring

We assessed the process to track and monitor Green Line communication and engagement costs by reviewing engagement budgets, financial reporting and other supporting documentation, and interviewing Green Line staff.

A number of control activities, including purchase order and invoice coding and approval, monthly review of overall Green Line costs and variances, and reconciliations of project cost reporting with The City's financial system (PeopleSoft FSCM) were designed effectively. However, the overall process for tracking and monitoring Green Line communication and engagement costs requires improvement to ensure that the total cost of Green Line communication and engagement can be determined and monitored to support accountability and stewardship.

The engagement plans we reviewed did not include a budget for communication and engagement resources, except for budgets for external consultants. Green Line financial reports did not provide communication and engagement cost detail necessary to monitor or determine the total actual communication and engagement costs. In addition, we noted that not all communication and engagement resources were charged to the Green Line and that an inter-departmental charge for Green Line communication support was not regularly updated as needed to report and monitor the total actual communication and engagement costs.

We recommended that the Green Line Project Manager include a communications and engagement budget in the approved annual engagement plans, based on cost estimates supported by activity work plans, and establish processes to support regular tracking, reporting and review of all communication and engagement costs and forecasts (Recommendation 1).

We recommended that CSC ensure that communication and engagement staff costs can be attributed to individual projects, including the Green Line, and that cost estimates are kept up-to-date or reassessed at least annually (Recommendation 2).

3.2 Engagement Assessment and Planning (Steps 1 and 2)

We assessed the engagement assessment and planning process through review of Engagement Assessments and strategy and plan documents.

We noted that the engagement assessment and planning process is consistent with the Engage Framework and Tools:

- Engagement Assessments were completed as part of the engagement initiation process;
- A hierarchy of plans existed, including an overall Green Line Communication and Engagement strategy, contractor annual work plans and local Communication and Engagement plans and event plans; and
- Engagement documents collectively satisfied the following:
 - Identification of engagement goals and objectives;
 - Decisions that were not open to input;
 - Engagement strategy;
 - Roles and responsibilities;
 - Stakeholder identification; and
 - Expected timelines.

However, there was no documentation that Engagement Assessments were provided to the ERU or the assigned Engage Lead and there was no documented approval on the plans reviewed, many of which were in “Draft” format. Staff advised that the approval process for Green Line engagement was largely informal through emails or in person at meetings and that late changes to project decision-making parameters often made finalizing plans difficult. In addition, as noted above in section 3.1, engagement plans did not include an engagement budget, with the exception of external consultant costs included in contractor annual work plans.

3.3 Telling the Story and Raising Awareness (Steps 3 and 4)

We assessed whether engagement opportunities were made available and effectively communicated to Calgarians and stakeholders on a timely basis through review of event documentation, such as event communications posted on the Engage website, plans, and story boards.

We noted that key engagement processes to tell the story and raise awareness were aligned with the criteria identified in the Engage Framework and Tools:

- Communication of engagement events identified the purpose of engagement and how public input would be used, which was consistent with planned engagement in strategy and plan documents; and
- Engagement reached out to the Chinese community and various open houses and pop-up events were held at public locations, included grocery stores and schools, to increase engagement of stakeholders with lower participation.

However, we were unable to conclude whether events were communicated in a timely manner. Three events in our sample prior to May 2016 could not be tested since staff advised that archives of web postings were not available. Although three events were posted on a

timely basis, one event in our sample (held subsequent to this period) was not posted on the Engage Portal.

3.4 Connecting with Stakeholders (Step 5)

We assessed whether engagement events were carried out in a consistent manner with the Engage Framework and Tools through review of event communications, plans and boards, and ERU record of events held. We also assessed the effectiveness of processes related to two of the multiple channels available for Calgarians and stakeholders to be kept informed on Green Line LRT progress and engagement.

The engagement process for connecting with stakeholders was aligned with the criteria identified in the Engage Framework and Tools:

- Engagement events were held during “citizen-preferred” timeframes;
- Engagement included both in-person and on-line opportunities;
- Engagement activities performed were consistent with the purpose of engagement identified in strategy and plan documents; and
- Engagement activities were executed as planned, although changes to engagement plans were generally not formally documented.

Online engagement for two events in early 2016 did not mirror in-person events. However, the third on-line event was aligned to the in-person event. Staff advised that an integrated approach to online engagement was put in place after Q2 2016 when ERU staff were embedded into the Green Line team.

We reviewed the process to respond to enquiries to the general Green Line email. Staff regularly monitor the inbox and respond to emails or forward to individual team members or a subject matter expert to provide a response. Although 98% of emails received in the audit period under review were check-marked as responded to, we were unable to assess response timeliness since response records were not maintained.

Stakeholders can request to be added to an e-mail distribution list to receive Green Line updates by including the request on feedback forms submitted at in-person events or by submitting a request on-line. We were unable to verify that stakeholders who made a request at in-person events were added to the distribution list since feedback forms that included personally identifiable information, were destroyed, as per records management practices. However, we observed the effective operation of the on-line tool and verified that requests submitted on-line were added to the e-mail distribution list.

3.5 Reporting Back (Step 6)

We assessed whether public input was appropriately incorporated into coding sheets to theme the input, and What We Heard (WWH) reports, and considered in Green Line decision making. We also assessed whether What We Did (WWD) reports included how public input was used or not used. Generally, the reporting back process and use of public input in Green Line decision making was aligned with criteria identified in the Engage Framework and Tools. However reporting back could be improved by publishing WWD or equivalent reports after completion of significant milestones to support confidence in the engagement process.

We reviewed available input documentation, coding sheets to theme public input, and WWH reports to assess whether the input received at in-person and on-line events was accurately

incorporated into coding sheets, categorized into themes and appropriately reflected in WWH reports.

Stakeholders can provide input on feedback forms gathered at in-person events. Experienced CSC staff transcribe the feedback verbatim. Although the design of the process is adequate, we could not test whether input at the four in-person events was accurately transcribed since feedback forms were transcribed and subsequently destroyed, as noted above in section 3.4. WWH reports for the three open house events in the sample were balanced and aligned to themes identified in coding sheets. However, a coding sheet was not available for the March 2016 Station Area Workshop event.

Feedback from on-line events is downloaded directly from website archives. The WWH report for the on-line event in May of 2017 was balanced and aligned with public input. We were unable to assess the WWH reports for the two on-line events in April of 2016 since coding sheets were not available. Staff advised that an integrated approach to online engagement was put in place after Q2 2016 when ERU staff were embedded into the Green Line team.

We reviewed four decisions and noted that the use of public input in those decisions was consistent with the engagement strategy and WWH reports. We noted that TOD were developed through a collaborative engagement process that included multi-day design workshops, or “charrettes” that brought together Calgarians and technical subject matter experts for effective decision making.

WWD or equivalent interim reports, were not published to share how input was or was not used by the project team in ongoing Green Line decisions. The Engage Framework and Tools identifies the WWD report as a required document to ensure engagement transparency but does not provide standards or guidance on when to issue periodic WWD or equivalent interim reports on longer and more complex projects such as the Green Line.

A draft WWD report was prepared for the South Hill recommended TOD location. Staff advised that this report was not published due to the deferral of land use policy recommendations to Council, although a draft Station Area Plan for South Hill had been published. We noted that the draft WWD report clearly explained the link between draft policy recommendations and input received, although it did not identify constraints or what input was not used and why.

We recommended that the ERU update the Engage Framework and Tools to provide standards and guidance on when WWD or equivalent interim reports should be published on longer and more complex projects (Recommendation 5). We also recommended that until guidance from the Engage Framework and Tools is updated, the Green Line Project Manager publish interim reports to explain how public input was or was not used to influence decision making, annually or after the completion of significant project milestones (Recommendation 6).

3.6 Evaluation (Step 6)

We assessed whether there was periodic evaluation of public engagement processes and outcomes through review of evaluations performed and interviews with Green Line staff.

We noted that feedback is generally gathered at in-person engagement events and through on-line engagement. Staff advised that formal debriefs and event specific evaluations were performed for more complex events. In addition, an annual Green Line lessons learned meeting was held, which included an engagement process component.

Formal evaluations of Green Line public engagement processes and outcomes have not been performed since November 2015. Without periodic formal evaluations of engagement processes and outcomes the Green Line team may not be able to demonstrate accountability to Calgarians and identify lessons learned opportunities that can be applied to future engagement. Although the Engage Framework and Tools identifies evaluation of both the engagement process and outcomes as a fundamental component of good engagement, there are no standards and guidance on what should be reviewed or guidance on interim lessons learned for longer or more complex projects.

Also, as noted above under sections 3.2, 3.3, 3.4 and 3.5, we were to unable to assess the effectiveness of some engagement activities due to the informal nature of processes, including record retention. We recommended that CSC provide standards and guidance on the evaluation of the public engagement process and outcomes, including interim lessons learned for longer and more complex projects, and record retention requirements for key reference documents to support formal evaluations (Recommendation 3).

We also recommended that the Green Line Project Manager establish processes to ensure that formal evaluations of public engagement processes and outcomes are prepared after completion of significant Green Line engagement milestones, including confirmation and maintenance of key reference documents to support formal engagement evaluations (Recommendation 4).

4.0 Observations and Recommendations

4.1 Engagement Cost Tracking and Monitoring

The Green Line project budget and cost reporting process does not provide clear visibility into the total budgeted or actual cost of communication and engagement. Total actual cost of communication and engagement could not be confirmed as not all resource costs are tracked, and complete budgets were not included in engagement plans. Green Line communication and engagement actual costs were approximately \$2.6 M for the three years ended December 31, 2016. Actual costs were based on activity code tracking and included consultant fees, direct costs for venues and events, but excluded regular ERU staff hours.

The Engage Policy guiding principles of Accountability and Commitment include stewardship and identification of the appropriate funding and resources for engagement processes. The Engage Framework and Tools identifies that a budget should include a breakdown of Engage staff hours and engagement hard-costs required to plan, implement, facilitate and close-out engagement. Without clear visibility into the communication and engagement budget and actual costs, the total cost of communication and engagement is difficult to determine, which could result in ineffective resource allocation and an inability to assess engagement cost effectiveness.

Engagement plans reviewed did not include an engagement budget with the exception of the 2016 and 2017 contractor annual work plans which included an engagement budget for external resources. Engagement plans reviewed did not include a budget for internal engagement staff.

Green Line project cost reports were not inclusive of all communication and engagement costs due to the following:

- Since October 2016, project cost reports included a breakdown of external consulting costs to separately identify the communication and engagement cost component. However, this breakdown applied to project-wide engagement costs and did not include engagement costs specific to the Southeast, North, City Centre or Beltline segments of the Green Line project.
- CSC recovered engagement costs from TI quarterly. In 2016 and 2017, the recovery was based on a fixed annual CSC communication staff charge of approximately \$516K (\$129K per quarter), which had not been updated since January, 2016. We noted that communication staff hours were tracked monthly starting in March 2016.
- Costs were allocated to the Green Line project based on the percentage of time spent by CSC staff on the Green Line project. However, the allocation did not include all ERU staff costs since ERU staff hours are not being tracked or charged to the Green Line project except for overtime.

Recommendation 1

The Green Line Project Manager include a communications and engagement budget in the approved annual engagement plans, based on cost estimates supported by activity work plans, and establish processes to support regular tracking, reporting, and review of all communication and engagement costs and forecasts.

Management Response

Agreed.

Action Plan	Responsibility
<p>Green Line Project Director to include a more comprehensive communication and engagement budget that is based on the following:</p> <ul style="list-style-type: none"> • Inclusion of all direct costs associated for communication and engagement activities and based on the approved annual engagement plans. Costs to include but not limited to consulting fees, event costs, promotions and advertising, and communications and engage resource staff time. • Approved communication and engagement budgets to be assigned to the previously identified activity code within the cost breakdown structure. • Project analysts to meet with the communication and engagement project leads monthly to review expenditures to date, forecasts, and scope changes. <p>CSC to provide cost estimates and activity work plans at the project level including forecasts of expenditure. This would include:</p> <ul style="list-style-type: none"> • Annual engagement plan including the development of service level agreements in order to identify staff time. • Work plans outlining anticipated activities and linked to the projects key milestones. • As part of regular cycle of work, document work to be completed with forecasts of cost. • Track costs accordingly and ensure they are reported back against forecasts. • Identify scope changes and follow change management process. 	<p><u>Lead</u>: Project Director</p> <p><u>Support</u>: Manager Engagement & Manager, Project Controls</p> <p><u>Commitment Date</u>: April 2, 2018</p>

Recommendation 2

The Director, Customer Service & Communication establish processes to ensure that communication and engagement staff costs can be attributed to individual projects, including the Green Line, and that cost estimates are kept up-to-date or reassessed at least annually.

Management Response

Agreed.

Action Plan	Responsibility
This recommendation will be satisfied through the CSC-wide implementation of project-level time tracking and client priority setting & tracking. Estimates to be included in project planning, reporting and close-out phases.	<u>Lead:</u> Director, CSC <u>Support:</u> Manager, Engagement & Manager, Business Operations <u>Commitment Date:</u> August 1, 2018

4.2 Evaluation of Engagement Process and Outcomes

Formal evaluations of the overall Green Line public engagement processes and outcomes have not been performed since November 2015, although annual Green Line lessons learned meetings are held that include an engagement process component and evaluations are performed at the individual event level. The Engage Policy guiding principles include Accountability and Responsiveness to demonstrate that the results and outcomes of engagement processes are consistent with approved plans and that feedback is collected and delivered to stakeholders in order to share input on both engagement processes and outcomes. The Engage Framework and Tools identifies evaluation of both the engagement process and outcomes as a fundamental component of good engagement in order to document lessons learned that can be applied to future projects. Where there is no evaluation after completion of significant engagement milestones, there is a risk of inadequate assessment of engagement strategy effectiveness and a risk that the Green Line project team may not identify lessons learned and opportunities for continuous improvement that can be applied to future Green Line engagement.

No formal overall evaluation of the engagement process and outcomes has been performed since the Phase 1 Green Line Southeast Transitway Public Engagement Process Report prepared for The City in November 2015 by a consultant. This report documented how the public and key stakeholders had been involved in the design work done in the Southeast between January and October, 2015, including the approach used to assess the public engagement process.

One of steps in the Engage Framework and Tools is to perform a project close-out and lessons learned. However, there are no standards and guidance on what should be reviewed or guidance on interim lessons learned for longer or more complex projects.

Although engagement plans and activities tested in fieldwork generally met engagement criteria identified in the Engage Policy and the Engage Framework and Tools, we were unable to provide assurance that all engagement plans and activities in our sample met the criteria due to a lack of formal engagement documentation. Adequate documentation should be maintained to perform effective evaluations of engagement processes and outcomes and to support the principles of accountability and transparency.

Recommendation 3

The Manager, Engagement update the Engage, Framework and Tools to provide standards and guidance on the evaluation of the public engagement process and outcomes, including interim lessons learned for longer and more complex projects, and record retention requirements for key reference documents to support formal evaluations.

Management Response

Agreed.

Action Plan	Responsibility
<p>Commitments currently outlined in the Engage Policy, Framework and Tools will be supplemented by process and governance to ensure more consistent evaluation at predictable intervals.</p> <p>Following this, plans to update the Engage Policy in this regard will be included in the yet-to-be-determined update to the Engagement Policy.</p> <p>Further, CSC to examine its compliance with record retention requirements and ensure articulated processes are followed.</p>	<p><u>Lead:</u> Manager, Engagement</p> <p><u>Commitment Date:</u></p> <ul style="list-style-type: none"> July 2, 2018 to implement process for more regular intervals of evaluation. December 31, 2018 for inclusion in the plan to update the Engagement Policy in 2019.

Recommendation 4

The Green Line Project Manager establish processes to ensure that formal evaluations of public engagement processes and outcomes are prepared after completion of significant Green Line engagement milestones to inform the next phase of planning. Processes should include confirmation and maintenance of key reference documents to support formal evaluations.

Management Response

Agreed.

Action Plan	Responsibility
<p>Project Director to identify the key project milestones and the associated public engagement events that require formal evaluation. The process of evaluations will include post public engagement reviews including minutes, summary report, and lessons learned to be used to inform the next phase.</p> <p>CSC to ensure that evaluations at predictable intervals are made available to the Green Line Project Director to ensure that recommendations can be implemented or addressed.</p>	<p><u>Lead</u>: Project Director</p> <p><u>Support</u>: Manager, Engagement</p> <p><u>Commitment Date</u>: February 1, 2018</p>

4.3 Reporting Back

WWD reports or equivalent interim reports were not published to share how citizen and stakeholder input was or was not used by the project team in ongoing Green Line decisions. One of the guiding principles in the Engage Policy is Transparency, which requires The City to communicate to stakeholders how input was considered, or why input was not used, in decision making. The Engage Framework and Tools identifies the WWD report as a required document. Without WWD or equivalent interim reports, Calgarians and other stakeholders may lose confidence in the engagement process, which could negatively impact the success of the Green Line project.

Although the WWD report is a required document, there are no standards or guidance on when to issue WWD or equivalent interim reports on longer and more complex projects such as the Green Line. Green Line staff utilized in-person events to present constraints and allow participants to see how their input was used or not used. Although information was shared at these in-person events, the information may still not fully address how input results were used or not used in station alignment, transit infrastructure, connections to stations, and TOD study area results presented to Council, particularly if those Calgarians and other stakeholders have not been actively participating throughout the engagement process.

Some segments of the Green Line project, particularly the Beltline, evolved rapidly with potential options being added at short notice. After in-person engagement on three Beltline options in September 2016, Council voted on October 4, 2016 to continue to explore a fourth option that had been previously removed from consideration. Additional on-line engagement took place from October 4 to 18, 2016 on the four options. The WWH report combined input on the three options in September and input on the four options in October without providing additional explanation to help users understand how the engagement process evolved. A WWD report or equivalent report, may have provided more clarity on how the input on the three options leading up to the presentation to Council on October 4, 2016, and subsequent engagement was or was not used.

Recommendation 5

The Manager, Engagement update the Engage Framework and Tools to provide standards and guidance on issuing What We Did reports or equivalent interim reports on longer and more complex projects, to communicate how The City has considered and used public input in the engagement process.

Management Response

Agreed.

Action Plan	Responsibility
<p>CSC will make adjustments to the Engage Policy, Framework and Tools to ensure that What We Did and interim reports are completed to better articulate how The City has used public input in the engagement process.</p> <p>Following this, plans to update the Engage Policy in this regard will be included in the yet-to-be-determined update to the Engagement Policy.</p>	<p><u>Lead:</u> Manager, Engagement</p> <p><u>Support:</u></p> <p><u>Commitment Date:</u></p> <ul style="list-style-type: none"> • Process, framework and tool improvements- May 31, 2018 • December 31, 2018 for inclusion in the plan to update the Engagement Policy in 2019.

Recommendation 6

Until guidance from the Engage Framework and Tools is updated, the Green Line Project Manager publish interim reports on how The City considered and used public input in the engagement process, annually or after the completion of significant Green Line project milestones.

Management Response

Agreed.

Action Plan	Responsibility
<p>At identified key project milestones, the Project Director is to review the public engagement reports prepared by the engagement team that identifies how public input was considered. Reports will be authored by the engagement lead, reviewed and signed off by the Project Director and published on the Green Line website/engage portal.</p>	<p><u>Lead:</u> Project Director</p> <p><u>Support:</u> Manager, Engagement</p> <p><u>Commitment Date:</u> April 2, 2018</p>

EXTERNAL AUDITOR 2016 MANAGEMENT LETTER UPDATE

EXECUTIVE SUMMARY

This is an update on identified matters that may be of interest to Administration on the 2016 Audit of the City of Calgary financials. These identified matters were not significant or material in nature.

RECOMMENDATIONS:

That the Audit Committee:

1. Receives this Report and attachments for Information;
2. Recommends that Council receive this Report and attachments for Information.

PREVIOUS COUNCIL DIRECTION / POLICY

The Audit Committee Bylaw 48M2012 states that the Audit Committee, with respect to the External Auditor:

“Receives and reviews the External Auditor’s Management Letter(s), together with any Administration response, and forward, either in full or in summary, to Council for information.”

Schedule “B”, section 1(f)

Council received for information the External Auditor’s 2016 Management Letter for the 2016 Audit at the 2017 July 24 Regular Meeting of Council.

BACKGROUND

The External Auditor, Deloitte LLP, presented their External Auditor 2016 Management Letter, AC2017-0440, at the 2017 June 22 Regular Meeting of the Audit Committee. Audit Committee approved the following:

“Requests the External Auditor to provide their annual report regarding the implementation status of the recommendations contained in the 2016 Management Letter at the 2018 January Audit Committee meeting;”

This report is the update to the 2016 Management Letter as requested in Report AC2017-0440.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

Deloitte’s assessment of Administration’s actions, the original findings, recommendations and Administration’s comments, are outlined in the attached letter dated 2018 January 17 from Deloitte LLP.

Audit Committee should consider all recommendations made by the External Auditor and the responses from Administration to see if the recommendations have been appropriately implemented or responded to.

EXTERNAL AUDITOR 2016 MANAGEMENT LETTER UPDATE

Stakeholder Engagement, Research and Communication

The letter is addressed to The City's Chief Financial Officer.

Strategic Alignment

This report and recommendations align with Council priority "A well run-city - Calgary's government is open, responsive, accountable and transparent, delivering excellent services at a fair price. We work with our government partners to ensure we have the tools we need".

Social, Environmental, Economic (External)

Not applicable.

Financial Capacity

Current and Future Operating Budget:

The Audit Committee budget contains a line item for the external auditor fees and there are no budget implications for this Report.

Current and Future Capital Budget:

There are no budget implications for this Report.

Risk Assessment

There are potential non-material risks to the City of Calgary if the Deloitte recommendations are not appropriately implemented or responded to by Administration.

REASON FOR RECOMMENDATION:

The Audit Committee Bylaw 48M2012 requires the Audit Committee to receive and review the External Auditor's Management Letter Reports and to forward to Council for information.

ATTACHMENT

Deloitte LLP 2016 Management Letter Update

Deloitte LLP
700, 850 2 Street SW
Calgary, AB T2P 0R8
Canada

Tel: 403-267-1700
Fax: 403-213-5791
www.deloitte.ca

January 17, 2018

Mr. Eric Sawyer, Chief Financial Officer
The City of Calgary
800 MacLeod Trail SE
Calgary, AB T2P 2M5

Dear Mr. Sawyer:

During the course of our December 31, 2016 audit of the consolidated financial statements of The City of Calgary ("The City"), we identified certain matters that may be of interest to Administration and provided a letter of recommendations to Administration and the Audit Committee on June 22, 2017. These matters were not significant or material in nature in the context of the December 31, 2016 financial statements taken as a whole and did not impact our ability to issue our audit report.

We have now provided an update on these matters based on our interim audit procedures performed through to November 2017. Please note that Appendix A relates to the December 31, 2016 year-end, Appendix B relates to the December 31, 2015 year-end and Appendix C relates to the December 31, 2014 year-end. In relation to tangible capital asset ("TCA") observations, we note that Administration has continued to expend focus and effort on the accounting of TCA, as well as continuous staff education and training. Administration is in the process of implementing recommendations from the prior year management letters relating to TCA accounting balances and related processes. Significant progress has been made by Administration during the current and prior years in implementing the TCA Project Charter through a formal TCA Steering Committee, with the overall objective of developing TCA solutions and implementing processes that are consistent throughout all business units, simple to implement and which, when fully implemented, will allow for overall compliance with TCA policies by all business units. Specifically, for the current year, a formal review of the Land and Land Improvements asset categories were completed and appropriate changes were implemented. All major asset categories have now been formally reviewed with the plan to review minor asset categories during fiscal 2018 and 2019. We also note that a TCA Costing System was implemented in fiscal 2017 which has assisted in the implementation of many of our recommendations relating to TCA account balances.

Throughout the year, we have held regular discussions with Administration on the on-going implementation of the TCA Project Charter and, where applicable, have applied audit procedures to any changes in processes or policies implemented during fiscal 2017. We appreciate Administration's continued efforts to implement the recommendations that were issued in the prior year management letter during fiscal 2017. We will continue to work with Administration on the on-going implementation of the TCA Project Charter.

The following summarizes the management letter points included in Appendices A to C:

Year Identified	Title	Observation/Description	Status
2016	Contract review by business units	Business units may not have full awareness of contracts entered into by The City and resulting impact on the financial statements	In progress
2016	TCA – Reconciliation between LINDA and PSAM	Reconciliations between LINDA and PSAM are not performed on a regular basis	In progress
2016	Delay in depositing cheques	Cheques were not deposited on a timely basis	In progress
2016	Communication between business units and Corporate Financial Reporting	We observed situations where communication within the business units themselves and between the business units and the Corporate Financial Reporting team was unclear or lacking and in many cases was untimely	In progress
2015	Adoption and implementation of PS3260	The adoption of this new standard was incomplete	In progress
2015	Implementation of new TCA policies	We recommend that Administration implement processes to regularly monitor the new TCA policies and processes application	In progress
2013-2015	Tangible Capital Assets	<ol style="list-style-type: none"> 1. Untimely review of WIP and accruals 2. Delay in hand-off of TCA assets between business units 3. TCA costing linked to asset management systems 4. Use of manual processes to account and record TCA transactions 	In progress

This communication is prepared solely for the information and use of, as applicable, Administration, the Audit Committee, members of Council and others within The City. Further, this communication is not intended to be and should not be used by anyone other than these specified parties or summarized, quoted from or otherwise referenced in another “document” or “public oral statement”. We accept no responsibility to a third party who uses this communication.

We wish to express our appreciation for the courtesies and cooperation extended to our representatives during the course of our work. We would be pleased to discuss and/or clarify the matters included herein with you further should you wish to do so.

Yours truly,



Chartered Professional Accountants

cc: The Audit Committee of The City of Calgary

Appendix A - December 31, 2016 year-end observations – January 2018 update

1. *Contract review by business units*

Year Identified - 2016

Observation:

The City enters into various contracts each year that have both operational and accounting and financial reporting implications. These contracts can be unique and can also include a number of complex underlying accounting treatments which require an in-depth, detailed analysis to ensure all accounting and financial reporting matters impacting the consolidated financial statements are taken into consideration.

We noted that business units may not have a full awareness of existing contracts that are in place, that the business units may not fully understand the financial reporting implications of the existing contracts and that the business units may not be communicating existing contracts to Corporate Financial Reporting in a timely manner.

Recommendation:

We recommend that Finance review existing contracts to ensure any accounting and reporting implications of these contracts is assessed on a timely basis. If Finance is uncertain of the accounting and reporting implications or if the contract is unique or complex, it is recommended that Finance Leads or Financial Service Leads reach out to the Corporate Financial Reporting group. Further, if any new accounting and reporting implications are identified on existing contracts, Finance Leads or Financial Service Leads should communicate these matters to the Corporate Financial Reporting group.

Administration response:

Administration agrees with the recommendations. To strengthen The City's contract review and management process, the following actions will be considered by Finance:

- Develop and implement a work plan in 2017 to identify active agreements and establish a review timeframe;
- Meet on a quarterly basis to determine accounting treatments associated with complex transactions and agreements; and
- Investigate potential anomalies and present findings of confirmed accounting differences that have a significant financial impact on The City's financial results to the Audit Committee.

Administration update (January 2018):

Administration continues to agree with this recommendation. During 2017, Finance:

- Developed and implemented a work plan to gather information regarding The City's agreements and identify appropriate review timeframes; and
- Established a working group that met on a quarterly basis to exchange information regarding complex transactions and agreements.

Administration recognizes the importance of communicating accounting differences to the Audit Committee and will provide further updates if items are identified.

Auditor's response (based on November 2017 interim audit procedures):

Deloitte was provided and reviewed the template of the work plan used to gather information regarding The City's agreements from the business units. We will perform audit procedures on the completed work plan (by business unit) during the year-end fieldwork. We will report any deficiencies or further recommendations to Administration and the Audit Committee upon completion of the 2017 year-end audit.

2. Tangible capital asset ("TCA")

Year Identified - 2016

Observation:

During our 2016 year-end audit procedures, we noted that reconciliations between the LINDA system and PSAM system for land are performed only when there is a change in the status of the land (i.e. sale or division of land). However, through Administration's continuous refinement and improvement of The City's capital asset accounting and management systems, there were instances of duplication of land identified in 2016. These duplications resulted in prior period errors of \$8.6M which were included in the restatement of the December 31, 2015 balances. These duplications would have been identified on a timelier basis if frequent reconciliations between the LINDA system and PSAM were performed.

Recommendation:

We recommend that reconciliations of land be performed between the LINDA and PSAM systems on a regular basis.

Administration response:

Administration agrees with this recommendation. The City assigned a dedicated resource to start the reconciliation of land between the LINDA and PSAM systems beginning in Q3 2017 using a risk-based approach. The TCA Program will complete its review of the most complex land parcels by 2018 and the remainder of low-risk reconciliations will be completed by 2019. Significant accounting differences, once identified and confirmed through the TCA Program's investigation, will be communicated to the Audit Committee.

Administration update (January 2018):

Administration continues to agree with this recommendation. During 2017, the TCA Program has started the reconciliation of land between LINDA and PSAM. The TCA Program is currently limited by resource constraints but will continue to review its most complex land parcels in 2018. The remainder of the less complex reconciliations are planned to be complete by 2019. The City will correct errors as they are discovered through the reconciliation process.

Auditor's response (based on November 2017 interim audit procedures):

We will review the Administration prepared reconciliations during our year-end field work and will report any deficiencies or further recommendations to Administration and the Audit Committee upon completion of the 2017 year-end audit.

3. Delay in depositing cheques

Year Identified - 2016

Observation:

During our 2016 year-end audit procedures, we noted four cheques relating to the payment of permit applications for a total amount of \$3.7M which were received in October and December 2016 but not deposited into the bank until January 2017 were incorrectly shown on the year-end bank reconciliation as an outstanding deposit. This error was corrected by Administration in the finalization of the year-end financial statements. We understand that the delay in depositing these cheques was on oversight on the part of the project managers in the business unit. There is a risk that if cheques are not deposited on a timely basis that the cheques may be lost or upon deposit, the cheques may bounce or be stale dated. This may also increase the possibility of errors in the financial statements.

Recommendation:

All cheques received should be deposited in the bank within 1-2 business days. If cheques are held for longer than this timeframe, the Finance Lead and Finance Service Lead of the respective business unit should be notified.

Administration response:

Administration considers this to be an isolated situation. The City will continue to monitor and enforce the existing internal policy for cash that require cheques that are received to be deposited into the bank within 1-2 business days of receipt.

Administration update (January 2018):

Administration continues to consider this to be an isolated situation. During 2017, The City continued to monitor and enforce the existing internal policy for cash that require cheques that are received to be deposited into the bank within 1-2 business days of receipt.

Auditor's response (based on November 2017 interim audit procedures):

We will discuss with the Finance Lead and Finance Service Lead of various business units during our year-end field work if any cheques were not deposited in accordance with the existing internal policy and if the appropriate individuals were notified. We will report any deficiencies or further recommendations to Administration and the Audit Committee upon completion of the 2017 year-end audit.

4. Communication between business units and Corporate Financial Reporting

Year Identified – 2016

Observation:

Certain business units did not provide Corporate Financial Reporting with sufficient information in order to assist the business units in making appropriate accounting entries. When Corporate Financial Reporting is assisting a business unit with a unique or complex transaction, the business unit should provide Corporate Financial Reporting with all information that is available regarding the transaction. For example, business units incorrectly utilized funding sources

in previous years. As part of the December 31, 2015 restatement, this utilization of funding sources was corrected. However, as part of the audit, we noted many revisions to the amount to be corrected as business units had not provided Corporate Financial Reporting with all of the information required to make the correction.

Recommendation:

We recommend that when Corporate Financial Reporting is assisting a business unit with a unique or complex transaction, the business unit should provide Corporate Financial Reporting with all information that is available regarding the transaction.

Administration response:

Corporate Financial Reporting and the business units will continue to collaborate on an on-going basis to ensure that relevant information is shared and assessed:

- Corporate Financial Reporting will continue to provide training in 2017 to Finance personnel; and
- Corporate Financial Reporting and Finance personnel will meet on a quarterly basis to discuss accounting treatments associated with complex transactions.

Administration update (January 2018):

During 2017, Corporate Financial Reporting and the business units continued to collaborate on an on-going basis regarding complex transactions and accounting treatments. Corporate Financial Reporting held training sessions throughout 2017 for Finance personnel, collaborated with Finance personnel to review and address complex transactions on an as-needed basis and established a working group that met on a quarterly basis to exchange information regarding complex transactions and agreements.

Auditor's response (based on November 2017 interim audit procedures):

During our year-end audit procedures, we will obtain the training session materials and attendance records for the sessions held in 2017 to confirm the training sessions were scheduled and conducted on a quarterly basis. We will also obtain the materials discussed at the quarterly meetings of the working group regarding complex transactions and agreements. We will report any significant deficiencies to Administration and the Audit Committee upon completion of the 2017 year-end audit.

Appendix B - December 31, 2015 year-end observations – January 2018 update

1. *Adoption and implementation of PS 3260 accounting standards*

Year Identified - 2015

Observation:

The Public Sector Accounting Board issued *PS 3260 – Liability for Contaminated Sites* (“PS 3260”) in June 2010 and implementation by The City of this new accounting standard was required for the year ended December 31, 2015. This new standard establishes requirements on how to account for and report a liability associated with the remediation of contaminated sites owned by The City. The standard also defines which activities should be included in a liability for remediation, establishes the timing of this recognition, details the method of measurement and provides the requirements for financial statement presentation and disclosure.

We note that the adoption of PS 3260 was incomplete as at December 31, 2015, as a result of a formal policy not being established in relation to this standard as well as an incomplete review of all sites owned by The City.

We further note there was a lack of in-depth analysis of the accounting standard by the Corporate Financial Reporting team and information and analysis received from the Environmental & Safety Management (“ESM”) business unit and the Law department in regards to the adoption of this standard was not prepared on a timely basis.

There are several areas of judgment and interpretation within PS 3260 that require a formal policy to be established to appropriately address The City’s application and accounting treatment of these items. For example, The City is required to define its interpretation of productive versus non-productive use of a site and when The City is deemed to be responsible for contaminated sites. While Administration drafted a policy which was provided to Deloitte for review, the policy was not finalized and approved by Administration in fiscal 2015.

In addition, the ESM business unit had not completed a complete assessment of all City owned sites as at December 31, 2015 to determine if these sites were in scope of the requirements under PS 3260. The ESM business unit utilized a risk based approach to identify sites having a higher likelihood of contamination. Based on this risk based approach, 142 sites were identified as having a high risk of contamination. Of these 142 sites, Administration completed an assessment of 6 sites as at December 31, 2015, with the remaining 136 to be assessed in fiscal 2016. Based on discussions with Administration, as of March 2016, 52 of the 142 sites have been assessed under the new standard.

The incomplete adoption of the standard results in the potential for an unrecorded liability and possible misstatement of the financial statements at December 31, 2015, as was discussed in our year-end report presented on April 14, 2016.

Recommendation:

We recommend that a work plan be implemented to complete the implementation of PS 3260 during fiscal 2016. This work plan would outline the responsible parties, deadlines and required documentation.

We recommend that the draft policy be finalized and the policy include all required information, definitions and interpretations of PS 3260 requirements to ensure appropriate and complete application of the standard. Finally, the remaining 136 sites that were not assessed as at December 31, 2015 should be reviewed before the end of fiscal 2016.

Administration response:

Administration agrees with the recommendation to implement a work plan and to finalize and implement a policy for application of PS 3260. As per the recommendation, the previously assembled working group, comprised of Corporate Financial Reporting, Law department, UEP Finance, and ESM, will be reconvened to finalize the policy and procedures. This work will also take into consideration contemporary practices and policies. The procedures will outline the responsible parties, deadlines and required documentation. Corporate Financial Reporting, Law department, UEP Finance and ESM will also complete a comprehensive review of PS 3260 to confirm that all requirements of the standard have been met.

Prior to the end of fiscal 2016 ESM will complete the outstanding Detailed Environmental Site Reviews (DESR) for its higher risk sites (136 outstanding as at December 31, 2015) in accordance with the policy and procedures. Based on the initial DESR recommendations, further environmental assessment work may be required to better quantify and delineate the nature and extent of contamination. For sites that meet the five PS 3260 inclusion criteria, ESM will provide an estimate of the remediation costs to UEP Finance for the purposes of reporting a liability.

Administration update (January 2017):

Administration continues to agree with this recommendation. During 2016, a work plan was established between ESM, Law department, UEP Finance and Corporate Financial Reporting to ensure that the recommendations are met. A formal PS 3260 Liability for Contaminated Sites (GN-042) was approved in July 2016 and the remaining 136 sites have been assessed. Based on this review, no further liability has been identified.

Auditor's response (based on November 2016 interim audit procedures):

Deloitte received the assessments of the remaining 136 sites during interim fieldwork. We will perform internal control and substantive procedures over the liability associated with the potential remediation costs during our year-end field work. We have received the finalized policy and will assess the policy against PS 3260 during the year-end fieldwork. We will report any significant deficiencies or errors to Administration and the Audit Committee upon completion of the 2016 year-end audit.

Auditor's update (based on 2016 year-end audit procedures):

Administration made significant progress in completing the adoption of this standard during fiscal 2016 and performed an initial assessment on all remaining 136 sites outstanding from the prior year. Deloitte reviewed the assessments of the remaining 136 sites during year-end fieldwork. A further analysis is required by ESM and Law department on 5 of these sites.

In addition, we recommend that ESM, Law department, UEP Finance and Corporate Financial Reporting meet on a monthly or quarterly basis to ensure that any new sites identified are assessed on a timely basis.

Administration update (June 2017):

Administration continues to agree with this recommendation. Administration established a Strategic Group, a PS 3260 Working Group, and a communication protocol to improve the implementation of The City's PS 3260 Administration Policy and Procedure.

The City will also monitor the business units' compliance with PS 3260 through:

- Development of an audit plan to identify sites to be reviewed in a given year; and
- Periodic discussions between ESM, UEP Finance, and Corporate Financial Reporting to share status of site reviews, as well as any associated impacts to the financial statements.

ESM and the Law department are in the process of performing further analysis of the five sites requiring further work to ensure The City continues to be compliant with PS3260 for fiscal 2017.

Administration update (January 2018):

Administration continues to agree with this recommendation. During 2017, ESM and Law performed further analysis on the five sites requiring further work, the result of this analysis was that no further liability was required for PS3260 purposes and The City continues to be compliant for Fiscal 2017. Updates for compliance with PS3260 were provided by ESM and UEP finance to Corporate Financial Reporting throughout 2017 with formal updates during periodic review of ESM financial information in May and September. ESM has developed a 2017 audit plan for the purposes of managing contamination of City Sites and this includes reviewing for compliance with PS3260. As a result of the work performed in 2017, no further liability is required to be record in the financial statements.

Auditor's response (based on November 2017 interim audit procedures):

Deloitte will perform internal control and substantive procedures over the five sites which required further work and any additional sites identified in 2017. We will report any significant deficiencies or errors to Administration and the Audit Committee upon completion of the 2017 year-end audit.

2. Implementation of new tangible capital asset ("TCA") policies

Year Identified - 2015

Observation:

The City implemented a new policy and process for accounting for machinery and equipment during 2015. Administration has plans to revise the remaining TCA policies and process within the next few years as part of the TCA Project Charter. Accordingly, there is a risk that the new processes are not implemented consistently across all business units.

Recommendation:

We recommend that Administration implement processes to regularly monitor the new TCA policies and application. These processes would include establishing a team to review the TCA policies and instituting a process whereby this team randomly completes spot checks of the adoption and implementation of the business unit's application of the new TCA policies.

Administration response:

Administration agrees with the recommendation. In 2016, changes to the TCA reporting policy will be:

- a. Reviewed and monitored by Corporate Financial Reporting and business units during interim and annual reporting periods;
- b. Reinforced using on-going training sessions provided by the Corporate TCA project and Corporate Financial Reporting to key personnel in both Operations and Finance; and
- c. Validated by Corporate Financial Reporting using newly developed system controls.

The above processes and controls will be used for all asset categories that are examined by the TCA project.

Administration update (January 2017):

- a. Corporate Financial Reporting has reviewed and monitored the application of the TCA reporting policy throughout the year for May and September and will monitor for December;
- b. On-going training sessions are held with both Operations and Finance during the year; and
- c. Newly developed system controls validated and ensured the appropriate application of the updated TCA reporting policy. For instance, Administration used system-generated reports to identify and investigate unusual transactions.

Auditor's response (based on November 2016 interim audit procedures):

We held regular discussions with Administration during the year regarding the new TCA policies implemented. We have started our internal control and substantive procedures for the new TCA policies and newly developed system controls during the interim field work and will complete these procedures during the year-end field work. In addition, during our year-end audit procedures we will obtain the training session materials and attendance records for the 2016 sessions. We will report any significant deficiencies or errors to Administration and the Audit Committee upon completion of the 2016 year-end audit.

Auditor's update (based on 2016 year-end audit procedures):

We held regular discussions with Administration during the year regarding the new TCA policies implemented in 2016 (Buildings and Engineered Structures). We performed our internal control and substantive procedures for the new TCA policies implemented and newly developed system controls during our year-end field work. We also obtained the training session materials and attendance records for the 2016 sessions held in May, September and December. We will continue to hold regular discussions with Administration as Administration implements new TCA policies in 2017 for other asset categories.

Administration update (June 2017):

Administration continues to agree with this recommendation. The City's newly formed TCA reporting team will also review TCA transactions to ensure they are compliant with the updated TCA policies and processes using the TCA costing system. Development and implementation of The City's policies and processes for the remaining asset categories are expected to be completed by 2019 based on Administration's response to 2016's MLP #2.

Administration update (January 2018):

Administration continues to agree with this recommendation. The TCA reporting team and Corporate Financial Reporting will continue to monitor the application of the TCA policy and processes using the TCA costing system. TCA policies have been reviewed and asset hierarchy changes for land and land improvements were implemented in 2017. The vehicles asset class will be revisited and is expected to be completed by 2019.

Auditor's response (based on November 2017 interim audit procedures):

We held regular discussions with Administration during the year regarding the new TCA policies implemented. We commenced our internal control and substantive audit procedures for the new TCA policies and system controls during interim field work and will complete these procedures during the year-end field work. We will report any significant deficiencies or errors to Administration and the Audit Committee upon completion of the 2017 year-end audit.

Appendix C - December 31, 2014 year-end observations – January 2018 update

#	Observation Title	Year Identified	Observation	Recommendation	Administration Response	Completion Timeline	Process Owner / Recommendation Status
1	Tangible Capital Assets Untimely review of capital project costs, accruals and work in progress	2013 - 2015	<p>In 2013, we noted "to ensure that the project costs, accruals and work in progress are accounted for on a timely basis, we recommended the implementation of a formalized process to review capital expenditures and reconciliations throughout the year versus at the end of the year, which will reduce the amount of review of capital projects at year-end when business unit personnel are focused on other financial reporting finalization matters".</p> <p>2016 Update: In 2014, 2015, and 2016, we noted that some business units are still reviewing this information quarterly or semi-annually. We also noted that some business units are still analyzing WIP on a project versus an invoice level. For 2016, the net error of TCA WIP is not material. We held regular discussions with Administration during the year regarding the new TCA policies implemented. We tested the implementation of the revised Buildings and Engineered Structures TCA policies. We will continue to test the TCA processes implemented by Administration as they are put into action.</p>	<p>We recommend that:</p> <ul style="list-style-type: none"> • All business units review project costs, accruals and work in progress on the same frequency (monthly) to ensure consistency across business units and to further ensure that all capital expenditures are accounted for appropriately to avoid a review of a significant volume of projects and TCA costs close to year-end; and • We recommend that work in progress analysis should be completed on an invoice level and not a project level. <p>2016 Update: We continue to recommend the above noted recommendations.</p>	<p>Administration agrees with this recommendation. During 2014, Administration had set up a TCA Project team to develop a comprehensive strategy and work plan with the goal of comply, simplify, and consistency. As part of the work plan, the root causes of TCA reporting are being investigated and analyzed. Currently, all Business Units review capital projects during the year however the determination of the appropriate solution to be applied consistently will need to be assessed as part of the TCA Project.</p> <p>Administration update (January 2017): Administration continues to agree with this recommendation. The TCA Program is designing process improvements and system enhancements to better support identification and tracking of capital costs.</p> <p>Administration update (June 2017): Administration continues to agree with this recommendation. The newly established TCA reporting team will review costs at an invoice level each month using the TCA costing system.</p> <p>Administration update (January 2018) Administration continues to agree with this recommendation. The TCA reporting team is reviewing WIP transactions for TCA policy compliance on an on-going basis. The TCA reporting team is currently limited by resource constraints but is committed to the review and loading of assets and reducing the reliance on accruing in service assets where possible. System and process improvements will continue to be refined in 2018.</p>	<p>Capital project review process to be assessed during 2015 and the decision of the appropriate process to be implemented will be made in 2016.</p> <p>Administration update (January 2017): The TCA Program completed its assessment of the capital project review process in Q3 2016. As a result, process improvements will be implemented in 2017.</p> <p>Administration update (June 2017): The TCA Program will continue to develop and implement process improvements in 2017.</p> <p>Administration update (January 2018) The team will continue to identify and implement opportunities for system and process improvement in 2018.</p>	<p>City Treasurer, Director of Finance</p> <p>In progress</p> <p>Auditor update (January 2018) We held regular discussions with Administration during the year regarding the TCA reporting team's review. We will continue to test the TCA processes implemented by Administration.</p> <p>During our interim testing for the year ended December 31, 2017, we tested the initial implementation of the revised Land and Land Improvements TCA policies. We will further test these new policies during year-end procedures. We will communicate any deficiencies to both Administration and the Audit Committee.</p>

#	Observation Title	Year Identified	Observation	Recommendation	Administration Response	Completion Timeline	Process Owner / Recommendation Status
2	Tangible Capital Assets Untimely review of capital project costs, accruals and work in progress	2013 - 2015	<p>In 2013, we communicated in our observation that "There is, at times, a significant delay in "hand-off" of TCA assets between business units".</p> <p>2016 Update: We are working with Administration on their progress on developing a consistently applied and simplified TCA policy regarding the hand-off of TCA assets between business units. We will continue to test the TCA processes implemented by Administration as they are put into action as well as perform substantive procedures over the TCA balance.</p>	<p>We recommend that:</p> <ul style="list-style-type: none"> • Business units formalize the timing and process of "hand-off packages" between business units. This would require enhanced communication between business units and implementation of formal processes to review project status on an on-going basis throughout the project's life cycle. A timeline of when reviews should occur should be formalized; • An automated process be implemented to account for transfer of TCA assets between business units; and • A review of all transfers should be completed on a monthly basis as part of an overall TCA checklist for completeness and accuracy. <p>2016 Update: We continue to recommend the above noted recommendations.</p>	<p>Administration continues to agree with this recommendation. During 2014, Administration had set up a TCA Project team to develop a comprehensive strategy and work plan with the goal of comply, simplify, and consistency. As part of the work plan, documentation of the process of "hand-off packages" between business units starting in Q3, 2015.</p> <p>Administration update (January 2017): Administration continues to agree with this recommendation. The TCA Program is designing process improvements and system enhancements to better support identification and tracking of capital costs for hand-off packages between business units.</p> <p>Administration update (June 2017): Administration established a new TCA reporting team that will be responsible for:</p> <ul style="list-style-type: none"> • Collaborating with business units to complete hand-off of TCA on a timely basis; and • Using the new TCA costing system to automate a portion of the hand-off process, as well as reviewing costs for accuracy before they are transferred to other business units. <p>Administration update (January 2018) The TCA reporting team is structured to share information across business units and ensure the hand off packages are loaded by the appropriate business units.</p> <p>The TCA costing module will continue to be improved to address the needs of tracking and loading multi business units' projects.</p> <p>The TCA reporting team is looking at transfers monthly and will record accruals on an as needed basis.</p>	<p>Capital project review process to be assessed during 2015 and the decision of the appropriate process to be implemented will be made in 2016.</p> <p>Administration update (January 2017): The TCA Program completed its assessment of the capital project review process in Q3 2016. As a result, process improvements will be implemented in 2017.</p> <p>Administration update (June 2017): The TCA Program will continue to develop and implement process improvements in 2017.</p> <p>Administration update (January 2018) To meet year-end requirements, the TCA reporting team is working closely with the business units and Finance to assist with completion of the hand off packages and loading of the assets.</p>	<p>City Treasurer, Director of Finance</p> <p>In progress</p> <p>Auditor update (January 2018) We held regular discussions with Administration during the year regarding the TCA reporting team's structure and process.</p> <p>We will test the TCA processes implemented by Administration. We will communicate any deficiencies to both Administration and the Audit Committee.</p>

#	Observation Title	Year Identified	Observation	Recommendation	Administration Response	Completion Timeline	Process Owner / Recommendation Status
3	Tangible Capital Assets Untimely review of capital project costs, accruals and work in progress	2013 - 2015	<p>In 2013, we communicated in our observation that "Accurate TCA accounting and reporting relies, in some areas, on engineering drawings and other related information. We observed that the Geographic Information System ("GIS") asset registry contains the original data related to the quantities recorded for many Roads and Parks assets".</p> <p>2016 Update: In 2014, 2015 and 2016, we noted that some business units still rely on the LINDA system to identify any donated land in the year. The information within the LINDA system initiates with the developer, which at times may be a lengthy process. Therefore, recording of these donated assets may not be occurring in a timely manner such that assets could be recorded in the incorrect fiscal period.</p>	<p>We recommend that:</p> <ul style="list-style-type: none"> • TCA accounting and reporting be linked to invoice costing, as opposed to asset management systems; • The business units investigate improvements that can be made to the land donation process to minimize the delay in uploading of these assets into The City's accounting records; and • An alternative source of determining when disposals occur should be vetted. <p>2016 Update: We continue to recommend the above noted recommendations.</p>	<p>Administration continues to agree with this recommendation. Understanding the benefit of TCA linked to an invoice costing tool, this will be assessed by Administration.</p> <p>Administration agrees with this recommendation and will be looking into further process control improvements to ensure timely recording of land donations.</p> <p>Administration update (January 2017): Administration continues to agree with this recommendation and continues to make process improvements including:</p> <ul style="list-style-type: none"> • Implementation of systematic and rational disposal calculation methods for Buildings and Engineered Structures • Development of the TCA Costing System solution • Establishment of a subject matter expert team for the improvement of the donated land process with solutions to be implemented <p>Remaining asset categories (land, land improvements, and vehicles) will be investigated in 2017 for process improvement opportunities.</p> <p>Administration update (June 2017): Administration continues to agree with this recommendation and is making progress, which include:</p> <ul style="list-style-type: none"> • Implementation of the TCA costing system in April 2017; • Implementation of the policies and processes for land improvements in Q2 2017; and • Review of policies and processes that affect the reporting of land and vehicles. <p>Further actions to be taken by Administration is also noted in MLP #2 of Appendix A.</p>	<p>The invoice costing tool review will be assessed during 2015 and a decision of the appropriate invoice costing tool will be made in 2016.</p> <p>Process improvement controls in relation to donated land to be identified in 2015.</p> <p>Administration update (January 2017): The TCA Program will continue to refine its process improvements in 2017 for its remaining asset categories (land, land improvements, and vehicles).</p> <p>The TCA program is on schedule to implement the TCA Costing System in April 2017.</p> <p>Administration update (June 2017): The TCA Program implemented the TCA Costing system in April 2017.</p> <p>Further process improvements to the remaining asset categories (land and vehicles) will continue to be made in 2017.</p>	<p>Finance Manager, Corporate Financial Reporting</p> <p>In progress</p>

#	Observation Title	Year Identified	Observation	Recommendation	Administration Response	Completion Timeline	Process Owner / Recommendation Status
					Administration update (January 2018) Administration continues to agree with this recommendation and is using the process improvements made in 2016 and 2017.	Administration update (January 2018) Further process improvements to the Land and Land Improvements asset categories were completed in 2017. Policies and process changes for the vehicles asset class will be revisited and are expected to be completed by 2019.	Auditor update (January 2018) During our interim testing for the year ended December 31, 2017 we tested the initial implementation of the TCA Costing system in 2017. We also tested the initial implementation of the revised Land and Land Improvements TCA policies. We will complete testing of these new policies during year-end procedures. We will communicate any deficiencies to both Administration and the Audit Committee.

#	Observation Title	Year Identified	Observation	Recommendation	Administration Response	Completion Timeline	Process Owner / Recommendation Status
4	Tangible Capital Assets Untimely review of capital project costs, accruals and work in progress	2013 - 2015	<p>In 2013, we communicated in our observation that we noted "Errors with disposals not being recorded in the fiscal year in which they occurred, donated assets are not being recorded and double counting of land as both TCA and land inventory". During our 2014 audit procedures, we noted that items may be resultant from the use of manual spreadsheets, which would be rectified with the implementation of an automated system to track the related assets.</p> <p>2016 Update: In 2014, 2015 and 2016, we noted that TCA accounting is still a manual process. We will review the implementation and related processes / policies relating to the invoice costing system once implemented in 2017.</p>	<p>With the implementation of the various recommendations noted relating to TCA accounting and processes, these errors and issues identified will be resolved.</p> <p>2016 Update: We continue to recommend the above noted recommendation.</p>	<p>Administration continues to agree with this recommendation. During 2014, Administration had set up a TCA Project team to develop a comprehensive strategy and work plan with the goal of comply, simplify, and consistency.</p> <p>Administration update (January 2017): Administration continues to agree with this recommendation. In 2016, Administration implemented an automated disposals process for Buildings and Engineered Structures and investigated process improvements, which will support TCA reporting that will be automated in 2017. The TCA program's TCA Costing system will be implemented by April 2017.</p> <p>Administration update (June 2017): Administration continues to agree with this recommendation. The City's TCA costing system was successfully implemented in April 2017. The TCA Program is also continuing its process and policy improvement work to further support the TCA costing system.</p> <p>Administration update (January 2018) The TCA reporting team collaborated with Deloitte to complete the system implementation audit in Q4 2017.</p>	<p>Capital project review process to be assessed during 2015 and the decision of the appropriate process to be implemented will be made in 2016.</p> <p>Administration update (January 2017): The TCA program is on schedule to implement the TCA Costing System in April 2017.</p> <p>Administration update (June 2017): The TCA Program will collaborate with Deloitte to complete the system implementation audit in 2017.</p> <p>Administration update (January 2018) Deloitte with the system implementation audit in Q1 2018.</p>	<p>City Treasurer, Director of Finance</p> <p>In progress</p> <p>Auditor update (January 2018) During our interim testing for the year ended December 31, 2017 we tested the initial implementation of the TCA Costing system in 2017. We will complete testing of the new system during year-end procedures. We will communicate any deficiencies to both Administration and the Audit Committee.</p>

AUDIT COMMITTEE 2017 YEAR-END ANNUAL STATUS REPORT

EXECUTIVE SUMMARY

This is the 2017 year-end status Report for the Audit Committee 2017 Work Plan, reporting schedule and budget. The activities of the Audit Resource Management Office are also included.

RECOMMENDATION:

That Audit Committee receive this Report and Attachment for Information.

PREVIOUS COUNCIL DIRECTION / POLICY

The Audit Committee Bylaw 48M2012 states that Audit Committee:

“develops a detailed annual work plan which is forwarded to Council for information.”

Schedule “A”, section 1(k)

BACKGROUND

The Audit Committee 2017 Year-End Annual Status Report is provided after the conclusion of the year. There are five sections to the Status Report:

- I. Status of Audit Committee 2017 Work Plan and Reporting Schedule
- II. Audit Committee Continuing Education and Staff Development
- III. Status of Audit Committee Budget
- IV. Approval of Audit and Non-Audit Services
- V. Other Status Information

INVESTIGATION: ALTERNATIVES AND ANALYSIS

This Report provides a conclusion to the Audit Committee 2017 Work Plan, the status of the budget at year-end and includes the activities of the Audit Resource Management Office.

Stakeholder Engagement, Research and Communication

No implications for this Report.

Strategic Alignment

The 2017 Year-end Annual Status Report aligns with Council’s Priority of a well-run city; “Calgary’s government is open, responsible, accountable and transparent, delivering excellent services at a fair price. We work with our government partners to ensure we have the tools we need”.

Social, Environmental, Economic (External)

No implications for this Report.

Financial Capacity

Current and Future Operating Budget:

This Report is based upon budget approvals for the budget cycle 2015 to 2018.

AUDIT COMMITTEE 2017 YEAR-END ANNUAL STATUS REPORT

Current and Future Capital Budget:

There are no capital budget implications for this Report.

Risk Assessment

The 2017 Year-end Annual Status Report provides confirmation that Audit Committee has fulfilled their mandate as contained in Audit Committee Bylaw 48M2012.

REASON FOR RECOMMENDATION:

This Report is a final update on the status of the 2017 Audit Committee Work Plan, budget and provides information on the activities of the Audit Resource Management Office.

ATTACHMENT

Audit Committee 2017 Year-End Annual Status Report

AUDIT COMMITTEE 2017 YEAR-END ANNUAL STATUS REPORT

I. STATUS OF AUDIT COMMITTEE 2017 WORK PLAN

This following provides the original 2017 Work Plan as approved by Audit Committee on 2016 November 10. Reports added, deferred, brought forward or no longer required are indicated in bold print. The items are arranged by Audit Committee meeting date.

AUDIT COMMITTEE 2017 WORK PLAN		
Meeting	Report Title	Report Number
JANUARY 19 2017	<p>External Auditor 2015 Management Letter Update Annual Principal Corporate Risk Report</p> <p><u>IN CAMERA</u> External Auditor 2016 Service Plan Update City Auditor Compensation Audit Forum (Verbal Report) In Camera City Auditor (Verbal Report) In Camera External Auditor (Verbal Report) In Camera</p> <p>-----</p> <p>City Auditor's Office Reports New Central Library Audit</p>	<p>AC2017-0040 AC2017-0020</p> <p>AC2017-0071 - Added AC2017-0032 AC2017-0033 AC2017-0034 AC2017-0035</p> <p>-----</p> <p>AC2017-0054</p>
FEBRUARY 2017	<u>NO MEETING</u>	
MARCH 16 2017	<p>City Auditor's Office 2016 Annual Report Audit Committee 2016 Year-End Annual Status Report Annual Update – Information Technology Risk Management External Auditor Selection Process (2018-2022)</p> <p><u>IN CAMERA</u> Selection of Performance Audits, Program Reviews or Special Studies Audit Committee 2015-2016 Self-Assessment Survey Update Personnel Matter Audit Forum (Verbal Report) In Camera City Auditor (Verbal Report) In Camera External Auditor (Verbal Report) In Camera</p> <p>-----</p> <p>City Auditor's Office Reports</p>	<p>AC2017-0252 AC2017-0111</p> <p>AC2017-0239</p> <p>AC2017-0218 - Added</p> <p>AC2017-0112 - Added</p> <p>AC2017-0004</p> <p>AC2017-0264 - Added AC2017-0114 AC2017-0115 AC2017-0116</p> <p>-----</p>

	Landfill Audit Report Posse Audit Report	AC2017-0251 AC2017-0253
APRIL 20 2017	<p>2016 City of Calgary Annual Report 2016 External Auditor's Year-End Report 2016 Annual Investment Report City Auditor's Office 1st Quarter 2017 Status Report Control Environment Assessment and Management Representations Update</p> <p><u>IN CAMERA</u> 2017 Law Department Annual Report – In Camera External Auditor Services Annual Renewal 2017- 2018 – In Camera (Verbal Report) Position Review - Executive Assistant to Audit Committee – In Camera Civic Partner Audit Report – In Camera Audit Forum (Verbal Report) In Camera City Auditor (Verbal Report) In Camera External Auditor (Verbal Report) In Camera</p> <hr/> <p>City Auditor's Office Reports Transit Fare Revenue Audit External Assessment – City Auditor's Office</p>	<p>AC2017-0304 AC2017-0348 AC2017-0303 AC2017-0359 AC2017-0305</p> <p>AC2017-0302 AC2017-0336</p> <p>No longer required</p> <p>AC2017-0367 AC2017-0349 AC2017-0350 AC2017-0351</p> <hr/> <p>AC2017-0341 AC2017-0357</p>
MAY 2017	<u>NO MEETING</u>	
JUNE 22 2017	<p>ENMAX Audit & Finance Committee Annual Report Calgary Public Library Audit and Finance Committee Annual Report Calgary Economic Development Audit Committee Annual Report Calgary Parking Authority Audit Committee Annual Report Calgary Police Commission Finance and Audit Committee Annual Report External Auditor's Independence Letter for the 2016 Audit External Auditor 2016 Management Letter Code of Conduct Annual Report External Assessment – City Auditor's Office</p> <p><u>IN CAMERA</u> Audit Forum (Verbal Report) In Camera City Auditor (Verbal Report) In Camera External Auditor (Verbal Report) In Camera Selection of External Auditor for 2018-2022</p> <hr/>	<p>AC2017-0385 Deferred to July 2017 AC2017-0389 - Brought forward from July 2017 AC2017-0438 AC2017-0437 AC2017-0439 AC2017-0440 AC2017-0082 AC2017-0538 - Added AC2017-0441 AC2017-0442 AC2017-0443 AC2017-0578 – Added as Urgent Business</p> <hr/>

	City Auditor's Office Reports Human Resources – Succession Planning Audit Calgary Neighborhoods' Support of Community Associations Audit	AC2017-0487 AC2017-0401
JULY 27 2017	ENMAX Audit and Finance Committee Annual Report Attainable Homes Calgary Corporation Audit and Accountability Committee Annual Report Calgary Arts Development Authority Audit Committee Annual Report Calgary Economic Development Audit Committee Annual Report Calgary Public Library Audit and Finance Committee Annual Report Calgary Municipal Land Corporation Audit Committee Annual Report Integrated Risk Management Model Update City Auditor's Office 2 nd Quarter 2017 Status Report External Auditor 2017 Service Plan and Fees Report <u>IN CAMERA</u> External Auditor 2016 / 2017 Performance Assessment – In Camera Review of External Auditor Performance Assessment Template Audit Forum (Verbal Report) In Camera City Auditor (Verbal Report) In Camera External Auditor (Verbal Report) In Camera ----- City Auditor's Office Reports Information Technology (IT) Follow-up Audit	Brought forward to June 2017 AC2017-0448 AC2017-0449 Brought forward to June 2017 AC2017-0447 AC2017-0477 AC2017-0603 AC2017-0613 AC2017-0450 AC2017-0451 AC2017-0589 - Added AC2017-0452 AC2017-0453 AC2017-0454 ----- AC2017-0590
AUGUST 2017	<u>NO MEETING</u>	
SEPTEMBER 14, 2017	Sub-Committee on External Auditor Selection (Verbal) Calgary Convention Centre Authority – Audit Committee Annual Report Calgary Municipal Land Corporation - Audit Committee Annual Report Calgary Housing Company Audit and Risk Management Committee Annual Report <u>IN CAMERA</u> City Auditor's Office 2018 Budget Proposal Audit Committee Annual Self-Assessment (2016-2017) – In Camera Update of External Auditor Performance	AC2017-0668 - Added AC2017-0476 CMLC - Brought forward to July 2017 AC2017-0478 AC2017-0687 AC2017-0637 AC2017-0642 - Added

	Assessment Template Selection of Special Studies and Performance Audits for 2018 – In Camera Audit Forum (Verbal Report) In Camera City Auditor (Verbal Report) In Camera External Auditor (Verbal Report) In Camera ----- City Auditor's Office Reports Utility Billing Audit 9-1-1 Call Centre Audit	No longer required AC2017-0639 AC2017-0640 AC2017-0641 ----- AC2017-0661 AC2017-0664
OCTOBER 2017	NO MEETING (ELECTION YEAR)	
NOVEMBER 2017	NO MEETING	
DECEMBER 14 2017	Election of Chair and Vice-Chair – Committee motion Election of Audit Sub-Committee on Personnel Membership (if required) – Committee motion Audit Committee Orientation (not part of Agenda) Calgary Housing Company Audit and Finance Committee – referral from Sept 2017 Audit Committee 2018 Work Plan City Auditor's Office 3 rd Quarter 2017 Status Report Status of Community Associations and Social Recreation Organizations on City-Owned Land External Auditor – Provision of Additional Services <u>IN CAMERA (CLOSED MEETING)</u> Audit Forum (Verbal Report) In Camera City Auditor (Verbal Report) In Camera External Auditor (Verbal Report) In Camera Personnel Matter ----- City Auditor's Office Reports Corporate Structures List Audit	City Clerks and Chair No longer required Part 1 - 2017 Dec 13 AC2017-1230 - Added AC2017-1136 AC2017-1204 AC2017-1149 AC2017-1246 - Added AC2017-1158 AC2017-1159 AC2017-1160 AC2017-1223 ----- AC2017-1201

***NOTE:** City Auditor's Office 2018 / 2019 Audit Plan will be scheduled for presentation at the January 2018 Audit Committee meeting. The City Auditor's Office Audit Plan is a two-year rolling plan and the 2017 audit activities were approved by Audit Committee at their 2015 December 10 meeting and received for information by Council at their 2016 January 11 Combined Meeting.

II. AUDIT COMMITTEE CONTINUING EDUCATION AND STAFF DEVELOPMENT

Audit Committee Continuing Education

Part 1 of an Audit Orientation program was provided to members of the Committee on 2017 December 13. Presentations were provided by the City Auditor, External Auditor, and Executive

Assistant to the Audit Committee. Part 2 of the Audit Orientation program is scheduled for 2018 January.

The Finance Department provided Audit Committee members with a presentation on Public-Private Partnerships (P3) and Complex Financial Transactions at an educational session held 2017 June.

Staff Development

The Executive Assistant to the Audit Committee obtained the National Advanced Certificate in Local Authority Administration from the University of Alberta.

III. STATUS OF AUDIT COMMITTEE BUDGET

The Audit Committee Bylaw 48M2012 provides for the Committee to develop a budget and recommend it to Council as part of The City's budget process. The Committee's operating budget for 2017 was approved by Council in November 2014 as part of the four-year budget cycle.

The Audit Committee's 2017 total operating budget is \$757,917. There is a positive variance of \$196,000 as at the end of 2017 December. The variance mainly relates to the remaining balance in consulting fees, a surplus in the areas of salaries, wages, benefits, business expenses and an overestimate from 2016 Audit fees.

IV. APPROVAL OF AUDIT AND NON-AUDIT SERVICES

The Audit Committee Bylaw 48M2012 states that the Audit Committee:

"pre-approves all audit and non-audit services performed by the External Auditor. However, the Audit Committee Chair can pre-approve additional audit or non-audit services, performed by the External Auditor, up to \$25,000 total annually. Any approvals by the Chair will be reported to the Audit Committee as part of the Audit Committee Quarterly Status Report."

Schedule "B", Section 1(b).

The Chair of Audit approved additional advisory services be provided by the external auditor which was reported to Audit Committee at the 2017 July 27 meeting (AC2017-0452 In Camera).

IV. OTHER STATUS INFORMATION

A) Autonomous Civic Entities

In accordance with Schedule 'A', Section 1 i) of Bylaw 48M2012, Audit Committee Bylaw, the Audit Committee oversees its governance responsibility with the audit committees of The City's major autonomous bodies. The following entities made annual presentations to the Audit Committee in 2017:

Attainable Homes Calgary Corporation, AC2017-0448
Calgary Arts Development Authority, AC2017-0449
Calgary Convention Centre Authority, AC2017-0476
Calgary Economic Development, AC2017-0389
Calgary Housing Company, AC2017-0478 and AC2017-1230
Calgary Municipal Land Corporation, AC2017-0477
Calgary Parking Authority, AC2017-0438
Calgary Police Commission, AC2017-0437

Calgary Public Library, AC2017-0447
ENMAX Corporation, AC2017-0385

B) City Auditor's Office Reports

In accordance with Bylaw 30M2004, the City Auditor Bylaw, the Audit Committee oversees and ensures the accountability of the City Auditor on behalf of Council. The Audit Committee received and reviewed the following reports and audits from the City Auditor's Office in 2017:

New Central Library Audit, AC2017-0054
Landfill Audit Report, AC2017-0251
Posse Audit Report, AC2017-0253
City Auditor's Office 2016 Annual Report, AC2017-0252
External Assessment - City Auditor's Office, AC2017-0357
City Auditor's Office 1st Quarter 2017 Report, AC2017-0359
Transit Fare Revenue Audit, AC2017-0341
Calgary Neighbourhoods' Support of Community Associations Audit, AC2017-0401
Human Resources - Succession Planning Audit, AC2017-0487
External Assessment - City Auditor's Office, AC2017-0538
City Auditor's Office 2nd Quarter 2017 Report, AC2017-0613
Information Technology (IT) Follow-Up Audit, AC2017-0590
Utility Billing Audit, AC2017-0661
9-1-1 Call Centre Audit, AC2017-0664
City Auditor's Office 2018 Budget Proposal, AC2017-0687
Corporate Structures List Audit - AC2017-1201
City Auditor's Office 3rd Quarter 2017 Report - AC2017-1204

C) External Auditor

The external auditor submitted the following reports in 2017 for Audit Committee review:

External Auditor 2015 Management Letter Update, AC2017-0040
External Auditor 2017 Service Plan Update, AC2017-0071
2016 External Auditor's Year-End Report, AC2017-0348
External Auditor's Independence Letter for the 2016 Audit, AC2017-0439
External Auditor 2016 Management Letter, AC2017-0440
External Auditor 2017 Service Plan and Fees, AC2017-0450
External Auditor – Provision of Additional Services, AC2017-1246

D) Financial Integrity and Risk Management

The Audit Committee maintained its focus on financial integrity and corporate risk management in 2017. In accordance with Schedule 'A', the Audit Committee Terms of Reference, Audit Committee Bylaw 48M2012, the following reports were reviewed by the Audit Committee:

Annual Principal Corporate Risk Report, AC2017-0020
2016 City of Calgary Annual Report, AC2017-0304
Control Environment Assessment and Management Representations Update, AC2017-0305
2016 Annual Investment Report, AC2017-0303
2017 Law Department Annual Report, AC2017-0302
Annual Update - Information Technology Risk Management, AC2017-0239

Code of Conduct Annual Report, AC2017-0545
Integrated Risk Management Program Update, AC2017-0603
Civic Partner Audit Report, AC2017-0367
Status of Community Associations and Social Recreation Organizations on City-Owned Land, AC2017-1149

E) Audit Resource Management Office

The Audit Committee Bylaw 48M2012 established the position of Executive Assistant to the Audit Committee to provide planning, documentation and meeting logistical support under the direction of the Committee Chair. The position of Executive Assistant has historically been a two-year limited term position and to maintain consistency in the Audit Resource Management Office was converted to a permanent role by Audit Committee in 2017 March.

Executive Assistant Reports reviewed by Audit Committee in 2017:

Audit Committee 2016 Year-End Annual Status Report, AC2017-0111
External Auditor Selection Process (2018-2022), AC2017-0218
Audit Committee 2015-2016 Self-Assessment Survey Update, AC2017-0004
Selection of Performance Audits, Program Reviews or Special Studies, AC2017-0112
Selection of External Auditor For 2018-2022, AC2017-0578
Review of External Auditor Performance Assessment Template, AC2017-0589
External Auditor 2016 - 2017 Performance Assessment, AC2017-0451
Audit Committee Annual Self-Assessment (2016-2017), AC2017-0637
Update of External Auditor Performance Assessment Template, AC2017-0642
Audit Committee 2018 Work Plan, AC2017-1136

Major activities in 2017:

- Project managed the Selection of External Auditor for The City for 2018-2022 from drafting the request for proposal to bid evaluations through to appointment of the successful firm.
- Provided supplemental recruitment activities to encourage well-qualified members of the public to apply to serve on the Audit Committee
- Developed an updated external auditor performance assessment template which is benchmarked against comparable organizations
- Facilitated the Audit Committee Orientation workshops (January 2017 and December 2017) and created an Orientation Guidebook as a resource for all members.
- Developed the 2018 Workplan for Audit Committee in conjunction with the stakeholders and the Audit Committee terms of reference.

AUDIT COMMITTEE 2018 APRIL MEETING DATE CHANGE

EXECUTIVE SUMMARY

The Audit Committee meeting scheduled on the Council Calendar for 2018 April 24 needs to be changed to allow the Committee to convene prior to the 2018 April 23 Regular Meeting of Council. The City's financial and year-end audit reports are dealt with at the April Audit meeting. These reports must be forwarded to Council for their consideration prior to the May 1 deadline for submission to the Province.

ADMINISTRATION RECOMMENDATION:

That Audit Committee recommends that the date for their 2018 April 24 Meeting be changed to be held on 2018 April 17 with a start time of 8:30 a.m.

PREVIOUS COUNCIL DIRECTION / POLICY

In accordance with Section 193(1) of the *Municipal Government Act*, Council establishes its Committee and Council meeting schedule for the upcoming year at its annual Organizational meeting.

At the 2017 October 30 Organizational Meeting Council adopted the 2018 Council Calendar for the month of January only and at their 2017 December 11 Combined Meeting adopted the remaining months of February through December.

BACKGROUND

At the Audit Committee meeting to be held in April reports from Administration and the External Auditor with respect to the year-end financial information are dealt with and forwarded to Council for information. Pursuant to the *Municipal Government Act*, this financial information must be forwarded to the Province by May 1.

The *Municipal Government Act*, Section 278 states as follows:

"278 Each municipality must submit

- (a) its financial information return and the auditor's report on the financial information return, and
- (b) its financial statements and the auditor's report on the financial statements to the Minister by May 1 of the year following the year for which the financial information return and statements have been prepared."

In the adopted 2018 Council Calendar, the Audit Committee meeting is scheduled on April 24th. The Council Meeting designated for the reports from this meeting to be forwarded to is 2018 May 28th. For this reason, the April 24th date is not suitable since the financial and audit reports would miss the May 1 deadline for submission to the Province.

After consultation with Administration and the External Auditor, it has been determined that an Audit Meeting held on 2018 April 17 would allow sufficient time to complete their preparations and submit the documents for inclusion on the Audit Committee Agenda.

AUDIT COMMITTEE 2018 APRIL MEETING DATE CHANGE

INVESTIGATION: ALTERNATIVES AND ANALYSIS

The recommended date change for the 2018 April Audit Committee meeting is Tuesday, 2018 April 17. This date allows time for the financial and audit reports to proceed to the Regular Meeting of Council on 2018 April 23 for consideration prior to submission to the Province on May 1.

Stakeholder Engagement, Research and Communication

Administration, the External Auditor, City Clerks and the Chair of Audit Committee have been consulted to determine a date for the April meeting. Consideration has been given to the timing of preparations performed by all stakeholders to meet the *Municipal Government Act* deadline of May 1.

Strategic Alignment

This Report aligns with Council's Priority of a well-run city; "Calgary's government is open, responsible, accountable and transparent, delivering excellent services at a fair price. We work with our government partners to ensure we have the tools we need".

Social, Environmental, Economic (External)

Not applicable.

Financial Capacity

Current and Future Operating Budget:

There are no operating budget implications for this report.

Current and Future Capital Budget:

There are no capital budget implications for this report.

Risk Assessment

There is a risk of The City missing the May 1 deadline for submission of their financial documents pursuant to the *Municipal Government Act*, Section 278 if the April Audit Committee meeting date is not changed to an earlier timeframe.

REASON(S) FOR RECOMMENDATION(S):













Pursuant to the *Municipal Government Act*, Section 278, The City of Calgary financial statements must be submitted to the Province by May 1. This Audit Committee meeting date change allows the financial documents to proceed to Council for consideration prior to submission to the Province.













ATTACHMENT(S)













2018 Council Calendar

2018















Council, Standing Policy Committees (SPC) and Standing Specialized Committee Meetings Dates












January 2018						
Su	Mo	Tu	We	Th	Fr	Sa
	 1	2	3	4	5	6
7	8	9	10	11	12	13
14	 15	 16	 17	 18	 19	20
21	 22	 23	 24	 25	 26	27
28	 29	30	SC			

February 2018						
Su	Mo	Tu	We	Th	Fr	Sa
				1	2	3
4	 5	 6	 7	 8	9	10
11	12	 13	 14	 15	16	17
18	 19	 20	 21	 22	23	24
25	 26	27	SC			













March 2018						
Su	Mo	Tu	We	Th	Fr	Sa
				1	2	3
4	 5	 6	 7	 8	9	10
11	 12	 13	 14	 15	16	17
18	 19	20	SC	 21	 22	23
24						25
26	27	28	29	 30	31	












CBE and CCSD – School spring break March 26 – April 06

April 2018						
Su	Mo	Tu	We	Th	Fr	Sa
 1	2	 3	4	 5	6	7
8	 9	 10	 11	 12	13	14
15	 16	 17	 18	 19	20	21
22	 23	 24	SC	26	27	28
29	 30					


May 2018						
Su	Mo	Tu	We	Th	Fr	Sa
		 1	 2	 3	4	5
6	 7	 8	 9	 10	 11	12
13	 14	15	SC	 16	 17	18
19	20	21	22	23	24	25
26	27	28	29	30	31	












FCM Conference: Halifax- May 31-June 3

June 2018						
Su	Mo	Tu	We	Th	Fr	Sa
					1	2
3	4	 5	 6	 7	8	9
10	 11	 12	 13	 14	15	16
17	SC	 18	19	 20	 21	22
23	 24	25	26	27	 28	29
30						














July 2018						
Su	Mo	Tu	We	Th	Fr	Sa
1	 2	3	SC	5	6	7
8	9	10	11	12	13	14
15	 16	 17	 18	 19	 20	21
22	 23	 24	 25	 26	27	28
29	 30	31				


















*PUD: 1:00 PM Start
Calgary Stampede July 06-July 15













August 2018						
Su	Mo	Tu	We	Th	Fr	Sa
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19	20	21	22	23	24	25
26	27	28	29	30	31	

September 2018						
Su	Mo	Tu	We	Th	Fr	Sa
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9	 10	 11	 12	 13	14	15
16	17	 18	SC	 20	21	22
23	 24	25	26	27	28	29
30						

AUMA Convention – Red Deer September 26 - 28







October 2018						
Su	Mo	Tu	We	Th	Fr	Sa
	 1	 2	 3	 4	5	6
7	 8	 9	 10	 11	12	13
14	 15	16	17	 18	19	20
21	 22	23	 24	25	26	27
28	29	 30	SC			

November 2018						
Su	Mo	Tu	We	Th	Fr	Sa
				1	2	3
4	 5	 6	 7	 8	9	10
11	 12	 13	 14	 15	16	17
18	 19	 20	 21	 22	23	24
25	 26	 27	 28	 29	 30	

December 2018						
Su	Mo	Tu	We	Th	Fr	Sa
						1
2	 3	 4	 5	 6	7	8
9	 10	 11	 12	 13	14	15
16	 17	18	SC	 20	21	22
23	24	 25	 26	27	28	29
30	31					

Unless otherwise noted all meetings begin at 9:30 a.m.

COUNCIL:


-  Regular Council Meeting 11 Meetings, Day 1, 9:30 a.m. start; Day 2, 1:00 p.m., if necessary (11 -22 Days)
-  Public Hearing Council Meeting – 11 Meetings (22 Days)
-  Combined Meeting of Council – 1 Meetings (2 Days)
-  Strategic Council Meeting – 11 Meetings (11 Days)
-  One Calgary Operating and Capital Budget Plan
-  Organizational Meeting of Council

STANDING POLICY COMMITTEES

– 11 Meetings for Each SPC

-  SPC on Planning & Urban Development
-  SPC on Community & Protective Services
-  SPC on Transportation & Transit
-  SPC on Utilities & Corporate Services
- Special SPC on CPS Meeting:*
-  Civic Partners – 1 Meeting

STANDING SPECIALIZED COMMITTEES

-  Priorities and Finance Committee – 14 Meetings
-  Intergovernmental Affairs Committee – 11 Meetings
-  Gas, Power & Telecommunications Committee -11 Meetings
-  Audit Committee – 8 Meetings
-  In cases with two Committees on the same day, the top Committee will meet at 9:30 a.m. and the bottom Committee will meet at 1:00 p.m.

**City Manager's Office Report to
Audit Committee
2018 January 26**

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Annual Principal Corporate Risk Report

EXECUTIVE SUMMARY

Integrated Risk Management (IRM) enhances The City's ability to establish a reliable basis for decision making and planning while encouraging proactive rather than reactive management. The Audit Committee oversees The City's IRM and, twice a year, receives and reviews reports from Administration regarding IRM. This report provides Audit Committee with an update on the Principal Corporate Risks that could affect the achievement of Council Priorities and the Council-approved Leadership Strategic Plan (LSP).

ADMINISTRATION RECOMMENDATION:

That the Audit Committee:

1. Receives this report for information.
2. Recommends that Council receive this report for information; and
3. That the Attachments remain confidential pursuant to Sections 24 (1) (a)&(b) of the Freedom of Information and Protection of Privacy Act for a period of 15 years.

PREVIOUS COUNCIL DIRECTION / POLICY

The Audit Committee Bylaw (48M2012) states that the Audit committee, among other things, is responsible for "overseeing the process of The City's Integrated Risk Management System." The purpose and role of Audit Committee is to oversee The City's process of risk identification, analysis and management procedures to mitigate risk. Specifically, regarding risk management, the Bylaw states that Audit Committee receives and reviews, at least twice a year, reports from Administration regarding The City's Integrated Risk Management (IRM).

On 2017 December 14, the Audit committee approved its 2018 Work Plan (AC2017-1136) which included consideration of the Annual Principal Corporate Risk Report on 2018 January 26. Consistent with the 2018 Work Plan, this report focuses on the Principal Corporate Risks (updated as of 2017 December 12). Audit committee's 2018 Work Plan also includes an update on the IRM Model and Framework, which will be brought forth on 2018 July 25.

BACKGROUND

The City Manager's Annual Principal Corporate Risk Report to Audit committee is one of many integrated and ongoing streams of work undertaken to identify, analyze and appropriately manage risk. Across the organization, work is undertaken by business units, departments and the Administrative Leadership Team, with the most strategic information about risks and the IRM process brought forth to Audit committee.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

Principal Corporate Risk Summary (Attachment 1)

Attachment 1 is the Principal Corporate Risk Summary (updated as of 2017 December 12) and forms the basis of this report. The Annual Principal Corporate Risk Summary is a key element of The City's IRM System and supports the organization's management processes with risks considered in terms of the effect of uncertainty on objectives. Risks are described, assessed and managed from both a threats and opportunities perspective. Risk management resources

Annual Principal Corporate Risk Report

are aligned to the areas of highest risk or significant opportunity, to ensure that The City gets the best possible value from its risk management efforts.

The Principal Corporate Risk Summary Report (Attachment 1) has been updated from the version that was presented to Audit Committee on 2017 January 19. The process to update the Principal Corporate Risks involves a combined bottom-up, top-down approach to risk management. Consistent with the continuous improvement ethos of The City's Performance Management System, this process continues to evolve and improve. The points below describe the risk updating process, and include highlights of process improvements over the past year.

Bottom-up approach:

- Identification of risks at the divisional and business unit levels in the organization involves business units undertaking a risk review process and completing an update of their business unit risk register. The review supports business planning activities and includes the efforts of Business Planners/Strategists, Leaders, Managers, and Directors.
- Consolidation of risks at the departmental level across the organization includes departments reviewing business unit risk registers and preparing a departmental risk register. The process includes Departmental Risk Leads, Directors and General Managers.
- **New** – This year, in support of the bottom-up process, a cross-departmental workshop was held in 2017 November to review the departmental risk registers and to discuss common, notable and emerging risks. In addition, departments provided input into the updating of the Principal Corporate Risks.
- Following the workshop, an extensive analysis of each departmental risk register was undertaken. The departmental findings, along with workshop feedback, were included as suggested updates to the draft Principal Corporate Risk Summary Report.

Top-down approach:

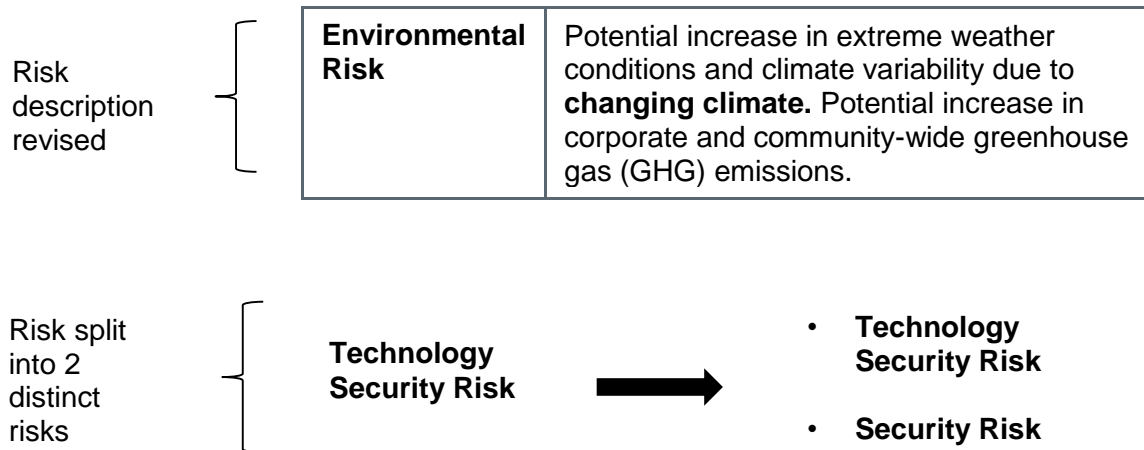
- The draft update to the Principal Corporate Risk Summary was circulated to ALT members for review and consideration as part of the top-down review process.
- **New** - This year, ALT members were provided with suggested edits to all the Principal Corporate Risks during the draft review stage. This is a change from the past whereby ALT members were provided only the draft risks for which they are the risk owner in the initial circulation. The broader circulation at the draft stage was intended to provide additional opportunities for ALT to be engaged in the top-down risk review process.
- **New** – This year, additional information (including questions and suggestions from the department registers) was included in the circulation of the Principal Corporate Risks to ALT. The additional information was intended to provide context to support the top-down review process. Providing this additional information (bottom-up inputs) strengthens ALT members' decisions about whether to accept or challenge the suggested edits/update.

The recent combined bottom-up and top-down review has resulted in changes to the Principal Corporate Risks since 2017 January 19. Attachment 1 provides a detailed list of the Principal Corporate Risks including the risk rating, risk trend, summary of risk rating and summary of improvement activities.

Annual Principal Corporate Risk Report

Changes to the Principal Corporate Risks (as of 2017 December 12)

The most significant changes to the Principal Corporate Risks, since the risks were presented to Audit Committee on 2017 January 19 (AC2017-0020), include refining the description of the Environmental Risk to be explicit about the changing climate and separating the Technology Security Risk into two (2) distinct risks: Technology Security Risk and Security Risk.



The changes to the Principal Corporate Risks are based on the global risk profile as well as feedback from the departmental registers during the fall risk review. The changes to the Principal Corporate Risks (ALT2017-1091) were confirmed by ALT on 2017 December 12.

Summary and Trends in Risk Ratings (Attachment 2)

(New) As another enhancement to the risk management process, this report also includes an at-a-glance Summary of Risk Ratings and Trends for the Principal Corporate Risks (Attachment 2). This style of reporting was introduced to ALT in 2017 June 27 to show the progression of the risk ratings and trends over time. This format has been well received by senior leaders as it provides an at-a-glance comparison and easy identification of risks that may require further discussion.

Next Steps in the Evolution of Risk Management (Attachments 3-6)

The corporate risk management framework, tools and practices continue to evolve and improve in ways that are designed to enhance the discipline of risk management and further integrate it with other aspects of The City's Performance Management System. Several enhancements are currently under development including: refinements to the existing risk matrix to promote objectivity and transparency, introducing the use of indicators on all corporate risk registers to promote evidence based decision making, incorporating performance measures and indicators into the risk management process, and using a new RBA format to present risk information. Illustrating the last point, this report includes Results Based Accountability (RBA) style reporting for 4 of the 16 Principal Corporate Risks: Environmental Risk, Health & Safety Risk, Financial Risk, and Technology Security Risk – Phishing, as Attachments: 3, 4, 5, 6. The attachments

Annual Principal Corporate Risk Report

are being presented to Audit Committee for the purpose of illustrating the potential benefits and opportunities of using an RBA style presentation format.

Stakeholder Engagement, Research and Communication

The completion of the twice-per-year risk review process requires the coordination and support of divisions, business units, departments and ALT. The process promotes the development of risk competency across the corporation and fosters a risk culture.

Administration is continuously seeking opportunities to advance the proactive use of risk related information to address risks that may affect or contribute to The City's ability to achieve its objectives. In addition to regularly reviewing leading practices, internal stakeholder input is used to continuously improve established practices, and internal stakeholders will also be involved in testing and roll-out of any changes.

Strategic Alignment

On 2014 September 15, Council approved the Leadership Strategic Plan (LSP) (C2014-0703) which includes the implementation of the Performance Management System, comprising the following five components:

- Service Review & Improvement
- Service Plans and Budgets
- Performance Measurement & Accountability
- Integrated Risk Management
- Individual Performance Development



The Performance Management System is a disciplined approach to continuous improvement that is designed to increase the organization's capacity, connect work across the organization, inform decision-making and improve the achievement of the organization's results. The components of the system, including risk management, are mutually reinforcing and are embedded into major organizational processes and projects.

Social, Environmental, Economic (External)

Effective risk management will help to ensure The City's ongoing resilience and ability to serve citizens in accordance with The City's strategic goals. These include, the social, environmental and economic goals expressed in the Council Priorities.

Annual Principal Corporate Risk Report

Financial Capacity

Current and Future Operating Budget:

Activities related to the IRM process are within approved budgets and programs.

Current and Future Capital Budget:

None related to this report.

Risk Assessment

The primary risk associated with this report is that the Principal Corporate Risks (Attachment 1) are not recognized by business units and departments as the most strategic risks facing The Corporation and therefore are not used as a reliable basis for decision making. To mitigate this risk, business units and departments are actively involved in the identification and review of the Principal Corporate Risks through a bottom-up review process. As well, the Administrative Leadership Team (ALT) participates in a top-down review process to confirm the Principal Corporate Risks. This approach promotes collective understanding of the risks and ensures relevance and application across the corporation. Additionally, to ensure the Principal Corporate Risks are comprehensive, current and reflective of the external and internal threats and opportunities facing The City, the risk review process occurs twice a year (spring and fall), with the most strategic risks brought forth to Audit Committee on an annual basis. The City's Principal Corporate Risks are intentionally communicated to departments and management teams to support decision making and to inform planning.

Another risk is that the Integrated Risk Management (IRM) program and associated risk process are not fully adopted or utilized across The Corporation. To mitigate this risk, IRM is part of The City's Integrated Performance Management System and is aligned with the business planning and budgeting process. As within previous business planning cycles, consideration of risks will be a key factor informing One Calgary 2019-2022 Service Plans and Budgets. Given the city's current economic context, the 2019-2022 plans and budgets will need to consider risk in a different way, re-thinking assumptions, and placing considerable more emphasis on weighing the costs as well as the benefits of risk mitigation strategies to ensure they provide good value. Corporate Initiatives is working closely with the One Calgary program to ensure risk management is effectively integrated into the One Calgary program.

REASON(S) FOR RECOMMENDATION(S):

This report is provided to Audit Committee to support the Committee in its role to oversee the process of risk identification, analysis and management procedures to manage risk, by providing up-to-date information on risk management and mitigation work that Administration has completed, and the results of that work. It is recommended that the Principal Corporate Risk Summary (Attachment 1) and Attachments 2, 3, 4, 5, 6 be reviewed and discussed in-camera to maintain a balance between comprehensive reporting and discussion of the principal risks facing The City, while protecting the interests of the organization from unintended harm.

ATTACHMENT(S)

1. Attachment 1 – Principal Corporate Risk Summary Report

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2. Attachment 2 – Principal Corporate Risks – Overview of Risk Ratings and Trends
3. Attachment 3 – Environmental Risk – RBA Format
4. Attachment 4 – Financial Risk – RBA Format
5. Attachment 5 – Health & Safety Risk – RBA Format
6. Attachment 6 – Technology - Security Risk: Phishing - RBA Format