AGENDA

AUDIT COMMITTEE

June 19, 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 held 2018 April 17

5. POSTPONED REPORTS
   (including related/supplemental reports)

   None

6. ITEMS FROM OFFICERS, ADMINISTRATION AND COMMITTEES

   6.1 Calgary Convention Centre Authority - Audit Committee Annual Report, AC2018-0529

   6.2 Calgary Municipal Land Corporation – Audit Committee Annual Report, AC2018-0532

   6.3 Code of Conduct Annual Report, AC2018-0794

   6.4 External Auditor 2017 Management Letter, AC2018-0635

   6.5 Employee Expense Audit, AC2018-0756

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 City Auditor's Office 2019-2022 Budget Process, AC2018-0797
Held confidential subject to Section 24 of *FOIP*.

9.1.2 Audit Forum (Verbal Report), AC2018-0337
Held confidential subject to Sections 24 and 26 of *FOIP*.

9.1.3 External Auditor (Verbal Report), AC2018-0338
Held confidential subject to Sections 24 and 26 of *FOIP*.

9.1.4 City Auditor (Verbal Report), AC2018-0339
Held confidential subject to Sections 24 and 26 of *FOIP*.

9.2 URGENT BUSINESS

10. ADJOURNMENT

MINUTES

AUDIT COMMITTEE

April 17, 2018, 8:30 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 Katharine Palmer Executive Assistant Corrie Smillie External Auditor T. Nakka Acting City Clerk D. Williams Legislative Assistant M. A. Cario

1. CALL TO ORDER

Councillor Woolley called today's Meeting to Order at 8:31 a.m.

2. OPENING REMARKS

Councillor Woolley provided Opening Remarks at today's Meeting.

Councillor Woolley congratulated Katharine Palmer on the renewal of her five year contract, as the City Auditor, effective 2018 June 28, with The City of Calgary.

3. CONFIRMATION OF AGENDA

Moved by Councillor Farkas

That the Agenda for the 2018 April 17 Regular Meeting of the Audit Committee be confirmed.

MOTION CARRIED

4. CONFIRMATION OF MINUTES

4.1 Minutes of the Regular Meeting of the Audit Committee, 2018 February 13

Moved by Citizen Representative Lambert

That the Minutes of the Audit Committee held on 2018 February 13, be confirmed.

MOTION CARRIED

5. POSTPONED REPORTS

None

6. ITEMS FROM OFFICERS, ADMINISTRATION AND COMMITTEES

6.1 Control Environment Assessment and Management Representations Update, AC2018-0368

A PowerPoint presentation entitled "Control Environment Assessment Report", dated 2018 April 17, with respect to Report AC2018-0368 was distributed.

Moved by Citizen Representative Caltagirone

That Report AC2018-0368 be postponed to be dealt with at the Closed Meeting of today's Agenda.

MOTION CARRIED

Moved by Citizen Representative Dalton

That Report AC2018-0368 be dealt with at this time.

MOTION CARRIED

Attendance during the Closed Meeting discussions with respect to Report AC2018-0368:

Clerk: D. Williams and M. Cario Legal: G. Cole. Advice: E. Sawyer, O. Key, J. Fielding, K. Palmer and C. Smillie. External Auditor: T. Nakka, H. Gill, E. Vervoort.

Moved by Councillor Chahal

That with respect to Report AC2018-0368, the following be approved:

That the Audit Committee:

1. Receives this report for information.
2. Directs that Attachment 3 and the closed meeting discussions remain confidential pursuant to Section 25 of the *Freedom of Information and Protection of Privacy Act.*

MOTION CARRIED

6.2 2017 Annual Investment Report, AC2018-0442

A PowerPoint presentation entitled "2017 Annual Investment Report", dated 2018 April 17, with respect to Report AC2018-0442 was distributed.

Moved by Citizen Representative Lambert

That with respect to Report AC2018-0442, the following be approved:

That the Audit Committee recommends that Council receives the 2017 Annual Investment Report for information.

MOTION CARRIED

6.3 The City of Calgary 2017 Annual Report, AC2018-0473

Distributions with respect to Report AC2018-0473:

- A PowerPoint presentation entitled "Delivering value for citizens", dated 2018 April 17;
- A document entitled "The City of Calgary Changes to the 2017 City of Calgary Annual Report, Attachment 2";
- A document entitled "Schedule of Financial Activities by Segment, Attachment 2A".

Introduction

Councillor Farrell introduced a group of Students from Bow Valley College in Ward 7, along with their teacher and tour guide.

Moved by Citizen Representative Dalton

That Report AC2018-0473 be postponed to be dealt with at the Closed Meeting of today's Agenda.

MOTION CARRIED

Moved by Councillor Farrell

That Report AC2018-0473 be dealt with at this time.

MOTION CARRIED

Attendance during the Closed Meeting discussions with respect to Report AC2018-0473:

Clerk: D. Williams and M. Cario. Advice: E.Sawyer, C. Male, J. Scrinko, K. Palmer and C. Smillie. External Auditor: T. Nakka, H. Gill, E. Vervoort.

Moved by Citizen Representative Caltagirone

That Report AC2018-0473 be approved, **after amendment,** as follows:

That the Audit Committee:

1. Consider this report in conjunction with Report AC2018-0270 "2017 External Auditor's Report";

2. Recommends Council approval of the **Revised Attachment**, The City of Calgary 2017 Annual Report; and

3. Forward to Council as a matter of urgent business to the 2018 April 23 Regular Meeting of Council.

MOTION CARRIED

6.4 2017 External Auditor's Year-End Report, AC2018-0270

An Attachment, Appendix A to Report AC2018-0270 was distributed in the Closed Meeting and is to remain confidential, subject to Sections 24 and 25 of the *Freedom of Information and Protection of Privacy Act.*

Moved by Citizen Representative Caltagirone

That the Audit Committee move into Closed Meeting at 10:41 a.m., in the Council Lounge, to discuss confidential matters, subject to Sections 24 and 25 of the *Freedom of Information and Protection of Privacy Act,* with respect to the following Reports:

- Control Environment Assessment and Management Representations Update, AC2018-0368;
- 2017 City of Calgary Annual Report, AC2018-0473; and
- 2017 External Auditor's Year-End Report , AC2018-0270.

MOTION CARRIED

The Audit Committee reconvened at 11:16 a.m. with Councillor Woolley in the Chair.

Moved by Councillor Chahal

That Committee Rise and Report.

MOTION CARRIED

Attendance during the Closed Meeting discussions with respect to Report AC2018-0270:

Clerk: D. Williams and M. Cario. Advice: E.Sawyer, C. Male, J. Scrinko, C. Smillie. External Auditor: T. Nakka, H. Gill, E. Vervoort.

Moved by Citizen Representative Dalton

That with respect to Report AC2018-0270, the following be approved:

That the Audit Committee:

1. Conduct a Closed Meeting discussion with the External Auditor and keep that discussion confidential pursuant to Sections 24 and 25 of the *Freedom of Information and Protection of Privacy Act*;

2. Receive this Report and Attachment for information and consider them in conjunction with Report AC2018-0473, The City of Calgary 2017 Annual Report;

3. Approve the External Auditor's additional fees in the amount of $30,000 plus a 7% administrative fee and 5% GST with respect to the prior period adjustments relating to Tangible Capital Asset balances;

4. Direct that this Report and Attachment be forwarded to the 2018 April 23 Regular Meeting of Council as an item of Urgent Business;

5. Recommend that Council receives Report AC2018-0270, 2017 External Auditor's Year-End Report, and the Attachment, for information; and

6. Keep the Closed Meeting discussions with the External Auditor confidential pursuant to Sections 24 and 25 of the *Freedom of Information and Protection of Privacy Act.*

MOTION CARRIED

6.5 External Auditor Provision of Additional Services, AC2018-0450

Moved by Citizen Representative Dalton

That with respect to Report AC2018-0450, the following be approved:

That Audit Committee approve Deloitte LLP perform the audit of the Core Benefit Plan for the year ending 2017 December 31, with fees estimated at $15,070, plus 7% administrative fee and 5% GST.

MOTION CARRIED

6.6 City Auditor's Office 1st Quarter 2018 Report, AC2018-0344

Moved by Councillor Farkas

That with respect to Report AC2018-0344, the following be approved:

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

MOTION CARRIED

6.7 Cash Flow Management Audit, AC2018-0343

Moved by Councillor Farkas

That with respect to Report AC2018-0343, the following be approved:

1. That Audit Committee receive this report for information; and

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

MOTION CARRIED

6.8 Procurement Follow-up Audit, AC2018-0413

Moved by Citizen Representative Lambert

That with respect to Report AC2018-0413, the following be approved:

1. That Audit Committee receive this report for information; and

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

MOTION CARRIED

6.9 Cyber Security Incident Response Audit, AC2018-0410

Moved by Citizen Representative Lambert

That the Audit Committee move into Closed Meeting at 11:37 a.m., in the Council Lounge, to discuss confidential matters, subject to Sections 16, 20, 23, 24 and 26 of the *Freedom of Information and Protection of Privacy Act,* with respect to the following Reports:

- Cyber Incident Response Audit, AC2018-0410
- Civic Partner Audit Report, AC2018-0409
- Audit Forum (Verbal Report), AC2018-0267
- External Auditor (Verbal Report), AC2018-0268
- City Auditor (Verbal Report), AC2018-0269

MOTION CARRIED

Attendance during the Closed Meeting discussions with respect to Report AC2018-0410:

Clerk: D. Williams and M. Cario. Advice: E. Sawyer, C. Male, K. Palmer, R. Visscher, H. Reed-Fenske, O. Key, I. Lofthouse and C. Smillie. External Auditor: T. Nakka and H. Gill

Moved by Citizen Representative Lambert

That with respect to Report AC2018-0410, the following be approved:

1. That Audit Committee receive this report for information; and
2. That Audit Committee recommend that Council receive this report for information.
3. That Audit Committee recommend that Attachment to Report AC2018-0410 remain confidential pursuant to Sections 20 of the *Freedom of Information and Protection of Privacy Act* until the year 2033.

MOTION CARRIED

7. <u>ITEMS DIRECTLY TO COMMITTEE</u>

7.1 REFERRED REPORTS

None

7.2 NOTICE(S) OF MOTION

None

8. <u>URGENT BUSINESS</u>

None

9. CONFIDENTIAL ITEMS

9.1 ITEMS FROM OFFICERS, ADMINISTRATION AND COMMITTEES

9.1.1 Civic Partner Audit Report, AC2018-0409

A PowerPoint presentation entitled "Civic Partner Audit Report", dated 2018 April 17, with respect to Report AC2018-0409 was distributed.

Attendance during the Closed Meeting discussions with respect to Report AC2018-0409:

Clerk: D. Williams and M. Cario. Advice: L. Kerr, J. Martin, S. Mcfayden, E. Sawyer, K. Palmer and C. Smillie. External Auditor: T. Nakka and H. Gill.

Moved by Citizen Representative Lambert

That with respect to Report AC2018-0409, the following be approved:

That the Audit Committee recommend that Council:

1. Approve the Administration Recommendations contained in Report AC2018-0409;

2. Direct that the Report and Attachments 2, 4 and 5 remain confidential pursuant to Sections 16, 23 and 24 of the *Freedom of Information and Protection of Privacy Act* until such time as six years from this date.

MOTION CARRIED

9.1.2 Audit Forum (Verbal Report), AC2018-0267

No report was given.

9.1.3 External Auditor (Verbal Report), AC2018-0268

No report was given.

9.1.4 City Auditor (Verbal Report), AC2018-0269

Attendance during the Closed Meeting discussions with respect to Report AC2018-0269:

Clerk: D. Williams. Advice: K. Palmer and C. Smillie

Moved by Citizen Representative Caltagirone

That with respect to Verbal Report C2018-0269, the following be approved:

That the Audit Committee directs that the Verbal Report and Closed Meeting discussions remain confidential subject to Sections 24 and 26 the *Freedom of Information and Protection of Privacy Act.*

MOTION CARRIED

9.2 URGENT BUSINESS

None

10. ADJOURNMENT

Moved by Councillor Farkas

The Audit Committee adjourned at 12:14 p.m.

MOTION CARRIED

The following items have been forwarded to the 2018 April 23 Regular Meeting of Council, as items of Urgent Business:

The City of Calgary 2017 Annual Report, AC2018-0473

2017 External Auditor's Year-End Report, AC2018-0270

The following items have been forwarded to the 2018 May 28 Regular Meeting of Council:

Consent:

2017 Annual Investment Report, AC2018-0442

City Auditor's Office 1st Quarter 2018 Report, AC2018-0344

Cash Flow Management Audit, AC2018-0343

Procurement Follow-up Audit, AC2018-0413

Cyber Security Incident Response Audit, AC2018-0410

Closed Meeting

Civic Partner Audit Report, AC2018-0409

Item #4.1

The next Regular Meeting of the Audit Committee is scheduled to be held on 2018 June 19 at 9:30 a.m.

CHAIR

ACTING CITY CLERK

Calgary Convention Centre Authority - Audit Committee Annual Report

EXECUTIVE SUMMARY

This is the annual report from the Calgary Convention Centre Authority (CCCA) Audit and Finance Committee to The City's Audit Committee.

ADMINISTRATION RECOMMENDATION:

That the Audit Committee receives this report for Information.

PREVIOUS COUNCIL DIRECTION / POLICY

The City of Calgary Audit Committee Bylaw 48M2012, states that the Audit Committee is responsible for:

> "overseeing its governance responsibility with audit committees of The City's major autonomous civic entities."
>
> Section 4(1)(i)

BACKGROUND

A letter dated 2018 March 27 was provided to the Audit and Finance Committee Chair of the Calgary Convention Centre Authority from the City of Calgary Audit Committee Chair requesting a report and presentation on its 2017 Annual Report, its risk management processes and the CCCA Audit Committee terms of reference.

To continue to develop further understanding of your organization's audit governance approach, we would like to request the following items be provided in your annual report to the City's Audit Committee:

1. Brief summary on governance structure, succession planning and recruitment process, recent financial highlights and key 2018 initiatives/strategy;
2. Report on your organization's key operating and strategic risks including trends and risk management plans and processes;
3. Analysis of the top three financial and/or operational risks that in your opinion would impact the City of Calgary and be of concern to the City's Audit Committee;
4. Report on internal controls including information technology and systems;
5. Most recent management letter including management responses as appropriate; and
6. Audit Committee 2018 Work Plan.

Further, during their presentation, The Calgary Convention Centre Authority was asked to prepare responses to the following questions:

1. What is the frequency of review and are there any recent changes to the Audit Committee Charter or Terms of Reference?
2. What is the current composition of the Audit Committee and what is their relevant financial experience?
3. Have there been any significant changes to organizational leadership?
4. Are there any regulatory or market changes that may impact the current business approach and would they be relevant to share publicly with the Audit Committee?

Calgary Convention Centre Authority - Audit Committee Annual Report

5. Are there any results of any regulatory or internal/external business assessments that provide assurance on the effective management of risks as addressed in your presentation?
6. What initiatives are currently in progress to improve the efficiency of your processes? (e.g. sustainable operations, key performance indicators and relevance of the organization in the future)

INVESTIGATION: ALTERNATIVES AND ANALYSIS

This Report and Attachments responds to The City Audit Committee's reporting requirements of the Calgary Convention Centre Authority.

Stakeholder Engagement, Research and Communication

The Calgary TELUS Convention Centre created this report in consultation with the Calgary Convention Centre Authority.

Strategic Alignment

This report aligns with The City Audit Committee's governance responsibility to receive annual reports on matters of audit governance, including the organization's most recent annual financial statements, from the Calgary Convention Centre Authority.

Social, Environmental, Economic (External)

Financial Capacity

Current and Future Operating Budget:

Not applicable.

Current and Future Capital Budget:

Not applicable.

Risk Assessment

No implications for this Report.

REASON(S) FOR RECOMMENDATION(S):

The Audit Committee oversees its governance responsibility with audit committees of The City's major autonomous civic entities and an annual report is requested annually.

ATTACHMENT(S)

1. Attachment 1 – 2017 Audit Governance Overview Summary
2. Attachment 2 – 2017 Financial Statements
3. Attachment 3 – PowerPoint Presentation
4. Attachment 4 – 2017 CTCC Annual Report

CALGARY CONVENTION CENTRE AUTHORITY

2017 AUDIT GOVERNANCE OVERVIEW REPORT

City of Calgary/Calgary Convention Centre Authority Mandate and Responsibilities:

To manage, market and operate the Calgary TELUS Convention Centre in an efficient and market-competitive manner in order to maximize overall economic benefits to the City of Calgary while maintaining financial performance within an acceptable range.

The Calgary TELUS Convention Centre (CTCC) is owned by the City of Calgary and operated by the Calgary Convention Centre Authority (CCCA) that was incorporated through an Act of the Legislative Assembly of Alberta in 1974. The CCCA operates the facility on behalf of the City under the terms of the mandate passed by City Council in 2005.

Pursuant to the Glenbow Museum Agreement signed in 1973, the CCCA entered into an agreement with the City to provide maintenance, repairs, cleaning and janitorial services to the Glenbow Museum. The CCCA also provides maintenance and repairs to the retail spaces, which are owned by the City in the North Building. Through an agreement between the City and Balboa Land Investments Inc. signed in 1999, the CCCA operates and maintains the shared loading dock in the North Building. A Food and Beverage Services Agreement issued by the City of Calgary gives the exclusive rights to all food and beverage services in the CTCC to the attached hotel (currently the Calgary Marriott). The CCCA has a contractual agreement with the Calgary Hotel Association (CHA) whereby the CCCA manages destination sales and marketing services for the meetings, conventions and incentive travel sector. Through a joint agreement among the City, the CCCA and TELUS, the CCCA manages the TELUS Naming and Business Rights contract.

Calgary TELUS Convention Centre Vision Statement

The Calgary TELUS Convention Centre is Calgary's meeting place which brings the community together in a central hub to connect, learn, innovate, celebrate, support and grow.

The Calgary TELUS Convention Centre connects Calgary with the global community; leveraging our assets to create opportunities that influence the lives of Calgarians and Canadians.

1. Governance Structure, Succession Planning and Recruitment Process:

The CCCA is comprised of eleven members including the Mayor, one Councilor and one member of City administration.

Community members can serve up to two full terms of four years each, which are staggered to ensure continuity. No community member may serve more than 10 years in total. With the exception of the Mayor, City of Calgary representatives are appointed for a 1-year term. When new board members are to be recruited, a set of selection criteria is developed and a recruitment firm is hired to assist with the recruitment of new members and a Selection Committee of the Board is established. The names of two candidates for each board position are then sent to the City for its Nominations process once the Board has approved the names. At the same time, the Chair meets with each board member to ensure that he/she wishes to continue their commitment and to define any specific interests they may have. Where members are seeking a second term, those names are forwarded to the City to be part of its Nominations Process in October. In 2017, we successfully recruited a highly regarded and experienced finance professional, who now chairs the Audit and Finance Committee.

The Chair was re-elected for 2018/19 by the Board in late 2017, with the Vice-Chair and Committee Chairs confirmed at the same time. The first full terms of three current Board members will be ending in 2018. The Chair has confirmed that each member wishes to continue for a second term. As each of those members has the requisite skills identified in the Board skills matrix, work is underway to present their names for reappointment to the Board by the City in October.

In addition, the Governance and Human Resources Committee ensures that the CEO has a succession plan for himself and all senior executive.

2017 Financial Highlights:

- Operating Surplus transferred to reserve fund ($596,765).
- Building Improvements funded by operating reserve ($1,665,022), Major Replacement Reserve ($174,912) and CPRiiPS grant ($1,336,716).
- In Q3, the CTCC began to see an uptick in activity as the economy began to slowly pickup.

2018-2019 Strategic Initiatives

1. Increase Global Markets
2. Develop a Community Hub
3. Develop New Lines of Business
4. Improve Client Experience
5. Grow Economic Impact

2018-2019 Goals

1. 3 New Markets
2. 80% Renewal Rate
3. 12 Rejuvenations
4. 10 Recoveries
5. 7% Increase in Revenue
6. 10 Advocacy Initiatives
7. 1 Million Social Media Views
8. 10% Increase in Occupancy Rate
9. Partner on 5 New Events
10. Grow the Team

2. Key Operating + Strategic Risks Including Trends and Risk Management Plans and Processes:

The Calgary TELUS Convention Centre (CTCC) maintains a City approved comprehensive risk management system, overseen by the Calgary Convention Centre Authority (CCCA) Board of Directors. Organizational risks are identified, quantified and risk ranked. Appropriate mitigation measures are put in place and monitored for effectiveness. The board reviews the overall status of the identified risks annually with management and the top risks are reviewed in detail. At the June 2017, Board meeting, the Board reviewed current risks and mitigation plans. In November, the Board discussed strategic organizational risk as part of its annual strategic planning retreat.

In the June 2017 Board meeting, a special Board Task Group was struck to investigate current best practices for Enterprise Risk Management (ERM). The Group used various resources in its review, including participation in workshops for the Institute of Corporate Directors and a review of the City's Integrated Risk Management System. The Task Group recommended enhancements to the CTCC's existing risk management system to align it with current best practices for ERM. To support its overall responsibility for risk, the Board has directed management to develop a plan to address these recommendations in 2018, under the following framework:

Primary Oversight

Board	Management	Audit Committee	Management	HR Committee
Strategic	Operational	Financial	Regulatory	Human Resource
• Competition • Reach • Disruptive Technologies	• Safety • Execution • Cost Management	• Financial Statements • Liquidity • Capital • Tax	• Privacy • Information Security • Corporate Social Responsibility	• Succession • Talent Management • Compensation

3. Analysis of Top Three Financial and/or Operational Risks to Impact City of Calgary/Audit Committee:

1. The Calgary TELUS Convention Centre's south building was built in 1974 and the north building in 2000, at which time some of the south building was updated. The buildings have been well maintained over the years by the Calgary Convention Centre Authority, however, given the advances of technology and the way that people convene, the Centre needs to be rejuvenated. We have built a plan for renovation and rejuvenation of the CTCC in order to better service Calgarians and out of town delegates.
2. Hotels and other venues have increased their capacity to host events. This has increased competition for a variety of available meeting space in our community. We have re-developed our business strategy to stay competitive in this market. This strategy also allows us to differentiate our offering to international groups.
3. Decline of Economy:
   The beginning of 2017 was still a difficult economic climate. By Q3 2017, the Convention Centre began to see an uptick in activity as the economy began to slowly pick up.
   Our Q3 and Q4 were stronger than Q1 and Q2 but not enough to increase delegate numbers. Our new leadership structure was completed in Q3 and our new strategy began implementation in late 2017. The results of our new strategic direction will be more evident in 2018 and 2019 as we see the results of multiple strategic changes

4. An overview of Internal Controls including Technology and Systems at CTCC:

To counter cyber-threats and malicious intent from internal or external sources, the CTCC Information Technology department has implemented several different pieces of hardware and software, along with procedures. From the end-user perspective, an acceptable use policy is reviewed during new employee orientation before being granted access to the network and technology resources. Users are also educated on acceptable technology use and threats to electronic devices, potential malware and viruses.

The infrastructure and disaster recovery plan has several layers of policy and procedure in place. These procedures are detailed in our Disaster Recovery Plan, which is a living document, continually modified when necessary changes occur.

Security audits are performed with the help of a third party consulting firm every 2 years. As part of our audit in the past year, TELUS helped with the discovery and testing of different advanced protection systems for our requirements. That discovery has helped us to install dual Palo Alto PA-850 next generation firewalls to protect our environment, reduce our threat profile and test for malicious attacks and threats to the CTCC IT infrastructure. In combination with the next generation firewalls, we have deployed Palo Alto TRAPS, an advanced endpoint protection system to stop threats from ransomware, malware, exploits, and evasions. NSS Labs (an Advanced Endpoint Protection research and advisory group) has rated it a recommended rating, the highest NSS Labs offers. Traps blocked 100% of the threats with zero false positives.

5. Summary of the 2017 External Auditor Report to the Calgary Convention Centre Authority:

On the recommendation of the CCCA Audit + Finance Committee, the Board appointed Deloitte for the 2017 audit services.

Audit Conclusions:

- An unqualified opinion was issued on the financial statements;
- No significant weaknesses in internal control were identified;
- No illegal or fraudulent acts, or significant transactions inconsistent with ordinary business, were identified;
- No unusual related party transactions were identified;
- No disagreements with management, limitations placed on scope, or other difficulties were encountered during the audit;
- There were no corrected or uncorrected misstatements noted for the audit of the December 31, 2017 financial statements.

Results of Operations:

Our total revenue for the fiscal year 2017 was $21,023,994, which included a City of Calgary grant of $1,878,171. In addition, the Centre received $2,493,875 from the Calgary Hotel Association, which is restricted to supporting management of Meetings and Conventions Calgary. Total operating expenses were $19,685,475 (before amortization).
In 2017, we had a surplus of $596,765, which was moved into the operating reserve fund.

In 2009 the CCCA adopted the provisions of Section 3150 of the Public Sector Accounting Board handbook, which requires governments to record, and amortize their tangible capital assets on their financial statements.

At 2017 year-end, a total of $14,618,912 in assets was recorded on the CCCA statement of financial position. This amount has been capitalized as renovations, building enhancements and equipment.

In 2017, the Authority incurred $3,176,650 in expenditures for major capital additions, which have been capitalized as renovations, building enhancements and equipment. Of this amount, $1,665,022 was funded by the Authority's operating reserve and $174,912 was funded by the Authority's Major Replacement Reserve. $1,336,716 was applied for and funded through the City's CPRiiP (Culture Parks Recreation Infrastructure Investment Fund) Program for capital additions made in 2017.

Calgary TELUS Convention Centre
Capital Expenditures to December 31, 2017

Additions	**December 31, 2017**	**December 31, 2016**
CTCC South Building Washroom Finishes	-	15,903
North Loading Dock Overhead Doors	-	34,718
Green Room Update	-	8,215
South Building Ex Hall A Lighting Upgrade	-	8,960
Phase 2 Panel Migrations	-	119,347
Main Breaker Replacement S Bldg/Glenbow WIP @ YE2016	23,350	64,055
Glen 201-204 Lighting Dimming System Replacement	101,287	7,940
Exterior Doors & Skylights - WIP @ YE 2016	663,513	5,822
Carpets Replacement - WIP @ YE2016	771,693	13,750
Banquet and Meeting Chairs	1,253,768	-
In House Sound System Refresh $150k	142,346	-
Public Spaces Audio $38k	15,000	-
Building - Misc.	7,899	-
Security Equipment - Misc.	-	26,450.00
Communication Equipment - Misc.	4,480	-
Computers - Misc.	59,787	80,126
Event Services Equipment - Misc.	75,987	-
Kitchen Equipment - Misc.	-	30,217
Mechanical - Misc.	-	33,168
Office Equipment - Misc.	-	5,021
Shop Equipment - Misc.	31,424	-
Software - Misc.	26,117	10,800

Total Additions	**3,176,650**	**464,490**
Disposals to date this year		
Communication Equipment	12,325	-
Computer Equipment	57,482	26,274
Event Services Equipment	401,553	-
Renovations	541,134	
Software	218,095	-
	1,230,589	**26,274**
Funding		
Major Replacement Reserve	174,912	226,836
City of Calgary - CPRiiPs	1,336,716	656,867
Operating Reserve	1,665,022	437,038
	3,176,650	**1,320,741**

*Note that $856k was reclassified at year- end 2016 into 2017, funding for the projects via CPRiiPs had been submitted before adjustment and was recorded in 2016.

6. Audit Committee 2018 Work Plan

CCCA Audit & Finance Committee 2018 Work Plan

Date	Topic
Quarter 1	2017 4th Quarter Financials
Quarter 2	2017 Audit (Deloitte Presentation) Recommendation of appointment of external auditor 2018 1st Quarter Financials
Quarter 3	2018 2nd Quarter Financials

Quarter 4	2018 Audit Service Plan Presentation, Deloitte
	2018 3rd Quarter Financials
	2019 Budget & Business Plan

*Risk Management Reporting presented at full board meetings annually

Financial statements of
The Calgary Convention Centre Authority

December 31, 2017

Deloitte.

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Independent Auditor's Report

To The Directors of
The Calgary Convention Centre Authority

We have audited the accompanying financial statements of The Calgary Convention Centre Authority, which comprise the statement of financial position as at December 31, 2017, the statements of revenue, expenses and operating reserve, changes in net financial assets and cash flows for the year then ended, and the notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Calgary Convention Centre Authority as at December 31, 2017 and the results of its operations, changes in net financial assets and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Deloitte LLP

Chartered Professional Accountants
May 3, 2018

The Calgary Convention Centre Authority
Statement of financial position
as at December 31, 2017

	Notes	2017	2016
		$	$
Financial assets			
Cash and cash equivalents		**2,290,446**	1,348,007
Restricted cash	12	**106,313**	67,441
Accounts receivable		**1,658,257**	2,231,537
Due from The City of Calgary - major replacement reserve		**194,941**	241,777
Investments	5	**1,160,627**	5,149,219
		5,410,584	9,037,981
Financial liabilities			
Accounts payable and accrued liabilities	8 and 12	**3,246,098**	4,706,268
Client deposits		**1,822,965**	2,205,984
		5,069,063	6,912,252
Net financial assets		**341,521**	2,125,729
Non-financial assets			
Tangible capital assets	6	**4,645,167**	2,274,986
Prepaid expenses		**97,097**	81,217
		4,742,264	2,356,203
Accumulated surplus is represented by			
Major replacement reserve	4	**20,030**	14,942
Operating reserve		**5,063,755**	4,466,990
		5,083,785	4,481,932

The accompanying notes are an integral part of the financial statements.

Approved by the Board

_________________________ Director

_________________________ Director

The Calgary Convention Centre Authority

Statement of revenue, expenses and operating reserve

year ended December 31, 2017

	Notes	Budget (Note 11) $	2017 $	2016 $
Revenue				
Operating	12	21,013,072	**19,145,823**	18,291,022
Grants from The City of Calgary		1,878,170	**1,878,171**	1,817,137
		22,891,242	**21,023,994**	20,108,159
Expenses				
Administrative and general		2,101,952	**1,993,086**	2,516,636
Amortization		1,155,672	**734,704**	677,160
Marketing		1,362,225	**1,346,395**	1,262,522
Operations and maintenance	12	17,471,864	**16,345,994**	15,783,206
		22,091,713	**20,420,179**	20,239,524
Operating surplus before the undernoted		799,529	**603,815**	(131,365)
Major replacement reserve	4 and 10	—	**(5,088)**	46,836
Loss on disposal of tangible capital assets		—	**(1,962)**	(282)
Operating surplus (deficit) for the year		799,529	**596,765**	(84,811)
Operating reserve, beginning of year		4,466,990	**4,466,990**	4,551,801
Operating reserve, end of year		5,266,519	**5,063,755**	4,466,990

The accompanying notes are an integral part of the financial statements.

The Calgary Convention Centre Authority
Statement of changes in net financial assets
year ended December 31, 2017

	2017	2016
	$	$
Operating surplus (deficit) for the year	**596,765**	(84,811)
Amortization	**734,704**	677,160
Write-off of tangible capital assets	**1,962**	282
Proceeds from disposal of tangible capital assets	**69,803**	-
Change in prepaid expenses	**(15,880)**	(26,634)
Allocation to major replacement reserve	**180,000**	180,000
Usage of major replacement reserve	**(174,912)**	(226,836)
Purchases of tangible capital assets	**(3,176,650)**	(464,490)
Increase in net financial assets	**(1,784,208)**	54,671
Net financial assets, beginning of year	**2,125,729**	2,071,058
Net financial assets, end of year	**341,521**	2,125,729

The accompanying notes are an integral part of the financial statements.

The Calgary Convention Centre Authority
Statement of cash flows
year ended December 31, 2017

	2017	2016
	$	$
Operating activities		
Operating surplus (deficit) for the year	596,765	(84,811)
Items not affecting cash and equivalents		
Amortization	734,704	677,160
Loss on disposal of tangible capital assets	1,962	282
	1,333,431	592,631
Changes in non-cash working capital		
Accounts receivable	573,280	(949,888)
Accounts payable and accrued liabilities	(1,752,325)	(139,304)
Client deposits	(383,019)	65,666
Prepaid expenses	(15,880)	(26,634)
Major replacement reserve	5,088	(46,836)
	(239,425)	(504,365)
Investing activities		
Purchases of tangible capital assets	(3,176,650)	(464,490)
Proceeds from disposal of tangible capital assets	69,803	-
Change in restricted cash	(38,872)	21,464
Purchases of short-term investments	(1,919,166)	(4,701,863)
Proceeds from disposal of short-term investments	5,907,758	6,960,035
Changes in non-cash working capital		
Due from The City of Calgary - major replacement reserve	46,836	(28,673)
Accounts payable and accrued liabilities	292,155	200,990
	1,181,864	(1,552,748)
Net increase (decrease) in cash and cash equivalents	942,439	(2,057,113)
Cash and cash equivalents, beginning of year	1,348,007	3,405,120
Cash and cash equivalents, end of year	2,290,446	1,348,007
Represented by		
Cash	401,776	1,348,007
Cash equivalents	1,888,670	—
	2,290,446	1,348,007

1. The Calgary Convention Centre Authority

The Calgary Convention Centre Authority (the "Authority") is incorporated under the laws of the province of Alberta and operated as the Calgary TELUS Convention Centre (the "Centre") pursuant to an operating agreement between the Authority and The City of Calgary ("The City"). The land, building, furniture and equipment are owned by The City, which also contributes a grant towards the operating costs of the Centre. In accordance with an amendment to the operating agreement, the Authority retains operating surpluses. Surpluses are placed in an operating reserve and are used to cover capital expenditures, extraordinary expenditures and any annual deficits, which may be incurred.

Under an extended lease agreement to expire in 2039, the Calgary Marriott acts as the exclusive caterer to the Centre.

2. Significant accounting policies

These financial statements are prepared in accordance with Canadian public sector accounting standards ("PSAS"). The Authority's significant accounting policies are as follows:

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits in bank accounts at Canadian financial institutions and short-term investments with maturities of a short-term nature, usually less than 90 days.

Investments

Investments represent Guaranteed Investment Certificates ("GIC") with original maturities greater than 90 days. Investments are recorded at fair value.

Client deposits

Client deposits represent amounts received from customers for events that have not yet occurred. These amounts are recognized as revenue in the period when the related event occurs.

Revenue recognition

Revenue comprises revenues earned from convention services, functions, food and beverage services and grant revenue received from The City. Revenues for convention services, functions and food and beverage services are recognized when the service is performed, the price is determinable and collection is reasonably assured. Grant revenue is received from The City on a quarterly basis. A proportionate amount is recognized each month. Revenue and expenses are recognized on a gross basis.

Tangible capital assets

Tangible capital assets are recorded at cost, which includes all amounts that are directly attributable to the acquisition, construction, development, or betterment of the asset. Donated assets are recorded as capital items, with the offset to revenue at their estimated fair value upon acquisition. Interest charges are not capitalized. The cost, less residual value, of tangible capital assets is amortized on a straight-line or declining-balance basis over the assets' estimated useful lives as follows:

Renovations	3-year straight-line
Building enhancements	20% declining-balance
Computer equipment	55% declining-balance
Other equipment	20% declining-balance

2. Significant accounting policies (continued)

Tangible capital assets (continued)

Revenue from government grants and transfers relating to capital acquisitions will be recognized on a straight-line basis as the capital expenditure is incurred.

Impairment of tangible capital assets

Tangible capital assets are reviewed periodically for impairment. An impairment loss will be recognized in the period when the service potential of a capital asset will be either substantially reduced or eliminated altogether by an intervening event such as natural disaster, accident and obsolescence.

Use of estimates

The financial statements are prepared in accordance with PSAS, which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue, expenses and operating reserve during the year. Items subject to estimation include the valuation allowance pertaining to receivables, estimated useful lives, amortization and potential impairment of tangible capital assets, and the impact of contingencies on accrued liabilities. Where measurement uncertainty exists, the financial statements have been prepared within reasonable limits of materiality. Actual results could differ from those estimates.

3. Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit and short-term GICs with original maturities of 90 days or less at the date of acquisition and are recorded at cost plus interest earned. The effective interest rate on the GICs held during the year was 1.57%% (2016 - 1.32%) per annum. As at December 31, 2017, the Authority held $1,888,670 (2016 - $938,412) in short-term GICs and $1,160,627 (2016 - $4,210,807) in long-term GICs (Note 5).

4. Major replacement reserve

The Authority records an annual appropriation for facility refurbishment and major renovations. The appropriation for the year totalled $180,000 (2016 - $180,000).

	Notes	**2017**	2016
		$	$
Balance, beginning of year		**14,942**	61,778
Increase in provision for the year		**180,000**	180,000
Major replacement expenditures	10	**(174,912)**	(226,836)
Balance, end of year		**20,030**	14,942

The Calgary Convention Centre Authority
Notes to the financial statements
December 31, 2017

5. Investments

Investments consist of GICs with a maturity date not greater than five years from December 31, 2017 bearing interest from 1.10% to 2.00% (2016 - 0.60% to 1.75%) per annum. The fair value of the investments has been determined to be the principal plus interest earned to date.

			2017
	Cost	Accrued interest	Fair value
	$	$	$
Rate Riser Plus GIC 0036	597,500	32,352	629,852
Rate Riser Plus GIC 0038	506,250	24,525	530,775
	1,103,750	56,877	1,160,627

			2016
	Cost	Accrued interest	Fair value
	$	$	$
Rate Riser Plus GIC 0036	597,500	20,847	618,347
Rate Riser Plus GIC 0037	597,500	20,847	618,347
Rate Riser Plus GIC 0038	506,250	16,138	522,388
Rate Riser Plus GIC 0041	610,000	12,662	622,662
Rate Riser Plus GIC 0042	610,000	12,662	622,662
Variable Rate GIC	1,200,000	6,400	1,206,400
Variable Rate GIC	415,000	1,660	416,660
Variable Rate GIC	521,294	459	521,753
	5,057,544	91,675	5,149,219

6. Tangible capital assets

In accordance with PSAB Handbook Section 3150, The City has performed a review of the ownership and control of the land, building enhancements and equipment of the Centre. Accordingly, the Centre is recorded on the financial statements of The City. The Authority currently has an operating lease with The City, which was renewed on January 22, 2018 and is scheduled for renewal on January 22, 2021. The contract has a nominal fee, the cost of which has been recorded through operations and maintenance expense.

			2017
	Cost	**Accumulated amortization**	**Net book value**
	$	**$**	**$**
Renovations	**6,827,559**	**6,637,411**	**190,148**
Building enhancements	**2,125,156**	**856,621**	**1,268,535**
Computer equipment	**522,743**	**406,082**	**116,661**
Other equipment	**5,143,454**	**2,073,631**	**3,069,823**
	14,618,912	**9,973,745**	**4,645,167**

			2016
	Cost	Accumulated amortization	Net book value
	$	$	$
Renovations	7,368,693	6,951,422	417,271
Building enhancements	1,331,813	737,823	593,990
Computer equipment	712,416	607,920	104,496
Other equipment	3,259,927	2,100,698	1,159,229
	12,672,849	10,397,863	2,274,986

7. Employee benefits

The Authority participates in the Local Authorities Pension Plan ("LAPP"), which is a multi-employer benefit plan. This plan is governed by the Public Sector Pension Plans Act. Based on the latest information available (December 31, 2016 audited financial statements), in total, the LAPP had an actuarial deficit of $637 million (2015 - $923 million).

The Authority is required to make current service contributions to the LAPP of 11.39% of pensionable payroll up to the yearly maximum pensionable earnings ("YMPE"), and 15.84% thereafter. Employees of the Authority are required to make current service contributions of 10.39% of pensionable salary up to the YMPE, and 14.84% thereafter. Contributions for current services are recorded as expenditures in the year in which they become due.

Total current service contributions, as reflected in the administrative and general, marketing and operations and maintenance expenses in the statement of revenue, expenses and operating reserve by the Authority to the LAPP during the year, were $592,119 (2016 - $588,447). Total current service contributions by the employees of the Authority to the LAPP for the year were $544,579 (2016 - $541,245).

8. Accounts payable and accrued liabilities

In accordance with the Meetings, Conventions and Incentive Travel ("MC&IT") marketing funding and management agreement (the "Agreement") between the Calgary Hotel Association and the Authority, the Calgary Hotel Association advances funds to the Authority to fund incentive payments for future events through Meetings & Conventions Calgary as well as to cover operating expenses incurred by the Authority. As at December 31, 2017, an amount of $221,472 (2016 - $1,751,807) advanced by the Calgary Hotel Association is included in accounts payable and accrued liabilities as well as in cash and cash equivalents and investments to be used by the Authority in accordance with the Agreement as described above. Of the funds held, the amount held by the Authority for incentive funding is $182,094 (2016 - $1,726,496) and the amount held by the Authority for future operating expenses is $39,378 (2016 - $25,311).

During the year, the Authority disbursed from the incentive funds $753,714 (2016 - $467,455) to events held in the city, returned $800,000 (2016 – $Nil) to the Calgary Hotel Association and earned $9,312 (2016 - $25,527) in interest on the funds held. The Authority has committed on behalf of the Calgary Hotel Association a total of $2,741,695 (2016 - $2,734,653) for future events to be paid out over the years 2018 to 2025. Funding for the commitments that have been made on behalf of the Calgary Hotel Association for future events will be funded on an as needed basis.

9. Financial instruments

The Authority's financial instruments are cash and cash equivalents, accounts receivable, due from The City of Calgary - major replacement reserve, investments, accounts payable and accrued liabilities, and client deposits. The carrying values of these items approximate their fair values due to their short-term nature.

The Authority's financial instruments that are exposed to concentration of credit risk consist primarily of cash and cash equivalents and accounts receivable. Cash is placed with major financial institutions. Concentration of credit risk with respect to receivables is limited due to the large number of customers and their dispersion across geographic areas.

10. Major capital additions

During the year, the Authority incurred $3,176,650 (2016 - $464,490) in expenditures for major capital additions, which have been capitalized as renovations, building enhancements and equipment. Of this amount, $1,665,022 (2016 - $237,654) was funded by the Authority's operating reserve and $174,912 (2016 - $226,836) was funded by the Authority's major replacement reserve. $1,336,716 (2016 - $656,867) was applied for and funded through The City's CPRiiP (Culture Parks Recreation Infrastructure Investment Fund) Program for the capital additions made in 2017.

11. 2017 Budget

The budgeted amounts presented in the financial statements are based on operating and capital budgets approved by the board of directors.

12. Calgary Convention Centre Authority responsibilities

Glenbow Museum

Through an agreement with The City, the Authority provides maintenance, engineering, housekeeping and capital project supervision for the Glenbow Museum. Expenses of $1,289,330 (2016 - $1,328,403) incurred in provision of these services are included in the expenses of the Authority. Recovery of the expenses plus a management fee of $87,000 (2016 - $87,000) totalling $1,375,980 (2016 - $1,415,554) are included in operating revenue of the Authority. Capital projects supervised by the Authority totalled $7,880 (2016 - $ Nil) during the year.

Retail spaces, North Building

The Authority provides basic property management services for the retail spaces and parkade in the north building. Expenses of $418,271 (2016 - $427,576) incurred in provision of these services are included in the expenses of the Authority. Recovery of the expenses plus a management fee $455,655(2016 - $458,508) are included in operating revenue of the Authority.

Meetings & Conventions Calgary

Through an agreement with the Calgary Hotel Association, the Authority provides management and operation of destination sales and marketing for MC&IT. Expenses of $2,904,914 (2016 - $2,955,401) incurred in provision of these services are included in the expenses of the Authority. Funding to cover these expenses $2,904,914 (2016 - $2,955,401) is reported net of expenses. Pursuant to the agreement, effective January 1, 2014 the Authority charges an administration/marketing fee for management and operation of the program. The fee of $185,964(2016 - $185,964) is included in the operating revenue of the Authority.

Convention Centres of Canada

The Authority holds and administers the restricted funds of the Convention Centres of Canada, an affiliation of 21 major Canadian convention centres. As at December 31, 2017, an amount of $67,246 (2016 - $45,874) is included in accounts payable and accrued liabilities as well as restricted cash.

Energy Cities Alliance

The Authority holds and administers the restricted funds of the Energy Cities Alliance, a marketing partnership of convention centres. As at December 31, 2017, an amount of $9,689 (2016 - $21,567) is included in accounts payable and accrued liabilities as well as restricted cash.

13. Commitments

As of December 31, 2017, the Authority has commitments related to the lease of office equipment payable within the next three years as follows.

	$
2018	21,159
2019	19,335
2020	8,756

CALGARY CONVENTION CENTRE AUTHORITY REPORT

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CALGARY CONVENTION CENTRE AUTHORITY (CCCA)

Mandate (approved by City Council, 2005)

To manage, market and operate the Calgary TELUS Convention Centre in an efficient and market-competitive manner in order to maximize overall economic benefits to the city of Calgary while maintaining financial performance with an acceptable range.

Vision (approved by City Council April, 2017)

The Calgary TELUS Convention Centre is Calgary's meeting place which brings the community together in a central hub to connect, learn, innovate, celebrate, support and grow.

The Calgary TELUS Convention Centre connects Calgary with the global community; leveraging our assets to create opportunities that impact the lives of Calgarians and Canadians.

CCCA CONTRACTUAL OBLIGATIONS

1. **Calgary TELUS Convention Centre** (through an agreement with the City of Calgary)
   - Management, marketing and operations
   - Building stewardship and protection of asset
2. **Glenbow Museum** (through an agreement with the City of Calgary)
   - Maintenance, engineering, housekeeping and capital project supervision
3. **Retail spaces in the North Building** (through an agreement with the City of Calgary)
   - Basic property management services
4. **Meetings and Conventions Calgary** (through an agreement with the Calgary Hotel Association)
   - Management and operation of destination sales and marketing for MC&IT
5. **Food and Beverage Services Agreement** (joint agreement – Marriott Hotel, City, CCCA)
   - Management & administration of contract
6. **TELUS Naming and Business Rights** (joint agreement – TELUS, City, CCCA)
   - Management of contract

2017 CALGARY TELUS CONVENTION CENTRE (CTCC) HIGHLIGHTS

- Clean audit; no misstatements
- $596,765 operational surplus
- Building Improvements funded by;
  - CPRiiPS grant $1,336,716
  - Operating Reserve $1,665,022
  - MRR $174,912
- Uptick in Q3 room booking activity(economy picking up slowly)

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CCCA AUDIT & FINANCE COMMITTEE

Terms of Reference:

- Financial reporting process
- Internal controls
- Risk management
- Audit process
- Compliance with laws and regulations
- Oversees external auditor’s services

CCCA PLANNED GOVERNANCE ACTIVITIES

Audit & Finance Committee:

- Meets quarterly to review financial statements, financial performance, forecasts and other significant business concerns
- Recommends to the board the annual operating and capital budgets
- Meets with the external auditor to plan the audit process and receives auditor's report
- Risk Management Process reviewed annually with all board members

CTCC INTEGRATED RISK MANAGMENT

Risk Management Model:

- Organizational risk are identified, quantified and risk ranked

- Appropriate mitigation measures are put in place and monitored for effectiveness

- The Board reviews overall status of identified risks annually with management

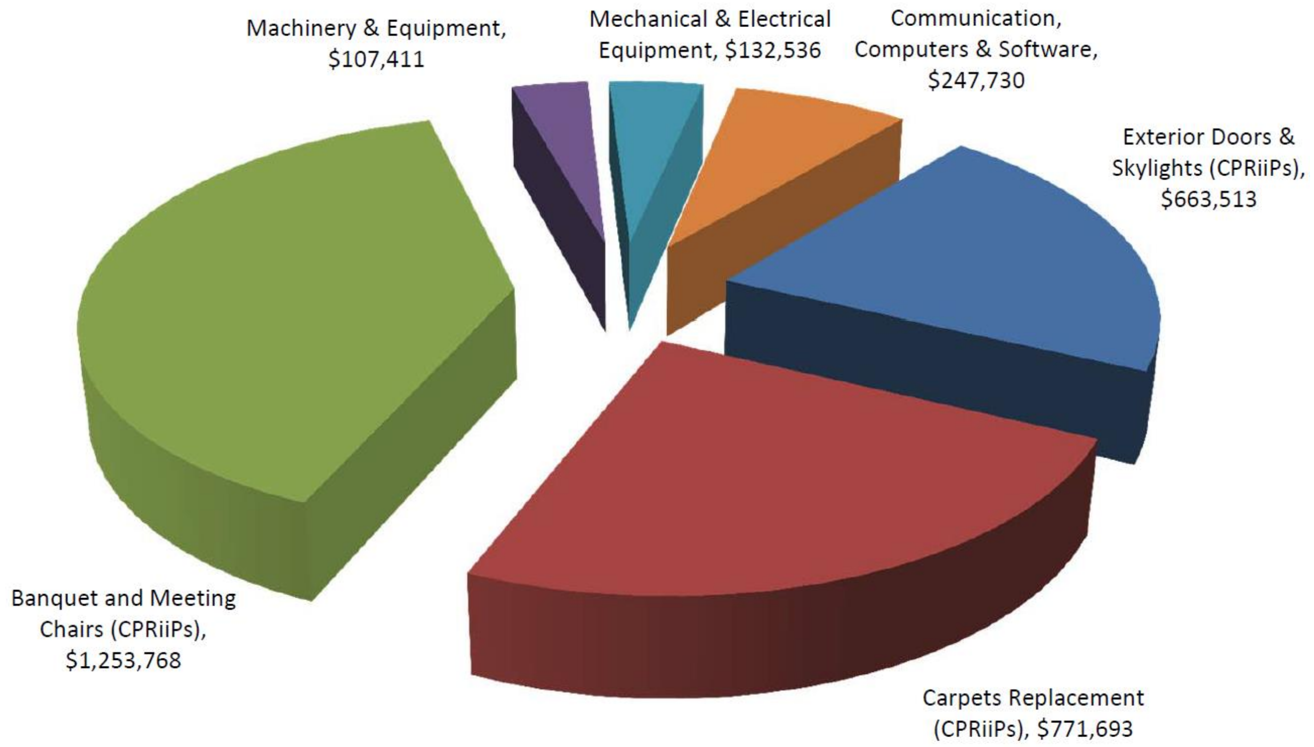
- Special Board Task Group was struck in June to investigate current best practices for Enterprise Risk Management

CTCC FINANCIAL AND/OR OPERATIONAL RISKS

- Deferred Maintenance/Rejuvenation(ability to provide a quality product, business reputation, financial risk)
- Competitive Positioning of facility (hotels and venues increasing capacity, aggressively targeting other markets)
- Decline of economy(began strategy implementation in late 2017)

CTCC PERFORMANCE HIGHLIGHTS

2017 Accomplishments - Capital Expenditures



HIGHLIGHTS OF CCCA 2017 FINANCIAL RESULTS

		2017	2016
Revenues:	Operating Revenue	19,145,823	18,291,022
	City Grant	1,878,171	1,817,137
	Total Revenue	21,023,994	20,108,159
Expenses:	*Operating Expenses before Amortization	19,685,475	19,562,364
	Contribution to Major Replacement Reserve	180,000	180,000
	Amortization	734,704	677,160
	Total Expenses	20,420,179	20,239,524
Total Operating Reserves at year end		5,063,755	4,466,990
	Net Financial Assets (cash)	341,521	2,125,729
	Non Financial Assets (TCA & prepaids)	4,742,264	2,356,203
M**ajor Replacement Reserve at year end**		20,030	14,942
Capital Expenditures for 2017			
(renovations, building enhancements, equipment)		3,176,650	464,490
Funded through:			
	Operating Reserve	1,665,022	237,654
	Major Replacement Reserve	174,912	226,836
	CPRiiP Grant**	1,336,716	656,867

* **Meetings + Conventions Calgary is reported net per Public Standard Accounting Standards (PSAS)**

** **Commitments of $856,250 made at December 31, 2016 for capital expenditures and paid in 2017**

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THANK YOU

ISC: UNRESTRICTED
AC2018-0529
ATTACHMENT 4

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CALGARY TELUS CONVENTION CENTRE

2017 ANNUAL REPORT

CALGARY TELUS CONVENTION CENTRE
2017 ANNUAL REPORT

2017 WAS A YEAR OF FUNDAMENTAL change and evolution for the Calgary Convention Centre Authority (CCCA). Mandated to operate the Calgary TELUS Convention Centre and promote Calgary as the destination to bring Meetings, Conventions, Congresses and Conferences, the CCCA Board of Directors has worked hard to provide leadership for our city within our scope of service.

As the organization continues to stabilize, the Board has been able to focus on governance and advocacy for the CCCA as Calgary's lead promotional agency for convention attraction and manager of the city's convention centre. Providing leadership and guidance to the organization during the year of change has been important as we evaluate ways to grow the business while identifying and mitigating enterprise risks. Good structure and processes have strengthened our ability to achieve these objectives.

Our industry has been evolving over the past number of years. Globally, the industry has grown by 48% in the last 7 years; in the same time frame, the demands from convention planners are changing significantly. The experience that conventions are expecting from destinations today is broader and more community-oriented than it ever has been.

The CCCA is meeting this changing market with a fresh approach and strategy. Rejuvenation of our facility, along with a targeted marketing approach into strategic global markets like Europe, China and Mexico, will allow us to align with our partners and bring new groups of delegates to our city.

Locally, we are rapidly becoming a community hub in the downtown core. Working with local groups to host important events for Calgarians is a foundational component to our mandate. In addition, our plan to activate public spaces in the Centre will create a refreshing place that will invite our community to linger and enjoy the heart of downtown Calgary.

I am pleased to report that the financial results for the CCCA in 2017 were positive. Our new strategic plan has begun to increase revenues while improving operational excellence and efficiencies. Together with our strong executive leadership team, these elements are driving a refreshed culture as well as a strong bottom line.

As we move into implementing our new plan, it will be critical for us to build partnerships with our multiple stakeholders. The convention business touches many areas of the Calgary community and leverages influencers in our city to attract important events. This in turn brings relevant visitors to experience our unique and energetic city.

Hear more from Tom at youtube.com/CalgaryConventionCtr

Tom Bornhorst
Chair, Board of Directors
Calgary Convention Centre Authority

Message from the President & CEO

2017 WAS AN EXCITING YEAR at the Calgary TELUS Convention Centre (CTCC), which brought a new vision, organizational restructuring and a refreshed focus on high-end customer service and attention. The implementation of our new strategic plan has allowed us to rethink and reimagine the social and economic impact our organization can have on the city of Calgary, Alberta and Canada.

Internally, we thoughtfully and intentionally designed the new structure to drive success from our strategic plan. By building on the strengths within the organization and removing barriers to growth, we have provided a firm foundation to not only operate a world-class convention centre but to lead Calgary into enhanced success in the growing global meetings and conventions business.

The strong performance of Meetings + Conventions Calgary, a division of CTCC, proved once again what we can do when we bring Calgary together to attract conventions to our city. The Rotary International win was truly a Team Calgary collaboration, which will bring the largest event to Calgary since the 1988 Winter Olympics. Many thanks to everyone who contributed to that big win for our city!

In 2017, we built an exciting rejuvenation plan for the Convention District in Calgary—the two city blocks that encompass the Marriott and Hyatt hotels, the Glenbow Museum, CTCC and Calgary Economic Development. By partnering with these forward-thinking organizations, CTCC has the ability and the facilities available to attract conventions that fit our city and bring economic and intellectual impact to Calgary.

As we move into 2018, we are raising the bar for ourselves and for the convention hosting community in Calgary. The groups that come to our city are not coming here to simply meet at the Calgary TELUS Convention Centre; they are coming here to meet and convene and experience our city. This experience begins at the airport as they get the first glimpse of our amazing skyline against the Rockies. The experience continues as they come into downtown and are welcomed by the staff at our hotels, interact with our shops and businesses on Stephen Avenue Mall and beyond, take in the amazing culinary scene in our restaurants and engage with our vibrant arts community. This is the Calgary Experience that we sell every day and the experience that our city aspires to deliver.

As we activate a new plan for rejuvenation of our current assets and accelerate our attraction of conventions to Calgary, I am looking forward to working closely with the many stakeholders in Calgary that bring our city to life for our visitors.

Go Team Calgary!

Hear more from Clark at youtube.com/CalgaryConventionCtr

Clark Grue
President & CEO
Calgary TELUS Convention Centre

Calgary Convention Centre Authority (CCCA) Board of Directors

Tom Bornhorst
Chair, Board of Directors

Leslie Weekes
Vice Chair

Levonne Louie
Acting Chair, Audit & Finance Committee

Georgine Ulmer
Chair, Governance & Human Resources Committee

Gillian Basford
Director

Diane Colley-Urquhart
Director

Kurt Hanson
Director

Wellington Holbrook
Director

Mayor Naheed Nenshi
Director

Robert Palmer
Director

Greg Yont
Director

Board Notes

- Added one new dynamic Board member
- Strengthened governance structure to improve Board efficiencies
- Special task force created to investigate current best practices for Enterprise Risk Management (ERM)

The CCCA maintains active operating agreements to:

- Maintain, repair and clean the Glenbow Museum; with the City of Calgary
- Maintain and repair retail spaces owned by the City of Calgary in the CTCC North Building
- Operate and maintain the shared loading dock in the CTCC North Building; with the City of Calgary and Balboa Land Investments
- Assign exclusive rights for all food and beverage services in the CTCC to the attached hotel, currently the Calgary Marriott Downtown
- Manage Meetings + Conventions Calgary; with Calgary Hotel Association
- Assign naming rights to Calgary TELUS Convention Centre; with TELUS

"Coming together is a beginning.
Keeping together is progress.
Working together is success."
Henry Ford

Partners

CTCC partners with many local, national and international organizations to leverage our reach, our resources and our expertise.

They are:

- Calgary Hotel Association
- Calgary Economic Development
- Calgary Stampede
- Calgary Downtown Association
- Travel Alberta
- Tourism Calgary
- Energy Cities Alliance
- Business Events Canada/Destination Canada

Memberships

As an active member in the convention and meeting space, CTCC belongs to various local, national and international trade organizations including:

- International Association of Congress Centres
- Convention Centres of Canada
- International Congress and Convention Association
- International Association of Assembly Managers
- Meeting Professionals International
- Professional Convention Management Association
- American Society of Association Executives
- Canadian Society of Association Executives
- International Association of Venue Managers
- Calgary Chamber of Commerce
- Tourism Calgary
- Canadian Chamber of Commerce
- Tourism Industry Association of Canada
- Meetings Mean Business Canada
- AIPC - International Association of Convention Centres

Over the last year we celebrated many achievements. Whether it was making us more responsive to a changing marketplace, deepening our ties to the community, or strengthening our workplace and financial sustainability, 2017 had a number of important takeaways. Here are some of our key highlights from 2017 that represent our growth as an organization and our continued focus areas for the future.

See more of our 2017 highlights at youtube.com/CalgaryConventionCtr

Building Our Community

- Advanced meaningful relationships with 16 City of Calgary and community stakeholders
- Initiated work experience programs for post-secondary students
- Re-established partnership and development of a community hub with TELUS and Glenbow Museum

Building Our Business

- Grew Calgary Champion Program in 2017 by 15 to current total of 83 Champions
- Identified new market opportunities in 3 new geographies and 5 new industry verticals
- Identified 4 new lines of revenue
- Identified key local market relationships and business development needs to increase revenue

Building Our People

- Completed organizational restructuring
- Recruited senior executive team
- Restructured sales and marketing team
- Development of a department restructuring plan to enable succession planning, empower leadership, promote responsibility and accountability while improving efficiencies
- Elevated focus on skills training and professional development

Building Our Brand

- Initiated joint venture marketing with MCC, Stampede and CTCC
- Created joint marketing strategy with BMO Centre and CTCC to sell Calgary first. "See how we fit campaign"
- Completed market demand study and brand analysis
- Participated in the First Flip Pancake breakfast with 5 key partners (4700 people served from 16 international countries)
- Hosted US Consulate photo exhibit "Eyes on the Arctic" and "Northern Stars"
- Hosted first ever reception in the south building, main level, public area
- Developed plan for a more welcoming atmosphere
- Established the foundation for further growth and understanding of "Brand" across departments
- Initiated a public relations program

Strengthening Our Operations

- Shortened financial reporting timeline by 2 weeks
- Implemented online expense reporting
- Reviewed existing risk management programs and implemented change to reduce high-risk to moderate rating
- Improved South Building Loading Dock to improve safety while reducing crime, loss of life, capital and asset damage, and third party claims
- Enhanced work safe practices through new scheduling processes
- Responded to market demand for more collaborative and productive space based on face-to-face interaction
- Overall client satisfaction in using the CTCC and its services is 95%; clients said they would come back and refer others to host an event with us

Strengthening Our Financials

- Achieved > $100,000 in savings from new and improved client survey process
- Total economic impact from events was $26,154,864
- 2017 CTCC total revenue of $21,023,118
- CTCC net income for 2017 was $596,765
- Hosted 277 events including corporate town halls, local meetings, fundraising galas, and international and national conventions and conferences
- Brought in 143,795 delegates, including 23,691 non-residents, to the Centre and Calgary's downtown Convention District
- 35,916 total hotel nights booked from event delegates

Meetings + Conventions Calgary Successes

- Secured largest city-wide convention in last 20 years—the 2025 Rotary International Convention
- Distributed 200,000 room night leads; exceeding 2017 target of 185,000
- Secured IEEE Technical Conference

"This is the Calgary Experience that we sell every day and the experience that our city aspires to deliver."

Clark Grue, President & CEO

ISC: UNRESTRICTED
AC2018-0529
ATTACHMENT 4

FINANCIAL STATEMENTS TABLE OF CONTENTS

See more of our 2017 financial highlights at youtube.com/CalgaryConventionCtr

TO THE DIRECTORS OF THE CALGARY CONVENTION CENTRE AUTHORITY

We have audited the accompanying financial statements of The Calgary Convention Centre Authority, which comprise the statement of financial position as at December 31, 2017, the statements of revenue, expenses and operating reserve, changes in net financial assets and cash flows for the year then ended, and the notes to the financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Calgary Convention Centre Authority as at December 31, 2017 and the results of its operations, changes in net financial assets and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Chartered Professional Accountants,

Deloitte LLP

Chartered Accountant
May 2, 2018

Statement of Financial Position

As at December 31, 2017	2017	2016
	$	$
FINANCIAL ASSETS		
Cash & cash equivalents	2,290,446	1,348,007
Restricted cash (Note 12)	106,313	67,441
Accounts receivable	1,658,257	2,231,537
Due from The City of Calgary - major replacement reserve	194,941	241,777
Investments (Note 5)	1,160,627	5,149,219
	5,410,584	9,037,981
FINANCIAL LIABILITIES		
Accounts payable and accrued liabilities (Notes 8 & 12)	3,246,098	4,706,268
Client deposits	1,822,965	2,205,984
	5,069,063	6,912,252
NET FINANCIAL ASSETS	341,521	2,125,729
NON-FINANCIAL ASSETS		
Tangible capital assets (Note 6)	4,645,167	2,274,986
Prepaid expenses	97,097	81,217
	4,742,264	2,356,203
ACCUMULATED SURPLUS IS REPRESENTED BY		
Major replacement reserve (Note 4)	20,030	14,942
Operating reserve	5,063,755	4,466,990
	5,083,785	4,481,932

The accompanying notes are an integral part of the financial statements.

Approved by the Board

Director

Director

Year ended December 31, 2017	Budget (Note 11)	2017	2016
	$	$	$
REVENUE			
Operating (Note 12)	21,013,072	19,145,823	18,291,022
Grants from The City of Calgary	1,878,170	1,878,171	1,817,137
	22,891,242	21,023,994	20,108,159
EXPENSES			
Administrative and general	2,101,952	1,993,086	2,516,636
Amortization	1,155,672	734,704	677,160
Marketing	1,362,225	1,346,395	1,262,522
Operations and maintenance (Note 12)	17,471,864	16,345,994	15,783,206
	22,091,713	20,420,179	20,239,524
Operating surplus before the undernoted	799,529	603,815	(131,365)
Major replacement reserve (Notes 4 & 10)	-	(5,088)	46,836
Loss on disposal of tangible capital assets	-	(1,962)	(282)
Operating surplus (deficit) for the year	799,529	596,765	(84,811)
Operating reserve, beginning of year	4,466,990	4,466,990	4,551,801
OPERATING RESERVE, END OF YEAR	5,266,519	5,063,755	4,466,990

The accompanying notes are an integral part of the financial statements.

Statement of Changes in Net Financial Assets

Year ended December 31, 2017	2017	2016
	$	$
Operating surplus (deficit) for the year	596,765	(84,811)
Amortization	734,704	677,160
Write-off of tangible capital assets	1,962	282
Proceeds from disposal of tangible capital assets	69,803	-
Change in prepaid expenses	(15,880)	(26,634)
Allocation to major replacement reserve	180,000	180,000
Usage of major replacement reserve	(174,912)	(226,836)
Purchases of tangible capital assets	(3,176,650)	(464,490)
Increase in net financial assets	(1,784,208)	54,671
Net financial assets, beginning of year	2,125,729	2,071,058
Net financial assets, end of year	341,521	2,125,729

The accompanying notes are an integral part of the financial statements.

Statement of Cash Flows

Year ended December 31, 2017	2017	2016
	$	$
OPERATING ACTIVITIES		
Operating surplus (deficit) for the year	596,765	(84,811)
Items not affecting cash and equivalents		
Amortization	734,704	677,160
Loss on disposal of tangible capital assets	1,962	282
	1,333,431	592,631
Changes in non-cash working capital		
Accounts receivable	573,280	(949,888)
Accounts payable and accrued liabilities	(1,752,325)	(139,304)
Client deposits	(383,019)	65,666
Prepaid expenses	(15,880)	(26,634)
Major replacement reserve	5,088	(46,836)
	(239,425)	(504,365)
INVESTING ACTIVITIES		
Purchases of tangible capital assets	(3,176,650)	(464,490)
Proceeds from disposal of tangible capital assets	69,803	-
Change in restricted cash	(38,872)	21,464
Purchases of short-term investments	(1,919,166)	(4,701,863)
Proceeds from disposal of short-term investments	5,907,758	6,960,035
Changes in non-cash working capital		
Due from The City of Calgary - major replacement reserve	46,836	(28,673)
Accounts payable and accrued liabilities	292,155	200,990
	1,181,864	(1,552,748)
Net increase (decrease) in cash and cash equivalents	942,439	(2,057,113)
Cash and cash equivalents, beginning of year	1,348,007	3,405,120
Cash and Cash equivalents, end of year	2,290,446	1,348,007
REPRESENTED BY		
Cash	401,776	1,348,007
Cash equivalents	1,888,670	-
	2,290,446	1,348,007

NOTE 1 • THE CALGARY CONVENTION CENTRE AUTHORITY

The Calgary Convention Centre Authority (the "Authority") is incorporated under the laws of the province of Alberta and operated as the Calgary TELUS Convention Centre (the "Centre") pursuant to an operating agreement between the Authority and The City of Calgary ("The City"). The land, building, furniture and equipment are owned by The City, which also contributes a grant towards the operating costs of the Centre. In accordance with an amendment to the operating agreement, the Authority retains operating surpluses. Surpluses are placed in an operating reserve and are used to cover capital expenditures, extraordinary expenditures and any annual deficits, which may be incurred.

Under an extended lease agreement to expire in 2039, the Calgary Marriott acts as the exclusive caterer to the Centre.

NOTE 2 • SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with Canadian public sector accounting standards ("PSAS"). The Authority's significant accounting policies are as follows:

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits in bank accounts at Canadian financial institutions and short-term investments with maturities of a short-term nature, usually less than 90 days.

Investments

Investments represent Guaranteed Investment Certificates ("GIC") with original maturities greater than 90 days. Investments are recorded at fair value.

Client deposits

Client deposits represent amounts received from customers for events that have not yet occurred. These amounts are recognized as revenue in the period when the related event occurs.

Revenue recognition

Revenue comprises revenues earned from convention services, functions, food and beverage services and grant revenue received from The City. Revenues for convention services, functions and food and beverage services are recognized when the service is performed, the price is determinable and collection is reasonably assured. Grant revenue is received from The City on a quarterly basis. A proportionate amount is recognized each month. Revenue and expenses are recognized on a gross basis.

Tangible capital assets

Tangible capital assets are recorded at cost, which includes all amounts that are directly attributable to the acquisition, construction, development, or betterment of the asset. Donated assets are recorded as capital items, with the offset to revenue at their estimated fair value upon acquisition. Interest charges are not capitalized. The cost, less residual value, of tangible capital assets is amortized on a straight-line or declining-balance basis over the assets' estimated useful lives as follows:

Renovations	3-year straight-line
Building enhancements	20% declining-balance
Computer equipment	55% declining-balance
Other equipment	20% declining-balance

Revenue from government grants and transfers relating to capital acquisitions will be recognized on a straight-line basis as the capital expenditure is incurred.

Impairment of tangible capital assets

Tangible capital assets are reviewed periodically for impairment. An impairment loss will be recognized in the period when the service potential of a capital asset will be either substantially reduced or eliminated altogether by an intervening event such as natural disaster, accident and obsolescence.

Use of estimates

The financial statements are prepared in accordance with PSAS, which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue, expenses and operating reserve during the year. Items subject to estimation include the valuation allowance pertaining to receivables, estimated useful lives, amortization and potential impairment of tangible capital assets, and the impact of contingencies on accrued liabilities. Where measurement uncertainty exists, the financial statements have been prepared within reasonable limits of materiality. Actual results could differ from those estimates.

NOTE 3 • CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on deposit and short-term GICs with original maturities of 90 days or less at the date of acquisition and are recorded at cost plus interest earned. The effective interest rate on the GICs held during the year was 1.57% (2016: 1.32%) per annum.

As at December 31, 2017, the Authority held $1,888,670 (2016: $938,412) in short-term GICs and $1,160,627 (2016: $4,210,807) in long-term GICs (Note 5).

NOTE 4 • MAJOR REPLACEMENT RESERVE

The Authority records an annual appropriation for facility refurbishment and major renovations. The appropriation for the year totalled $180,000 (2016: $180,000).

	2017	2016
	$	$
Balance, beginning of year	14,942	61,778
Increase in provision for the year	180,000	180,000
Major replacement expenditures (Note 10)	(174,912)	(226,836)
Balance, end of year	20,030	14,942

NOTE 5 • INVESTMENTS

Investments consist of GICs with a maturity date not greater than five years from December 31, 2017 bearing interest from 1.10% to 2.00% (2016: 0.60% to 1.75%) per annum. The fair value of the investments has been determined to be the principal plus interest earned to date.

2017

	Cost	Accrued interest	Fair value
	$	$	$
Rate Riser Plus GIC 0036	597,500	32,352	629,852
Rate Riser Plus GIC 0038	506,250	24,525	530,775
	1,103,750	56,877	1,160,627

2016

	Cost	Accrued interest	Fair value
	$	$	$
Rate Riser Plus GIC 0036	597,500	20,847	618,347
Rate Riser Plus GIC 0037	597,500	20,847	618,347
Rate Riser Plus GIC 0038	506,250	16,138	522,388
Rate Riser Plus GIC 0041	610,000	12,662	622,662
Rate Riser Plus GIC 0042	610,000	12,662	622,662
Variable Rate GIC	1,200,000	6,400	1,206,400
Variable Rate GIC	415,000	1,660	416,660
Variable Rate GIC	521,294	459	521,753
	5,057,544	91,675	5,149,219

NOTE 6 • TANGIBLE CAPITAL ASSETS

In accordance with PSAB Handbook Section 3150, The City has performed a review of the ownership and control of the land, building enhancements and equipment of the Centre. Accordingly, the Centre is recorded on the financial statements of The City. The Authority currently has an operating lease with The City, which was renewed on January 22, 2018 and is scheduled for renewal on January 22, 2021. The contract has a nominal fee, the cost of which has been recorded through operations and maintenance expense.

			2017
	Cost	Accumulated amortization	Net book value
	$	$	$
Renovations	6,827,559	6,637,411	190,148
Building enhancements	2,125,156	856,621	1,268,535
Computer equipment	522,743	406,082	116,661
Other equipment	5,143,454	2,073,631	3,069,823
	14,618,912	9,973,745	4,645,167

			2016
	Cost	Accumulated amortization	Net book value
	$	$	$
Renovations	7,368,693	6,951,422	417,271
Building enhancements	1,331,813	737,823	593,990
Computer equipment	712,416	607,920	104,496
Other equipment	3,259,927	2,100,698	1,159,229
	12,672,849	10,397,863	2,274,986

NOTE 7 • EMPLOYEE BENEFITS

The Authority participates in the Local Authorities Pension Plan (“LAPP”), which is a multi-employer benefit plan. This plan is governed by the Public Sector Pension Plans Act. Based on the latest information available (December 31, 2016 audited financial statements), in total, the LAPP had an actuarial deficit of $637 million (2015: $923 million).

The Authority is required to make current service contributions to the LAPP of 11.39% of pensionable payroll up to the yearly maximum pensionable earnings (“YMPE”), and 15.84% thereafter.

Employees of the Authority are required to make current service contributions of 10.39% of pensionable salary up to the YMPE, and 14.84% thereafter. Contributions for current services are recorded as expenditures in the year in which they become due.

Total current service contributions, as reflected in the administrative and general, marketing and operations and maintenance expenses in the statement of revenue, expenses and operating reserve by the Authority to the LAPP during the year, were $592,119 (2016: $588,447). Total current service contributions by the employees of the Authority to the LAPP for the year were $544,579 (2016: $541,245).

NOTE 8 • ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

In accordance with the Meetings, Conventions and Incentive Travel ("MC&IT") marketing funding and management agreement (the "Agreement") between the Calgary Hotel Association and the Authority, the Calgary Hotel Association advances funds to the Authority to fund incentive payments for future events through Meetings + Conventions Calgary as well as to cover operating expenses incurred by the Authority. As at December 31, 2017, an amount of $221,472 (2016: $1,751,807) advanced by the Calgary Hotel Association is included in accounts payable and accrued liabilities as well as in cash and cash equivalents and investments to be used by the Authority in accordance with the Agreement as described above. Of the funds held, the amount held by the Authority for incentive funding is $182,094 (2016: $1,726,496) and the amount held by the Authority for future operating expenses is $39,378 (2016: $25,311).

During the year, the Authority disbursed from the incentive funds $753,714 (2016: $467,455) to events held in the city, returned $800,000 (2016: $Nil) to the Calgary Hotel Association and earned $9,312 (2016: $25,527) in interest on the funds held. The Authority has committed on behalf of the Calgary Hotel Association a total of $2,741,695 (2016: $2,734,653) for future events to be paid out over the years 2018 to 2025. Funding for the commitments that have been made on behalf of the Calgary Hotel Association for future events will be funded on an as needed basis.

NOTE 9 • FINANCIAL INSTRUMENTS

The Authority's financial instruments are cash and cash equivalents, accounts receivable, due from The City of Calgary - major replacement reserve, investments, accounts payable and accrued liabilities, and client deposits. The carrying values of these items approximate their fair values due to their short-term nature. The Authority's financial instruments that are exposed to concentration of credit risk consist primarily of cash and cash equivalents and accounts receivable. Cash is placed with major financial institutions. Concentration of credit risk with respect to receivables is limited due to the large number of customers and their dispersion across geographic areas.

NOTE 10 • MAJOR CAPITAL ADDITIONS

During the year, the Authority incurred $3,176,650 (2016: $464,490) in expenditures for major capital additions, which have been capitalized as renovations, building enhancements and equipment. Of this amount, $1,665,022 (2016: $237,654) was funded by the Authority's operating reserve and $174,912 (2016: $226,836) was funded by the Authority's major replacement reserve. $1,336,716 (2016: $656,867) was applied for and funded through The City's CPRiiP (Culture Parks Recreation Infrastructure Investment Fund) Program for the capital additions to be made in 2017.

NOTE 11 • 2017 BUDGET

The budgeted amounts presented in the financial statements are based on operating and capital budgets approved by the board of directors.

NOTE 12 • CALGARY CONVENTION CENTRE AUTHORITY RESPONSIBILITIES

Glenbow Museum

Through an agreement with The City, the Authority provides maintenance, engineering, housekeeping and capital project supervision for the Glenbow Museum. Expenses of $1,289,330 (2016: $1,328,403) incurred in provision of these services are included in the expenses of the Authority. Recovery of the expenses plus a management fee of $87,000 (2016: $87,000) totalling $1,375,980 (2016: $1,415,554) are included in operating revenue of the Authority. Capital projects supervised by the Authority totalled $7,880 (2016: $Nil) during the year.

Retail Spaces, North Building

The Authority provides basic property management services for the retail spaces and parkade in the North Building. Expenses of $418,271 (2016: $427,576) incurred in provision of these services are included in the expenses of the Authority. Recovery of the expenses plus a management fee $455,655 (2016: $458,508) are included in operating revenue of the Authority.

Meetings + Conventions Calgary

Through an agreement with the Calgary Hotel Association, the Authority provides management and operation of destination sales and marketing for MC&IT.

Expenses of $2,904,914 (2016: $2,955,401) incurred in provision of these services are included in the expenses of the Authority. Funding to cover these expenses of $2,904,914 (2016: $2,955,401) is reported net of expenses. Pursuant to the agreement, effective January 1, 2014 the Authority charges an administration/marketing fee for management and operation of the program. The fee of $185,964 (2016: $185,964) is included in the operating revenue of the Authority.

Convention Centres of Canada

The Authority holds and administers the restricted funds of the Convention Centres of Canada, an affiliation of 21 major Canadian convention centres. As at December 31, 2017, an amount of $67,246 (2016: $45,874) is included in accounts payable and accrued liabilities as well as restricted cash.

Energy Cities Alliance

The Authority holds and administers the restricted funds of the Energy Cities Alliance, a marketing partnership of convention centres. As at December 31, 2017, an amount of $9,689 (2016: $21,567) is included in accounts payable and accrued liabilities as well as restricted cash.

NOTE 13 • COMMITMENTS

As of December 31, 2017, the Authority has commitments related to the lease of office equipment payable within the next three years as follows:

	$
2018	21,159
2019	19,335
2020	8,756

calgary TELUS convention centre
be part of the energy™

"The convention business touches many areas of the Calgary community and leverages influencers in our city to attract important events. This in turn brings relevant visitors to experience our unique and energetic city."

Tom Bornhorst, Board Chair

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CALGARY TELUS CONVENTION CENTRE

120 9TH AVENUE SE
CALGARY, ALBERTA, CANADA T2G 0P3
CALGARY-CONVENTION.COM

CONTACT

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SALES@CALGARY-CONVENTION.COM

Calgary Municipal Land Corporation – Audit Committee Annual Report

EXECUTIVE SUMMARY

This is the annual report from the Calgary Municipal Land Corporation (CMLC) Audit and Finance Committee to The City's Audit Committee.

ADMINISTRATION RECOMMENDATION:

That the Audit Committee receives this report for Information.

PREVIOUS COUNCIL DIRECTION / POLICY

The City of Calgary Audit Committee Bylaw 48M2012, states that the Audit Committee is responsible for:

> "overseeing its governance responsibility with audit committees of The City's major autonomous civic entities."
>
> Section 4(1)(i)

BACKGROUND

A letter dated 2018 March 27 was provided to the Chair of the Calgary Municipal Land Corporation from the City of Calgary Audit Committee Chair requesting a report and presentation on its 2017 Annual Report, its risk management processes and the CMLC Audit Committee terms of reference.

To continue to develop further understanding of your organization's audit governance approach, we would like to request the following items be provided in your annual report to the City's Audit Committee:

1. Brief summary on governance structure, succession planning and recruitment process, recent financial highlights and key 2018 initiatives/strategy;
2. Report on your organization's key operating and strategic risks including trends and risk management plans and processes;
3. Analysis of the top three financial and/or operational risks that in your opinion would impact the City of Calgary and be of concern to the City's Audit Committee;
4. Report on internal controls including information technology and systems;
5. Most recent management letter including management responses as appropriate; and Audit Committee 2018 Work Plan.

Further, during their presentation, The Calgary Municipal Land Corporation was asked to prepare responses to the following questions:

1. What is the frequency of review and are there any recent changes to the Audit Committee Charter or Terms of Reference?
2. What is the current composition of the Audit Committee and what is their relevant financial experience?
3. Have there been any significant changes to organizational leadership?
4. Are there any regulatory or market changes that may impact the current business approach and would they be relevant to share publicly with the Audit Committee?

5. Are there any results of any regulatory or internal/external business assessments that provide assurance on the effective management of risks as addressed in your presentation?
6. What initiatives are currently in progress to improve the efficiency of your processes? (e.g. sustainable operations, key performance indicators and relevance of the organization in the future).

INVESTIGATION: ALTERNATIVES AND ANALYSIS

This report responds to The City Audit Committee's reporting requirements of the CMLC Board.

In 2005 the City's Audit Committee initiated a review of The City's governance structures pertaining to its main subsidiary organizations, and autonomous civic entities that represent significant assets to The City of Calgary and/or have significant operating budgets.

This annual report from the CMLC Board is one of the changes that were implemented as part of the governance review. As such, this tenth annual report is intended to be an ongoing dialogue between The City of Calgary and The CMLC Board. It is anticipated the annual report from the CMLC Board will continue to evolve over time to meet The City Audit Committee's information requirements in discharging its governance responsibilities.

Stakeholder Engagement, Research and Communication

No implications for this report.

Strategic Alignment

This report aligns with The City Audit Committee's governance responsibility to receive annual reports on matters of audit governance, including the organization's most recent annual financial statements, from the Calgary Municipal Land Corporation.

Social, Environmental, Economic (External)

No implications for this report.

Financial Capacity

Current and Future Operating Budget:

Not applicable.

Current and Future Capital Budget:

Not applicable.

Risk Assessment

No implications for this report.

CMLC Audit Committee Terms of Reference.

REASON(S) FOR RECOMMENDATION(S):

The Audit Committee oversees its governance responsibility with audit committees of The City's major autonomous civic entities and an annual report is requested annually.

ATTACHMENT(S)

1. CMLC Audit Committee Terms of Reference.
2. CMLC Audit Committee 2018 Work Plan.
3. CMLC Control Environment Assessment.
4. CMLC Risk Register.
5. Deloitte - CMLC 2017 Audit Results and Communications.
6. CMLC 2017 Financial Statements and Auditor's Report.

CALGARY MUNICIPAL LAND CORPORATION ("CMLC")

AUDIT

BOARD COMMITTEE MANDATE

1. Pursuant to Section 5 of Replacement Bylaw No. 1 of CMLC (the "Corporation") a committee of the directors to be known as the Audit Committee (hereinafter referred to as the "Committee") is hereby established.

2. (a) The Committee shall be comprised of a minimum of three independent non- management directors, none of whom shall have any interest in, or business or other relationship with the Corporation that may, or may reasonably be perceived to, interfere with the exercise of their independence form management and the Corporation.

   (b) If not an appointed member of the Committee, the Chair of the Board may attend Committee meetings at his discretion but shall not be entitled to vote except as required by Section 7(b).

3. The members of the Committee shall be financially literate or become financially literate within a reasonable period of time after being appointed. Further, at least one member of the Committee shall have accounting or related financial management expertise. For purposes hereof, "financially literate" shall mean the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that can reasonably be expected to be raised by the Corporations' financial statements.

4. The members of the Committee shall be appointed or reappointed at the meeting of the Board of Directors (the "Board') immediately following each Annual General Meeting of the Shareholder of the Corporation. Each member of the Committee shall continue to be a member thereof until his/her successor is appointed, unless he/she shall resign or be removed by the Board or he/she shall cease to be a director of the Corporation. Where a vacancy occurs at any time in the membership of the Committee, it shall be filled by the Board.

5. The board shall appoint a Chair of the Committee. If the Chair of the Committee cannot be present at any meeting of the Committee, the Chair shall, in advance of the meeting, designate another member of the committee, as Chair. Failing which, the chair of the Committee shall be chosen by the Committee from among the members present. At all meetings of the Committee, every question shall be decided by a majority of the votes cast on the question. In the case of an equality of votes, the motion shall be lost and the person acting as chair of the meeting shall not be entitled to a second or casting vote.

6. The Committee has the authority to investigate any activity of the Corporation. All employees are to cooperate as requested by the committee. All information received by the Committee in connection with any investigation will be made available for examination by a director of the Corporation upon request to the Chair of the Committee

7. The time and place of meetings of the Committee and the procedure at such meetings shall be determined from time to time by the members thereof provide that:

   a) A quorum for meetings shall be two members, present in person or by telephone or other telecommunication device that permit all persons participating in the meeting to speak and hear each other;

   b) In circumstances where a quorum cannot be constituted as in 7(a), the Chair of the Board may be considered in establishing quorum and shall be entitled to vote for the duration or the meeting;

   c) The Committee shall meet at least semi-annually; and

   d) Notice of the time and place of every meeting shall be given in writing or facsimile communication to each member of the Committee, at least 24 hours prior to the time fixed for such meeting, provided, however, that a member may in any manner waive a notice of meeting; and attendance of a member at a meeting is a waiver of notice of the meeting, except where a member attends a meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting is not lawfully called. The external auditors are entitled to attend Committee meetings at the expense of the Corporation, if requested by the Chair. A meeting of the committee may be called by the Chair or CEO of the Corporation, by a member of the Committee or the external auditors. Notwithstanding the provision of this paragraph, the Committee shall at all times have the right to determine who shall and shall not be present at any part of the meeting of the Committee.

8. The Committee shall:

   a) in connection with its advisory functions:

      (i) review and upon satisfaction recommend to the Board for approval all annual, interim and other financial statements of the Corporation, all annual and interim reports and annual information forms, management discussion and analysis and other public financial documents, if deemed required;.

      ii) review and be satisfied with the policy and procedures in place for the review of the Corporation's disclosure of financial information extracted or derived from the Corporation's financial statements;

      iii) review the external auditors' advice in respect of the Corporation's accounting systems and policies and representation letters given to the external auditors by management.

      iv) review with Management and report to the Board, on an annual basis, on the financing plans of the Corporation.

      v) at the conclusion of a Committee meeting, meet in camera with the external auditors, if present, and report to the Board on such meeting;

      vi) review recommendations of the officers of the Corporation as to the appointment or reappointment of external auditors as well as qualifications in the case of new auditors and make recommendations to the Board with respect to the nomination and remuneration of external auditors to be appointed at each Annual General Meeting of the Shareholder.

      vii) if a change in external auditors is proposed, the Committee will review the reasons for the proposed change as well as obtain a response from the incumbent auditor;

      viii) oversee the work of the external auditors engaged for the purpose of preparing or issuing an audit report or related work;

      ix) review periodically, the nature and extent of compliance with requirements regarding statutory deductions and remittances, including deductions and remittances under the Income Tax Act (Canada), the Excise Tax Act (Canada), the Canada Pension Plan Act, the Employment Insurance Act (Canada), the Alberta corporate Tax Act and the Health Insurance Premiums Act. (Alberta) and the nature and extent of non- compliance together with the reasons therefor, and the plan and timetable to correct deficiencies and report to the Board on the status of such matters;

x) review any policy that delegates financial authorities from the Board of Directors to Management including, but not limited to, the Delegation of Authority Limits.

xi) review with officers of the Corporation, on an annual basis, and recommend to the Board, for approval, changes as considered advisable on the following:

a) the risks inherent to the Corporation's businesses, facilities and strategic direction;
b) the overall financing of risk (including insurance coverage);
c) the risk retention philosophy and the resulting uninsured exposure of the Corporation; and
d) loss prevention policies, risk management programs, standards and accountabilities of the Corporation in the context of competitive and operational consideration.

xii) annually review work plan and work load for Director, Finance & Corporate Services for the Corporation.

b) in connection with the exercise of it powers:

i) review material related party transactions;

ii) engage and compensate independent counsel and other advisors that the Committee determines are necessary to carry out its duties;

iii) communicate directly with the external auditor as the Committee considers necessary to carry out its duties;

iv) communicate the Committee's expectations regarding the external auditor's performance and evaluate the auditor's past performance;

v) review the audit plan of the external auditor of the Corporation and inquire as to the extent the planned audit scope can be relied upon to detect weaknesses in internal control or fraud or other illegal acts. Review significant recommendations made by the auditors for the strengthening of internal controls;

vi) review as required the adequacy and effectiveness of internal controls over the accounting and financial reporting systems within the Corporation including management's response to the internal control recommendations of the external auditor.

vii) review any changes in accounting policies and the financial impact thereof and review any major areas of management judgement and estimates that have a significant effect upon the financial statements;

viii) review semi-annually with management, the external auditor and if necessary with legal counsel, any litigation, claim or other contingency, including tax assessments, that could have a material effect upon the financial position or operating results of the Corporation, and the manner in which these matters have been disclosed in the financial statements;

ix) review annually with management material covenants in credit and loan agreements;

x) review the disclosure provided by the Chief Executive Officer and Director, Finance & Corporate Services in connection with:

  a) the annual certification obligations pursuant to applicable laws, if any;
  b) significant deficiencies and material weaknesses in the design or operation of internal controls that could adversely affect the corporation's ability to disclose information required to be disclosed by it under applicable securities laws within the time periods required; and
  c) any fraud, whether or not material, that involves management or other employees with a significant role in the Corporation's internal controls;

xi) monitor the independence of the external auditor through written disclosures and meetings with the auditor and by reviewing the independent auditor's account of the total fees derived from the audit client for management advisory services, during the past year and a description of such services;

xii) directly or by delegation to the Audit Committee Chair and Director, Finance & Corporate Services, acting together, pre-approve non-audit related services provided by the external auditors and the fees related thereto and assess the impact of such non-audit related services on the independence of the external auditors;

xiii) review the basis and amount of the external auditors' fees in light of the number and nature of reports issued by the auditors, the quality of the internal controls, the size, complexity and financial condition of the Corporation and the extent of internal audit and other support provided by the Corporation to the external auditors;

xiv) annually review consulting engagements from accounting and audit firms to ensure that their use is effective and efficient and to confirm that external audit firms were not contracted for audit services;

c) report to the Board after each Committee meeting, required during the year and, upon request, at the end of each fiscal year, table report to the Board with respect to its activities during the preceding year with such recommendations as are deemed desirable in the circumstances;

d) Formally assess its effectiveness on a yearly basis.

8. In instances where members of the Committee believe that in order to properly discharge their fiduciary obligations to the Corporation it is necessary to obtain the advice of external experts, the Chair shall, at the request of the Committee, engage the necessary experts. The Board shall be kept appraised of both the selection of the experts and the expert's findings through the Committee's regular reports to the Board.

9. The Committee shall meet in camera for a part of each meeting of the Committee.

CALGARY MUNICIPAL LAND CORPORATION – AUDIT COMMITTEE
2018 WORK PLAN

AGENDA ITEMS	Winter	Spring	Fall
Review Audit Committee Terms of Reference			■
Annual Work Plan Review	■		
Annual Audit (2017):			
▪Review Audited Year End Financial Statements		■	
▪ Review results of annual audit with external auditor		■	
▪Evaluate performance of external auditor		■	
Annual Audit (2018):			
▪Review and identify areas requiring special attention during annual audit			■
▪ Review and approve external auditor audit scope and audit plan, and issue engagement letter			■
▪Assessment of risk management at CMLC			■
▪Assessment of internal control environment of CMLC		■	

COMPONENTS OF INTERNAL CONTROL		DESCRIPTION (EXAMPLES)	CURRENT ASSESSMENT	FURTHER ACTIONS PLANNED
1	CONTROL ENVIRONMENT	The overall control environment at CMLC is critical in ensuring that the Internal Controls Over Financial Reporting (ICFR) operates efficiently and effectively.	CMLC has a strong control environment. CMLC's governance structure is set by Council through a Unanimous Shareholder Agreement, and includes a Board of Directors which in turn has appointed an Audit Committee. As part of its terms of reference, CMLC's Audit Committee oversees the integrity of CMLC's financial statements and the system of disclosure and internal controls. The President & CEO and Director, Finance and Corporate Services meet and provide representations to the External Auditor describing how their responsibilities are discharged.	Ongoing review and active application of control policies and procedures and documentation. Keeping current on new accountability requirements and industry standards to ensure control policies and procedures remain appropriate.
		City Council sets the overall tone for internal controls for all business units. The CMLC Board and management contribute to this tone through its operating practices, integrity, and adherence to core values.	There is a culture and operating practices at CMLC that deliberately and emphatically produce an environment of strong financial control. CMLC has a conservative and careful approach to financial management. CMLC follows industry best practices for the acquisition of goods and services required to fulfill its mandates. CMLC has a code of conduct in place for its staff, and for its Board members.	CMLC will continue to stress the importance of a strong control environment by remaining aware of City initiatives in this regard.

COMPONENTS OF INTERNAL CONTROL		DESCRIPTION (EXAMPLES)	CURRENT ASSESSMENT	FURTHER ACTIONS PLANNED
2	RISK ASSESSMENT	An overall risk assessment should help determine the highest risk areas at CMLC that could impair the achievement of objectives.	• The Audit Committee reviews Risk Management on a regular basis. The last update was completed in spring 2018.	• The Audit Committee update the overall risk assessment for CMLC on an annual basis.
3	CONTROL ACTIVITIES	Control activities include policies, procedures, documented approvals, reconciliations, verifications, reviews, physical security, segregation of duties, and so on.	• Controls are monitored and updated on a regular basis as the dynamics of the organization changes. The Audit Committee is informed of the changes at Board committee meetings by management. All the process and control procedures are posted on the CMLC intranet site for staff to review. • These controls include: clear delegation of signing authority which requires dual signatures on all purchases according to specified limits. Dual signatures are also required on all cheques. • In addition, the CICA Handbook requires external auditors to be more proactive in assessing control activities and the risk of fraud. This provides more independent feedback on CMLC's existing controls.	• Management reviews and updates policies and control procedures on an on going basis. The Audit Committee reviews the policies and control procedures for CMLC on a quarterly basis.
4	INFORMATION AND COMMUNICATION	There should be a continuous flow of financial reporting and information throughout CMLC to support the strong control environment.	• Monthly financial reports are used as a foundation for control activity. • Cash flows are monitored on a weekly basis. • Relevant information is disseminated through staff, management, and Board meetings.	• CMLC continues to meet with City of Calgary Finance representatives (Treasury) on a quarterly basis. • CMLC also meets with Council twice a year and provides a financial update during those meetings. • Staff will be apprised as new or revised policies, procedures, and controls are developed.

COMPONENTS OF INTERNAL CONTROL		DESCRIPTION (EXAMPLES)	CURRENT ASSESSMENT	FURTHER ACTIONS PLANNED
5	MONITORING	Ongoing monitoring occurs in the normal course of operations, and includes regular management and supervisory activities and other actions by personnel as part of the assessment of internal controls.	• The Business Plan and Budget is monitored to ensure objectives are achieved. • CMLC reviews its financial policies on a regular basis to ensure compliance. • Financial reconciliations are performed on a monthly basis to ensure accuracy and completeness of accounts payable. • Monthly financial statements are prepared for review by management. • Quarterly financial statements are prepared for review by management and audit committee. • Infrastructure project budgets are reviewed on a monthly basis and any variances are immediately followed up. • Change orders are required for all changes to contracts.	• Continued monitoring and enforcing compliance with policies and procedures. The Board and Management emphasize a control conscious environment that supports the business processes.
6	INFORMATION TECHNOLOGY – DISASTER RECOVERY	CMLC's business needs require business continuity and high availability. In order to accomplish this, disaster recovery infrastructure and methods have been implemented.	• Real time data replication (5-minute delay maximum) to an off-site datacenter. This system is tested with management oversight annually. • The Disaster Recovery Point Objective (maximum amount of potential data loss due to a disaster situation) is less than 10 minutes. • The Recovery Time Objective (time from disaster status until data and services are operating on the off-site datacenter servers) is under 4 hours. • A disaster recovery plan is available to all staff on the shared office network drive, and is reviewed annually. • Internal IT audits of the Disaster Recovery infrastructure are done periodically to ensure all hardware and methods are up to date and functioning properly. • Co-located Exchange/Email servers provide redundancy and high availability. In the case of a disaster situation, email roles are taken over by the standby server in the off-site datacenter.	• Continued monitoring and annual testing of the systems to ensure business continuity by Management. Audit Committee updated on IT activities on a quarterly basis.

	OTHER INFORMATION TECHNOLOGY SECURITY MEASURES	We have implemented procedures to protect CMLC from cyber attacks.	• Hardware - Industry leading Unified Threat Management from Fortinet inspects every piece of internet traffic and detects malicious code, traffic to/from botnets, compromised websites, spam, proxies, etc. • Enterprise level monitoring and Anti-Virus - N-Able enterprise monitoring and antivirus provides desktop, laptop, and server protection and alerts the IT team in the case of any detection. N-Able also tracks IT assets, and provides remote access and alerting on other issues. • Secure file systems - NTFS security and share permissions lock down unauthorized access to network files. Best practices are implemented to prevent rogue accounts to gain access through security loop holes. • Secure WiFi - Guest and Corporate WiFi is separated. Only approved corporate devices are connected to the internal WiFi and the password is never given out. • Secure passwords • Security Orders - In response to emerging threats, security orders are implemented and executed at the highest priority. • 3-2-1 Backup Standard for Data - In the case of a successful cybercrime breach, the highest industry standard for data backup has been implemented and is audited regularly. • Education - Staff are educated through IT Bulletins and in person training what to look for and how to respond to unfamiliar requests and system behavior. Requests are escalated immediately with the security team.	• Continued monitoring and monthly meetings between Management and IT consultants to ensure standards are being met.

Calgary Municipal Land Corporation: Enterprise Risk Register 2018

Risk Identification					Risk Assessment			
					RESIDUAL RISK			
RISK No.	RISK EVENT	RISK CAUSE	IMPACT / CONSEQUENCE	CURRENT MITIGATIONS	LIKELIHOOD (1-3)	IMPACT (1-3)	SCORE (1-9)	RISK RATING
1	**Environment, Health and Safety Risk:** ***Events arising from inadequate safeguards to maintain public safety, the natural environment and / or CMLC's human capital well-being.***							
1a	**Public Safety Incident:** Events that would deter investment in CMLC communities (developer investment, government investment, public use and / or home sales).	Increasing population within East Village during a period of significant construction activities. Diverse demographics within the community.	Inability to attract desired developers to CMLC projects and inability to attract potential homebuyers and retail investment.	Environmental, Health & Safety Committee meets to assess and improve our standards. Independent third party site audit on all our developer sites to ensure they are complying with the Health and Safety standards. Constant monitoring of sites by our Development team.	1	3	3	***MEDIUM***
2	**Operational Risk:** ***Risks pertaining to the delivery of services. These could include risks involving human resources, controls and processes.***							
2a	**Project Risk**: Financial loss due to failure to implement strategic projects, within proposed time and budget estimates.	Projects do not align with community needs; Project delays and costs increases; Complex and changing projects (unique projects).	Loss of community and stakeholder confidence, cost overruns.	Project Risk Registers, Competent Staff and continuous monitoring of budgets. Variance analysis done regularly.	1	2	2	***LOW***
2b	**Growth Risk**: Loss of ability to react quickly, inability to maintain high level of quality.	Rapid growth resulting from new projects and expanding mandate; limited growth resulting from not having any new projects	Loss of competitive advantage resulting in increased competition.	Annual strategy sessions with senior management and board to help create balance between new projects and staff. Balance between internal staff and use of consultants.	2	1	2	***LOW***
2c	**Event Risk**: Loss of independence over event usage.	Third party usage of public spaces, new spaces and events with unknown outcomes (attendance), lack of safety / security infrastructure.	Loss of independence over public spaces, security and safety incidents.	Continue to maintain control of EV infrastructure assets. Event spaces managed by CMLC's marketing & development team. Internal approval process of all groups intending to use any of our space. Require insurance from anyone using EV space.	1	2	2	***LOW***
2d	**Multi-task Risk**: Loss of strategic focus due to the desire to assist all stakeholders	Lack of focus or consideration on what really matters (i.e. social engagement, return on investment, break-even or profits, potential connection to future projects)	Confusion of mandate/vision and inability to deliver mandate/vision. Inefficient use of resources.	Prioritizing the projects that bring CMLC the highest return on CRL investment. We have an Investment Criteria grid that allows us to grade and priorities projects.	2	2	4	***MEDIUM***

Risk Identification				Risk Assessment				
					RESIDUAL RISK			
RISK No.	RISK EVENT	RISK CAUSE	IMPACT / CONSEQUENCE	CURRENT MITIGATIONS	LIKELIHOOD (1-3)	IMPACT (1-3)	SCORE (1-9)	RISK RATING
3	**Reputation Risk:** ***A situation, occurrence, business practice or event that has the potential to materially influence the public and / or external stakeholders perceived trust or confidence in CMLC.***							
3a	**Political Reputation Risk:** Risk arising from lack of alignment between shareholder and stakeholders (CMLC Board, City of Calgary, other levels of government (Provincial), public) and negative public perception.	Differing opinions and expectations from various stakeholders and shareholder, inability to demonstrate success supported by specific success criteria.	Confusion of mandate and inability to deliver mandate, wasted resources	Proactively engage key stakeholders on our plans through Shareholder meetings, media and other marketing channels. Present to the shareholder annually on our Business plan & Annual report to show that our Business Model is viable in its current state. Continue to be innovative, produce tangible results and complete projects on budget and on time. Provide annual report to the Province.	3	1	3	***MEDIUM***
3b	**Independence Perception Risk:** Public perception that Board members and / or management is biased when making decisions.	Selected vendors who have perceived relationships with Board members and / or management.	Delayed decision making, decreased ability to be nimble	All Board members and management are independent and qualified business leaders. Board members and management are mandated to declare conflict of interest. On an annual basis, staff are required to read and sign off on the employee handbook which contains the whistleblower policy.	1	3	3	***MEDIUM***
3c	**Procurement Process:** Perception of unfair procurement process by CMLC or partners	Lack of proper documentation to support fair decision making, few suppliers. Interference in procurement process by stakeholders.	Negative publicity and media attention resulting in negative public perception.	Properly documented procurement process with solid internal controls. Abide by the procurement standards under the NWPTA, through posting RFPs & RFQs on Alberta Purchasing Connection and Merx websites.	1	2	2	***LOW***
3d	**Brand Risk:** Inability to meet increased expectations of the CMLC Brand.	Variety of projects with differing success criteria, increased scrutiny going forward.	Negative perception by stakeholders and the public.	Annual strategy process helps us to remain focused on projects that fall with CMLC's vision and we continue to deliver excellent quality projects. We monitor and access our progress bi-weekly through our senior management team meetings. We carefully evaluate our project plans to ensure that they align with our brand.	1	1	1	***LOW***
3e	**Community Partner Risk:** Risks resulting from community members perceived to be associated with CMLC via the association to EV (events within CMLC public spaces, existing residents e.g. Drop-In Center, new residents post build).	Diverse community within East Village with various communication strategies and priorities.	Negative perception by stakeholders and the public.	Engage with all EV stakeholders and community associations through events and other communication channels. Collaborate with stakeholders in making EV a safe place. Providing recreational spaces for the elderly EV population.	1	2	2	***LOW***
3f	**Developer Partner Risk:** Risks associated with losing existing developer partners or working with new developer partners which may delay development timelines.	Loss of development partners or entrance of new development partners	Loss of CRL as development is delayed. This will increase brand risk.	Engage development partners to ensure that their goals align to that of CMLC (co-op marketing, lend bank, PSA)	1	2	2	***LOW***

Risk Identification					Risk Assessment			
					RESIDUAL RISK			
RISK No.	**RISK EVENT**	**RISK CAUSE**	**IMPACT / CONSEQUENCE**	**CURRENT MITIGATIONS**	**LIKELIHOOD (1-3)**	**IMPACT (1-3)**	**SCORE (1-9)**	**RISK RATING**
3g	**Flood Mitigation Perception Risk:** Risks resulting from perception that EV lacks adequate flood control / mitigation infrastructure.	Lack of communications to change public perception that flood mitigation has been implemented.	Inability to attract desired developers to CMLC projects and inability to attract potential homebuyers and retail investment.	Infrastructure has been built to withstand a 1 in 100 year flood as evidenced in 2013. Continue to activate public places within the East Village for the public to attend and see the flood mitigation work around East Village. Continue to engage the public and communicate the minimal impact of the previous flood in East Village.	1	1	1	***LOW***
3h	**Communications Risk:** The risk that communication or lack of communication will result in inconsistent or ineffective messages.	Multiple partners and existing residents in East Village with various communications.	Negative perception by stakeholders and the public.	Documented internal strategy on external communication by the organization. Continuous engagement of all stakeholders through media, our website and quarterly issues of the EVE magazine. Continuous management of public messaging channels. Educate staff on social media policy and request that they follow the policy.	1	1	1	***LOW***

Risk Identification					Risk Assessment			
					RESIDUAL RISK			
RISK No.	RISK EVENT	RISK CAUSE	IMPACT / CONSEQUENCE	CURRENT MITIGATIONS	LIKELIHOOD (1-3)	IMPACT (1-3)	SCORE (1-9)	RISK RATING
4	**Human Resource Risk:** ***Inability to attract, retain or properly train qualified individuals.***							
4a	**Human Resource Risk**: Risk resulting from inability to retain skilled resources.	Small organization with limited career development opportunities, lack of performance development planning.	Higher operating costs and increased legal / regulatory, operational and reputation risk resulting from high employee turnover and inability to retain skilled and experienced resources.	Continue to seek exciting and transformational projects to attract and retain talent. Employee engagement by creating learning and growth opportunities as they become available. Maintain our culture of teamwork and trust. Continuous training and development of staff. Re-deploy staff	1	3	3	***MEDIUM***
4b	**Board Governance Risk:** Ineffective Board.	Failure to follow recognized Board governance processes.	Delayed decision making, failure to implement strategic objectives	The Board committee mandates are reviewed on an annual basis and updated appropriately. Monthly Board meetings and quarterly committee meetings in which other corporate policies are reviewed. The board is appointed by the Shareholder at the AGM. Updated board terms included the board and board chair would now serve in staggered term (2 years with maximum 3 times reappointment, and 3 years with maximum 3 times	1	3	3	***MEDIUM***
5	**Financial Risk:** ***Risks associated with operating and capital funds and budgets.***							
5a	**Local Economy**: Risk of lower than expected revenue resulting from delays in development, lower than expected revenues.	Lack of access to capital by developers, developer contract breaches, delayed build activities and subsequent revenue.	Reduced revenue.	Revenue budgets based on conservative revenue estimates. Attracted partners that demonstrated integrity, and financial stability to build in EV after a thorough process of vetting. We engage Coriolis on an annual basis to provide annual estimates of CRL	3	1	3	***MEDIUM***
6	**Legal/Regulatory Risk:** ***The risk of non-compliance with criminal, civil and common law including liability, negligence, fraud, breach of contract and tort.***							
6a	**Legal/Regulatory Risk**: The risk of non-compliance with criminal, civil and common law including liability, negligence, fraud, breach of contract and tort.	Non compliance with existing policy and processes, lack of resources to adopt new policies and processes within reasonable timeframe. Historical obligations and commitments.	Legal expenses, negative impact to reputation.	Legal experts consulted for help. Adequate insurance coverage is in place and is reviewed annually. Appropriate internal controls exist and are reviewed by Audit Committee annually. All transactions and commitments are monitored and reviewed for any potential liabilities and loss to CMLC. Updated employee manual and policies maintained on Intranet. Each employee signs an acknowledgement form to show that they have read and understood the policies and guidelines.	1	1	1	***LOW***
7	**Strategic Risk:** ***Risks associated with projects within and outside of the Rivers District.***							
7a	**Projects Outside of the Rivers District**: Risk of inability to fund projects	Limitations set by by-laws and credit agreements in terms of being able to access capital.	Miss out on strategic opportunities outside of the Rivers District that fit our vision. Loss of competitive advantage.	Continuous engagement with the City to loosen rules to access capital. Increased line of credit with ATB from $5m to $15m.	2	3	3	***MEDIUM***

Deloitte.

Calgary Municipal Land Corporation

Report to the Audit Committee on the 2017 audit

April 27, 2018

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April 20, 2018

To the Audit Committee of Calgary Municipal Land Corporation

Report on audited annual financial statements

Dear the Audit Committee Members:

We are pleased to submit this report on the status of our audit of Calgary Municipal Land Corporation ("CMLC") for the 2017 fiscal year. This report summarizes the scope of our audit, our findings to date and reviews certain other matters that we believe to be of interest to you. We are continuing to work with management to complete the outstanding matters summarized on page 2 of this report.

As agreed in our engagement letter dated December 12, 2017, we have performed an audit of the financial statements of Calgary Municipal Land Corporation as of and for the year ended December 31, 2017, in accordance with Canadian generally accepted auditing standards ("Canadian GAAS") and expect to issue our audit report thereon dated April 27, 2018.

This report is intended solely for the information and use of the Audit Committee, the Board of Directors, management and others within CMLC and is not intended to be, and should not be, used by anyone other than these specified parties.

We, at Deloitte, work as one team to provide you with relevant business insights to assist you improving your current practices.

We look forward to discussing this report summarizing the outcome of our audit with you and answering any questions you may have.

Yours truly,

Deloitte LLP

Chartered Professional Accountants

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Our audit explained

This report summarizes the main findings arising from our audit to date.

Audit scope and terms of engagement

We have been asked to perform an audit, which includes CMLC's financial statements (the "financial statements") in accordance with Canadian public sector accounting standards ("PSAS") as at and for the year ended December 31, 2017. Our audit was conducted in accordance with Canadian generally accepted auditing standards ("Canadian GAAS").

The terms and conditions of our engagement are described in the engagement letter dated December 12, 2017, which was signed on behalf of the Audit Committee and management.

Significant audit risks

Through our risk assessment process, we have identified significant audit risks. These risks of material misstatement and related audit responses are discussed in the significant audit risks section of this report.

Materiality

We are responsible for providing reasonable assurance that your financial statements as a whole are free from material misstatement.

Materiality levels are determined on the basis of total assets. Our materiality for the year ended December 31, 2017 was $16,500,000 (2016, $14,200,000).

We have informed the Audit Committee of all uncorrected misstatements greater than a clearly trivial amount of 5% of materiality and any misstatements that are, in our judgment, qualitatively material. In accordance with Canadian GAAS, we asked that any misstatements be corrected.

Audit fees

We communicated our proposed audit fees of $50,400 (2016, $49,200) in our audit plan. These fees exclude the 7% administrative fee and GST. There has been no change to our proposed fee.

Status and outstanding matters

We expect to be in a position to render our audit opinion dated April 27, 2018 on the financial statements of CMLC following approval of the financial statements by the Board of Directors and the completion of the following outstanding procedures:

- Receipt of signed management representation letter
- Receipt of legal letters
- Update to subsequent events up to audit report date
- Minor documentation items

Uncorrected misstatements

In accordance with Canadian GAAS, we request that all misstatements be corrected. A summary of the uncorrected misstatements as of the date of this report have been included in Appendix 5.

Going concern

Management has completed its assessment of the ability of CMLC to continue as a going concern and in making its assessment did not identify any material uncertainties related to events or conditions that may cast significant doubt upon CMLC's ability to continue as a going concern. We agree with management's assessment.

Business Insights

During the course of our audit, we examined the accounting procedures and internal controls employed by CMLC. We have not identified any significant deficiencies in internal controls. Please refer to Appendix 3 for discussion on one specific matter relating to infrastructure development assets for management's consideration in future audits.

Uncorrected disclosure misstatements

In accordance with Canadian GAAS, we request that all disclosure misstatements be corrected. There are no disclosure misstatements aggregated by us during the current engagement and pertaining to the latest period presented to report.

Fraud risk

A summary of the results of our audit procedures designed to address the risk of material misstatement in the financial statements relating to fraud is provided in the significant audit risks section of this report.

Based on the audit evidence obtained, our assessment of the risks of material misstatement due to fraud remain appropriate.

Independence

We have developed appropriate safeguards and procedures to eliminate threats to our independence or to reduce them to an acceptable level.

We confirm that we have complied with relevant ethical requirements regarding independence. A draft version of our independence is included in Appendix 4.

Significant accounting practices, judgments and estimates

The significant accounting practices, judgments and estimates include:

- Net realizable value of land inventory
- Useful lives of tangible capital assets
- Impairment of tangible capital assets
- Accrued liabilities

In our judgement, the significant accounting practices and policies, selected and applied by management are, in all material respects, acceptable under PSAS and are appropriate to the particular circumstances of CMLC.

In our judgement, the significant accounting estimates made by management are, in all material respects, free from possible management bias and of material misstatement.

Conclusion

In accordance with Canadian GAAS, our audit is designed to enable us to express an opinion on the fairness of the presentation of CMLC's annual financial statements prepared in accordance with PSAS.

No restrictions have been placed on the scope of our audit. In performing the audit, we were given full and complete access to the accounting records, supporting documentation and other information requested.

We intend to issue an unmodified audit report on the financial statements of CMLC for the year ended December 31, 2017 once the outstanding items referred to above are completed satisfactorily and the financial statements are approved by the Board of Directors.

A draft version of our auditor’s report is included in Appendix 2.

Significant audit risks

The significant audit risks identified as part of our risk assessment, together with our planned responses and conclusions, are described below.

Management override of controls

Audit risk	Our audit response	Audit results
Under Canadian Auditing Standards, it is the responsibility of the management, with the oversight of those charged with governance to place a strong emphasis on fraud prevention and detection. Oversight by those charged with governance includes considering the potential for override of controls or other inappropriate influence over the financial reporting process. Management override of controls is present in all entities. It is a risk of material misstatement resulting from fraud and therefore is considered as a significant risk.	• We engaged in periodic fraud discussions with certain members of senior management and with the chair of the Audit Committee. • We considered the potential for bias in judgments and estimates, including performing retrospective analysis of significant accounting estimates. • We evaluated the business rationale for any significant unusual transactions. • We evaluated CMLC’s fraud risk assessment and considered entity-level internal controls and internal controls over the closing and reporting process. • We tested journal entries that exhibited characteristics of possible management override of controls identified.	We concluded that the internal controls were designed and implemented appropriately. We obtained sufficient audit evidence to conclude that there were no material misstatements.

Completeness of work in progress amounts relating to the new Central Library assets

Audit risk	Our audit response	Audit results
There may be a risk that not all work in progress amounts relating to new Central Library assets have been recorded or accounted for.	• We have tested the work in progress billings of new Central Library assets that are being constructed by CMLC to ensure that the appropriate amounts have been accounted for as at December 31, 2017. • We engaged in interviews with project managers and ensured that all costs related to new Central Library assets have been recorded.	Based on the audit procedures completed, we conclude that new Central Library assets are fairly stated, appropriately classified and properly disclosed in the context of the financial statements taken as a whole.

Area of focus

Recording, presentation and valuation of land inventory

Audit risk	Our audit response	Audit results
Land inventory may not be appropriately recorded or valued.	• We have reviewed and tested a sample of transactions of purchase agreements and supporting documentation to verify that land inventory is recorded at the appropriate amount. • We reviewed the market value of land inventory in relation to book value to verify the balance is accurately valued. • In addition, we reviewed the disposition/transfer of land inventory if applicable to ensure that it has been appropriately accounted for in light of PSAS guidance.	Based on the audit procedures completed, we conclude that land inventory is fairly stated, appropriately classified and properly disclosed in the context of the financial statements taken as a whole.

Other reportable matters

The following summarizes the status and findings of key aspects of our audit.

	Comment
Changes to the audit plan	The audit was conducted in accordance with our audit service plan, which was communicated to the Audit Committee on December 12, 2017, except we applied additional audit procedures on the Infrastructure Development Assets that had received Final Acceptance Certificate to assess the appropriate accounting treatment. There were no other significant changes to the audit plan.
Significant difficulties encountered in performing the audit	During the course of our audit, we did not encounter any significant difficulties.
Concerns regarding management competence and integrity	We do not have any concerns regarding management's competency and integrity.
Related party transactions	Related party transactions are disclosed in the notes to the financial statements. We have not identified any related party transactions that were not in the normal course of operations and that involved significant judgments made by management concerning measurement or disclosure.
Disagreements with management	During the current audit, we did not have any disagreement with management.
Legal and regulatory compliance	Management is responsible for ensuring that CMLC's operations are conducted in accordance with the laws and regulations applicable to CMLC in the jurisdictions in which it operates. The responsibility for preventing and detecting non-compliance rests with management. The auditor is not and cannot be held responsible for preventing non-compliance with laws and regulations. Our limited procedures did not identify any areas of material non-compliance with laws and regulations by CMLC.
Post-balance sheet events	At the date of finalizing this report, we are not aware of any significant post balance sheet events. We will update subsequent events with management up to the audit report date of April 27, 2018.

Appendix 1 – Communication requirements

The table below summarizes our communication requirements under Canadian GAAS and other communications that we believe would help us achieve an effective audit.

Required communication	Refer to this report or document described below
Audit Service Plan	
1. Our responsibilities under Canadian GAAS, including forming and expressing an opinion on the financial statements	Engagement letter
2. An overview of the overall audit strategy, addressing: a. Timing of the audit b. Significant risks, including fraud risks	Audit plan communicated on December 12, 2017
3. Significant transactions outside of the normal course of business, including related party transactions	Nothing to report.
Year End Communication	
4. Fraud or possible fraud identified through the audit process	We are not aware of any fraudulent events.
5. Significant accounting policies, practices, unusual transactions, and our related conclusions	Significant Accounting practices, judgements and estimates
6. Alternative treatments for accounting policies and practices that have been discussed with management during the current audit period	Nothing to report.
7. Matters related to going concern	We concluded that there was no substantial doubt about CMLC's ability to continue as a going concern.
8. Management judgments and accounting estimates	Significant Accounting practices, judgements and estimates
9. Significant difficulties, if any, encountered during the audit	No significant difficulties to report.
10. Material written communications between management and us, including management representation letters	Management representation letter
11. Other matters that are significant to the oversight of the financial reporting process	No other matters to report.
12. Modifications to our opinion(s)	We will issue an unmodified opinion.
13. Our views of significant accounting or auditing matters for which management consulted with other accountants and about which we have concerns	None identified.

Required communication	Refer to this report or document described below
14. Significant matters discussed with management	None identified.
15. Illegal or possibly illegal acts that come to our attention	We are not aware of any illegal acts.
16. Significant deficiencies in internal control, if any, identified by us in the conduct of the audit of the financial statements	No deficiencies to report.
17. Uncorrected misstatements and disclosure items	In accordance with Canadian GAAS, we request that all misstatements be corrected. Uncorrected misstatements were noted. Please refer to Appendix 5 for further details.

Appendix 2 – Draft version of our auditor's report

Our report on the financial statements is expected to be in the following form. However, the final form may need to be adjusted to reflect the final results of our audit.

Independent Auditor's Report

To the Shareholder of
Calgary Municipal Land Corporation

We have audited the accompanying financial statements of Calgary Municipal Land Corporation, which comprise the statement of financial position as at December 31, 2017, and the statements of operations, change in net financial assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Calgary Municipal Land Corporation as at December 31, 2017, and the results of its operations, changes in net financial assets and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Chartered Professional Accountants
April 27, 2018

Appendix 3 – Letter of recommendations and business insights

April 27, 2018

Dear Audit Committee members,

We have recently completed our audit of the financial statements of Calgary Municipal Land Corporation (“CMLC”) for the year ended December 31, 2017.

Our audit was designed to provide a cost-effective basis for formulating an opinion on your financial statements. As part of our examination, we reviewed and evaluated relevant aspects of the systems of internal controls and the accounting systems to the extent we considered necessary to make an evaluation of such systems and procedures in accordance with Canadian GAAS.

While the audit did not include an in-depth evaluation of all controls and should not be relied upon to identify all significant internal control deficiencies, or all errors, irregularities or inefficiencies that might occur, we undertake to report such matters to you when they come to our attention. Our comments relating to these and other matters are attached.

Yours truly,

Deloitte LLP

Chartered Professional Accountants

December 31, 2017 year end audit

1. Infrastructure development assets final acceptance certificate listing

Observation:
During the course of the prior years' audits, and throughout the interim and year-end audit for fiscal 2017, we held discussions with management regarding the status of the infrastructure development assets ("IDA"). Based on our knowledge of the business, many of these assets would be close to the Construction Completion Certificate ("CCC") and Final Acceptance Certificate ("FAC") stage. The intent of these discussions during the past and current year's audits was to ensure the appropriate and timely accounting treatment of these assets within the financial statements.

We note that management maintains an excel spreadsheet which includes all IDA assets by phase and date of CCC and FAC.

Recommendation:
It is expected that many assets would be nearing the FAC stage during fiscal 2018. We recommend management ensure any accounting impact of those IDA assets having completed the FAC stage is considered on a timely basis in fiscal 2018 and future financial statements.

Managements Response:
Management agrees with the recommendation.

Appendix 4 – Independence matters

April 27, 2018

The Audit Committee and Board of Directors of Calgary Municipal Land Corporation

Dear Members:

We have been engaged to perform an audit of the financial statements of Calgary Municipal Land Corporation ("CMLC") as of and for the year ended December 31, 2017 in accordance with Canadian generally accepted auditing standards.

You have requested that we communicate in writing with you regarding our compliance with relevant ethical requirements regarding independence as well as all relationships and other matters between CMLC, our Firm and network firms that, in our professional judgment, may reasonably be thought to bear on our independence. You have also requested us to communicate the related safeguards that have been applied to eliminate identified threats to independence or reduce them to an acceptable level.

In determining which relationships to report, we have considered relevant rules and related interpretations prescribed by the appropriate provincial regulator/ordre and applicable legislation, covering such matters as:

a) Holding a financial interest, either directly or indirectly, in a client.
b) Holding a position, either directly or indirectly, that gives the right or responsibility to exert significant influence over the financial or accounting policies of a client.
c) Personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client.
d) Economic dependence on a client.
e) Provision of services in addition to the audit engagement.

We confirm to you that the engagement team and others in the firm as appropriate, the firm and, when applicable, network firms have complied with relevant ethical requirements regarding independence.

We have prepared the following comments to facilitate our discussion with you regarding independence matters arising since April 28, 2017, the date of our last letter.

We are not aware of any relationships between the Deloitte Entities and CMLC and its affiliates, or persons in financial reporting oversight roles at CMLC and its affiliates, that, in our professional judgment, may reasonably be thought to bear on independence, that have occurred from April 29, 2017 to April 27, 2018.

The total fees charged to CMLC for audit services were $53,928 (2016, $49,200) during the period covered by the financial statements. These fees include the 7% administration charge but not GST.

We hereby confirm that we are independent with respect to CMLC in accordance with the Rules of Professional Conduct of the Chartered Professional Accountants of Alberta as of April 27, 2018.

This letter is intended solely for the the information and use of the Audit Committee, the Board of Directors, management and others within CMLC and is not intended to be and should not be used for any other purposes.

Yours truly,

Chartered Professional Accountants

Appendix 5 – Draft management representation letter

[CMLC Letterhead]

April 27, 2018

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

Dear Sirs:

Subject: Financial statements of Calgary Municipal Land Corporation for the year ended December 31, 2017

This representation letter is provided in connection with the audit by Deloitte LLP ("Deloitte" or "you") of the financial statements of Calgary Municipal Land Corporation ("CMLC" or "we" or "us") for the year ended December 31, 2017, and a summary of significant accounting policies and other explanatory information (the "Financial Statements"), for the purpose of expressing an opinion as to whether the Financial Statements present fairly, in all material respects, the financial position, results of operations and cash flows of CMLC in accordance with Canadian public sector accounting standards ("PSAS").

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial statements

1. We have fulfilled our responsibilities as set out in the terms of the engagement letter between CMLC and Deloitte dated December 13, 2017 for the preparation of the Financial Statements in accordance with PSAS. In particular, the Financial Statements are fairly presented, in all material respects, and present the financial position of CMLC as at December 31, 2017 and the results of its operations and cash flows for the year then ended in accordance with PSAS.

2. Significant assumptions used in making estimates, including those measured at fair value, are reasonable.

   In preparing the Financial Statements in accordance with PSAS, management makes judgments and assumptions about the future and uses estimates. The completeness and appropriateness of the disclosures related to estimates are in accordance with PSAS. CMLC has appropriately disclosed in the Financial Statements the nature of measurement uncertainties that are material, including all estimates where it is reasonably possible that the estimate will change in the near term and the effect of the change could be material to the Financial Statements.

The measurement methods, including the related assumptions and models, used in determining the estimates, including fair value, were appropriate, reasonable and consistently applied in accordance with PSAS and appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the entity. No events have occurred subsequent to December 31, 2017 that require adjustment to the estimates and disclosures included in the Financial Statements.

There are no changes in management's method of determining significant estimates in the current year.

3. All related party relationships and transactions have been appropriately accounted for and disclosed in the Financial Statements in accordance with the requirements of PSAS.

4. We have determined that the Financial Statements are complete as of the date of this letter, as this is the date when there are no changes to the Financial Statements (including disclosures) planned or expected and the Financial Statements have been approved in accordance with our process to finalize financial statements.

5. We have completed our review of events after December 31, 2017 and up to the date of this letter. All events subsequent to the date of the Financial Statements and for which PSAS requires adjustment or disclosure have been adjusted or disclosed. Accounting estimates and disclosures included in the Financial Statements that are impacted by subsequent events have been appropriately adjusted.

6. The Financial Statements are free of material errors and omissions.

   We believe that the effects of any uncorrected Financial Statement misstatements pertaining to the current period presented are immaterial, both individually and in the aggregate, to the Financial Statements taken as a whole. A list of the uncorrected misstatements aggregated by you is attached in Appendix A.

Information provided

7. We have provided you with:

   a. Access to all information of which we are aware that is relevant to the preparation of the Financial Statements, such as records, documentation and other matters.

   b. All relevant information as well as additional information that you have requested from us for the purpose of the audit; and

   c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

8. Except as listed in Appendix A, all transactions have been properly recorded in the accounting records and are reflected in the Financial Statements.

9. We have disclosed to you the results of our assessment of the risk that the Financial Statements may be materially misstated as a result of fraud.

10. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:

    a. Management;

    b. Employees who have significant roles in internal control; or

    c. Others where the fraud could have a material effect on the Financial Statements.

11. We have disclosed to you all information in relation to allegations of actual, suspected or alleged fraud, or illegal or suspected illegal acts affecting CMLC.

12. We have disclosed to you all communications from regulatory agencies concerning non-compliance with or deficiencies in financial reporting practices and all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the Financial Statements.

13. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware, including guarantees, non-monetary transactions and transactions for no consideration.

14. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

15. We have disclosed to you all known, actual or possible litigation and claims, whether or not they have been discussed with our lawyers, whose effects should be considered when preparing the Financial Statements. As appropriate, these items have been disclosed and accounted for in the Financial Statements in accordance with PSAS.

Independence matters

For purposes of the following paragraphs, "Deloitte" shall mean Deloitte LLP and Deloitte Touche Tohmatsu Limited, including related member firms and affiliates.

16. Prior to CMLC having any substantive employment conversations with a former or current Deloitte engagement team member, CMLC has held discussions with Deloitte and obtained approval from the Audit Committee.

17. We have ensured that all services performed by Deloitte with respect to this engagement have been pre-approved by the Audit Committee and the Audit Committee of our Parent Corporation in accordance with its established approval policies and procedures.

Other matters

18. CMLC has satisfactory title to and control over all assets, and there are no liens or encumbrances on such assets. We have disclosed to you and in the Financial Statements all assets that have been pledged as collateral.

19. We have disclosed to you all liabilities, provisions, contingent liabilities and contingent assets, including those associated with guarantees, whether written or oral, and they are appropriately reflected in the Financial Statements.

20. We have disclosed to you, and CMLC has complied with all aspects of contractual agreements that could have a material effect on the Financial Statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

21. We have disclosed to you all the documents that we expect to issue that may comprise other information, in the context of CAS 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*.

Accounting Policy

22. The accounting policies selected and the application of those policies are appropriate.

23. CMLC's accounting policies and their method of application have been applied on a basis consistent with that of the audited Financial Statements as of and for the year ended December 31, 2016.

Fair Value

24. With regard to the fair value measurements and disclosures of certain assets and liabilities, such as financial instruments, we believe that:
    a. The completeness and adequacy of the disclosures related to fair values are in accordance with PSAS;
    b. No events have occurred subsequent to December 31, 2017 that require adjustment to the fair value measurements and disclosures included in the Financial Statements; and
    c. They appropriately reflect management's intent and ability to carry out specific courses of action on behalf of CMLC when relevant to the use of fair value measurements or disclosures.

Management's responsibilities

25. All transactions and events have been carried out in accordance with law, regulation or other authority.

Accounts Receivable

26. CMLC is responsible for determining the appropriate carrying amount of accounts receivable, as well as estimates used to determine such amounts. Management believes that the carrying amounts recorded and disclosed are appropriate.

Government transfers

27. We have disclosed to you all correspondence relating to government transfers that CMLC has had with the funding body.

28. We have assessed the eligibility criteria and determined that CMLC is an eligible recipient for the government transfers received.

29. We have assessed the stipulations attached with the funding and have recognized the revenue in accordance with meeting the stipulations required.

30. All government transfers that have been recorded as deferred revenue give rise to an obligation that meets the definition of a liability. Those liabilities have been properly recorded and presented in the Financial Statements.

Tangible capital assets

31. Tangible capital assets have been recorded properly and consistently according to the standards in Section PS 3150, *Tangible Capital Assets*.

32. We have assessed the useful lives of tangible capital assets and have determined all tangible capital assets contribute to CMLC's ability to provide goods and services and therefore do not require a write down.

Communicating a threshold

33. We understand that the threshold used for accumulating misstatements identified during the year was $825,000 for purposes of Appendix A. Misstatements below this amount have been considered clearly trivial.

Land Inventory

34. CMLC is responsible for determining the appropriate carrying amount of inventories held for resale. All inventories are the property of CMLC and do not include any items consigned to it, any items billed to customers or any items for which the liability has not been recorded.

35. Several parcels of land inventory were identified for potential impairment as their book value was in excess of their market value. Management asserts that certain properties are designated as Heritage properties by the City of Calgary and the value will be recovered through long-term tenant agreements with or direct sales to third parties. For those parcels not sold to third parties, the land inventory will be transferred to the City of Calgary at cost. Therefore, management believes that no impairment of land inventory exists at December 31, 2017.

36. Management have declared the true intent for items classified as land inventory and have appropriately classified items as land inventory versus tangible capital assets.

37. We have evaluated all of our tangible capital assets that we have direct responsibility for or accept responsibility for, and have not identified any sites in which contamination exceeds an environmental standard.

38. We have reviewed all outstanding construction invoices at year-end, and have determined that year-end accrual regarding construction invoices is complete.

Infrastructure development assets – long term plans

39. All costs incurred to date relating to Victoria Park, 9th Avenue Parkade, Olympic Plaza, Arts Commons, David D Oughton, Fifth Street Underpass, Fort Calgary, Public Library, West Village, East Village, Riverwalk and 4th Street Underpass sites are appropriately capitalized as infrastructure development assets in the year-end financial statements as based on CMLC's 2017 to 2019 Business Plan, these sites are part of the long term development plan of CMLC.

40. We have disclosed to you all Infrastructure development assets that received Final Acceptance Certificates during the year.

Yours truly,
Calgary Municipal Land Corporation

____

Michael Brown, President and CEO

____

Kondwani Bwanali, Director, Finance and Corporate Services

Appendix A
Calgary Municipal Land Corporation
Summary of uncorrected financial statement misstatements
Year ended December 31, 2017

December 31, 2016 uncorrected misstatement

	Assets Dr (Cr)	Liabilities Dr (Cr)	Accumulated Surplus Dr (Cr)	Income Statement Dr (Cr)
Environmental costs related to land sales made in previous years were not written off but should have been. CMLC corrected this in fiscal 2017; however, this was a misstatement impacting fiscal 2016 and prior periods as these amounts should have been written off/expensed at the time the land was sold.	(2,618,508)	-	1,466,329	1,152,179

December 31, 2017 uncorrected misstatement

	Assets Dr (Cr)	Liabilities Dr (Cr)	Equity Dr (Cr)	Income Statement Dr (Cr)
Environmental costs related to land sales made in previous years were not written off but should have been. CMLC corrected this in fiscal 2017; however, this was a misstatement impacting fiscal 2016 and prior periods as these amounts should have been written off/expensed at the time the land was sold. The ending December 31, 2017 balance is; however, correct.	2,618,508	-	-	(2,618,508)

Appendix B
Calgary Municipal Land Corporation
Summary of disclosure items passed
Year ended December 31, 2017

None identified.

Appendix 6 – New and revised Auditor Reporting Standards

On April 11, 2017, the Canadian Auditing and Assurance Standards Board (AASB) approved new and revised Canadian Auditing Standards (CASs) on auditor reporting which will be effective for audits of financial statements for periods ending on or after December 15, 2018 with earlier application permitted.

While a number of CASs were impacted, the most significant changes made relate to the following four standards:

- Revised CAS 700, Forming an Opinion and Reporting on Financial Statements
- New CAS 701, Communicating Key Audit Matters in the Independent Auditor's Report
- Revised CAS 720, The Auditor's Responsibilities Relating to Other Information
- Revised CAS 570, Going Concern

These CASs are based on the International Auditing and Assurance Standards Board's (IAASB) new and revised International Standards on Auditing (ISAs) that were effective for periods ending on or after December 15, 2016 however there are two significant differences:

1. Deferral of the effective date for application by one year, and
2. Amending the scope of reporting Key Audit Matters so that such matters are communicated in the auditor's report only when required by law or regulation or the auditor decides to do so.

The following sets out the enhancements made to the new Independent Auditor's Report

Changes to the Auditor's Report and new reporting requirements	
For all audits	
Auditor's opinion	• auditor's opinion moved from the end of the auditor's report to the very beginning
Auditor's independence and ethics	• an explicit statement of the auditor's independence in accordance with relevant ethical requirements and the auditor's fulfillment of other ethical responsibilities
Going concern	• a separate section under the heading "Material Uncertainty Related to Going Concern", when a material uncertainty exists related to an entity's ability to continue as a going concern and is adequately disclosed in the financial statements
Other information	• a separate section under the heading "Other Information", when an entity prepares other information (e.g., an annual report) containing or accompanying the entity's financial statements and auditor's report thereon, to explain management's and the auditor's responsibilities for the other information and the auditor's conclusion from reading and considering the other information
Roles and Responsibilities	• an enhanced description of management's responsibilities for assessing the entity's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate • identification of those charged with governance (when applicable) and their responsibility for the oversight of the financial reporting process

	• an enhanced description of the auditor's responsibilities to conclude on the appropriateness of management's use of the going concern basis of accounting • an enhanced description of the auditor's responsibilities in an audit of group financial statements
For audits of entities where the auditor decides or law or regulation requires reporting of key audit matters	
Key audit matters	• a separate section under the heading "Key Audit Matters", when law or regulation requires the auditor, or the auditor decides, to communicate key audit matters in the auditor's report to those charged with governance that, in the auditor's judgment, were of most significance to the audit

We will work to provide Calgary Municipal Land Corporation and the Audit Committee with guidance on the implications of the new and revised auditor reporting standards.

Benefits

- **Transparency** into the audit and discussions between the auditor, those charged with governance, and management
- **More robust** discussions between auditors and those charged with governance
- **Enhanced** communications between all stakeholders including regulators
- **Relevant** auditor's reports and insights into the complexities of the entity
- **Comparability** across industries and audit firms
- **Improved** audit and financial reporting quality]

Highlights of Changes to Performance Requirements with respect to Going Concern

Auditors are now required to evaluate the adequacy of management's disclosure in the financial statements for "close calls" related to going concern (i.e., when events or conditions were identified that may cast significant doubt of an entity's ability to continue as a going concern but due to management's plans, the auditor concluded that no material uncertainty exists).

The following are some considerations for those charged with governance to start discussing with their auditor.

Implementation considerations for those charged with governance

- **KAMs:** If applicable, this commentary in the audit report will have a significant impact on the timing of:
  - Meetings between the auditor and the Audit Committee to discuss risks, which will form the basis of KAMs
  - Meetings with the auditor to identify, discuss and challenge KAMs as early as possible, and
  - Review of the auditor's report as the process will likely be more rigorous.
- **Going Concern:** Increased auditor focus may heighten your scrutiny of management's process for assessing the entity's ability to continue as a going concern and the relevance and completeness of related disclosures in the financial statements, particularly for "close calls".
- **Other information:** Discuss with the auditor which documents will be within the scope of "other information", evaluate timeframes for drafting and finalizing these documents, and assess documents for consistency with financial statements to ensure factually correct and reasonable.

Resources

The AASB is currently working with CPA Canada and other groups to drive the effective implementation of the new standards through a broad range of communications, tools and guidance materials for stakeholders. CPA Canada has issued a number of Audit and Assurance alerts in June 2017 discussing key features of the changes and will be releasing a web portal devoted exclusively to the topic of implementing auditor reporting. Webinars and other publications will be issued throughout the remainder of the year, including an update expected in December incorporating the changes to the new auditor's report into a revised reporting guide, "Reporting Implications of New Auditing and Accounting Standards."

- Keep abreast of the Canadian project at www.cfr.deloitte.ca.
- Information relating to the new and revised CASs and conforming amendments to other CASs can be found on the AASB website.

We encourage you to engage your engagement partner or any other member of the Deloitte Team with any questions or enquiries related to the new and revised auditor reporting standards.

Financial statements of

Calgary Municipal Land Corporation

December 31, 2017

Calgary Municipal Land Corporation

December 31, 2017

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

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

Independent Auditor's Report

To the Shareholder of
Calgary Municipal Land Corporation

We have audited the accompanying financial statements of Calgary Municipal Land Corporation, which comprise the statement of financial position as at December 31, 2017, and the statements of operations, change in net financial assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Calgary Municipal Land Corporation as at December 31, 2017, and the results of its operations, changes in net financial assets and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Deloitte LLP

Chartered Professional Accountants
April 27, 2018

Chartered Professional Accountants

Calgary Municipal Land Corporation

Statement of financial position
as at December 31, 2017

	2017	2016
	$	$
Financial assets		
Cash and cash equivalents (Note 3)	**15,005,193**	9,352,438
Accounts receivable (Note 12)	**10,621,077**	25,102,129
Infrastructure development assets (Note 6)	**416,951,068**	343,780,266
Land inventory (Note 7)	**113,104,510**	89,090,255
	555,681,848	467,325,088
Financial liabilities		
Accounts payable and accrued liabilities (Note 4 and Note 13)	**6,964,136**	12,350,931
Holdbacks payable	**13,903,418**	7,036,050
Interest payable (Note 13)	**2,820,438**	2,656,672
Developer deposits (Note 5)	**3,339,935**	3,339,735
Long term debt (Note 10)	**394,322,933**	323,938,486
Share capital (Note 11)	**1**	1
	421,350,861	349,321,875
Net financial assets	**134,330,987**	118,003,213
Non-financial assets		
Prepaid expenses	**128,333**	84,428
Tangible capital assets (Note 8)	**10,508,619**	8,197,072
	10,636,952	8,281,500
Accumulated surplus	**144,967,939**	126,284,713

Calgary Municipal Land Corporation

Statement of operations and accumulated surplus
year ended December 31, 2017

		2017	2016
	Budget (Note 17)	**Actual**	Actual
	$	**$**	$
Revenues			
Community revitalization levy	**42,000,000**	**34,251,064**	38,422,727
Land sales	**-**	**-**	250,718
Interest	**100,000**	**25,325**	45,582
Rental	**550,000**	**2,351,641**	528,826
Project management fees	**870,000**	**970,991**	914,093
Miscellaneous	**84,000**	**82,829**	79,218
Insurance proceeds	**-**	**1,839,205**	-
	43,604,000	**39,521,055**	40,241,164
Expenses			
Salaries and employee benefits	**2,858,000**	**2,706,038**	2,679,889
Cost of sales - land inventory	**-**	**-**	379,158
Site servicing & remediation	**-**	**5,038,707**	-
General administration	**3,187,000**	**2,706,186**	3,553,006
Donations & contributions (Note 14)	**-**	**102,500**	10,083,898
Repair and maintenance - EV	**-**	**1,236,822**	380,995
Amortization expense (Note 8)	**-**	**1,511,175**	1,910,766
Interest - debentures	**7,410,000**	**7,004,293**	6,622,826
Loan administration fees	**-**	**495,442**	443,627
Financing charges	**60,000**	**36,666**	53,994
	13,515,000	**20,837,829**	26,108,159
Excess of revenues over expenses	**30,089,000**	**18,683,226**	14,133,005
Accumulated surplus, beginning of year	**126,284,713**	**126,284,713**	112,151,708
Accumulated surplus, end of year	**156,373,713**	**144,967,939**	126,284,713

Calgary Municipal Land Corporation

Statement of cash flows
year ended December 31, 2017

	2017	2016
	$	$
Operating activities		
Excess of revenues over expenses	**18,683,226**	14,133,005
Deduct items not affecting cash		
Amortization expense	**1,511,175**	1,910,766
Write down of tangible capital assets	**-**	53,716
	20,194,401	16,097,487
Change in non-cash working capital		
Accounts receivable	**14,481,053**	(4,721,727)
Mortgage receivable	**-**	4,442,227
Infrastructure development assets	**(73,170,803)**	(75,814,136)
Acquisition of land inventory (net)	**(24,014,255)**	(27,656,239)
Accounts payable and accrued liabilities	**(5,386,795)**	1,413,761
Holdbacks payable	**6,867,368**	2,786,777
Interest payable	**163,766**	24,667
Developer deposits	**200**	4,735
Prepaid expense	**(43,905)**	13,637
	(60,908,970)	(83,408,811)
Capital activity		
Acquisition of tangible capital assets	**(3,822,722)**	(2,154,096)
Financing activites		
Infrastructure debentures (Note 10)	**26,500,000**	28,000,000
Repayment of debenture principal (Note 10)	**(11,366,346)**	(10,475,377)
NCL City of Calgary repayment (Note 10)	**(10,000,000)**	-
NCL City of Calgary loan (Note 10)	**64,408,934**	64,415,540
CPA 9th Ave Parkade loan (Note 10)	**841,859**	-
	70,384,447	81,940,163
Increase (decrease) in cash and cash equivalents	**5,652,755**	(3,622,744)
Cash and cash equivalents, beginning of year	**9,352,438**	12,975,182
Cash and cash equivalents, end of year	**15,005,193**	9,352,438
Cash and cash equivalents consist of		
Cash	**1,505,193**	2,352,438
Cash equivalents	**13,500,000**	7,000,000
	15,005,193	9,352,438

Calgary Municipal Land Corporation

Statement of changes in net financial assets
year ended December 31, 2017

		2017	2016
	Budget (Note 17)	Actual	Actual
	$	$	$
Excess of revenues over expenses	**30,089,000**	**18,683,226**	14,133,005
Amortization of tangible capital assets	**-**	**1,511,175**	1,910,766
Write down of tangible captial assets	**-**	**-**	53,716
Acquisition of tangible capital assets	**-**	**(3,822,722)**	(2,154,096)
Use of prepaid assets	**-**	**(43,905)**	13,637
Increase in net financial assets	**30,089,000**	**16,327,774**	13,957,028
Net financial assets, beginning of year	**118,003,213**	**118,003,213**	104,046,185
Net financial assets, end of year	**148,092,213**	**134,330,987**	118,003,213

1. Description of business

Calgary Municipal Land Corporation ("CMLC" or the "Corporation"), a wholly owned subsidiary of The City of Calgary ("The City"), was incorporated on February 22, 2007. On July 5, 2007, pursuant to the Alberta Municipal Government Act and the Control of Corporation Regulation (AR 284/2003), the Provincial Minister of Municipal Affairs approved, via Ministerial Order L: 162/07, The City as the sole shareholder pursuant to Section 250(2) (e) of the Municipal Government Act. CMLC, as a wholly owned subsidiary of The City, is not subject to income tax.

The Corporation was formed to implement public infrastructure improvements that will be the catalyst for private and public sector real estate development.

2. Significant accounting policies

Basis of presentation

The financial statements are prepared in accordance with Public Sector Accounting Standards ("PSAS") for local government organizations as established by the Public Sector Accounting Board of Chartered Professional Accountants of Canada.

Basis of accounting

The financial statements are prepared using the accrual basis of accounting. The accrual basis of accounting records revenue as it is earned and measurable. Expenses are recognized as they are incurred and measurable based on receipt of goods or services and/or the legal obligation to pay.

Cash and cash equivalents

Cash and cash equivalents consist of cash in the bank and cashable investments that are highly liquid and easily convertible to cash.

Land inventory

Land inventory is carried at the lower of cost and net realizable value. The net realizable value is the market value of land less any selling costs. CMLC capitalizes all costs associated with land held for resale, including property taxes, maintenance charges and environmental costs.

Infrastructure development assets

Infrastructure development assets are projects currently under construction that will result in an asset being constructed which will be turned over to The City at the final acceptance certificate phase of construction. Infrastructure development assets are recorded at cost. CMLC capitalizes direct construction, development costs and environmental costs to the project under development, which will be recovered from The City through the Community Revitalization Levy ("CRL") collected by The City on behalf of CMLC. Assets will be transferred to tangible capital assets and amortized when they have received final acceptance certificates and they have not yet been transferred to The City.

Non-financial assets

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the normal course of operations. The change in non-financial assets during the year, together with the excess of revenues over expenses, represents the change in net financial assets for the year.

Accumulated surplus or deficit

Accumulated surplus represents CMLC's net economic resources. It is an amount by which all assets (financial and non-financial) exceed liabilities. An accumulated surplus indicates that CMLC has net resources (financial and physical) that can be used to provide future services. An accumulated deficit means that liabilities are greater than assets.

2. Significant accounting policies (continued)

Tangible capital assets

Tangible capital assets are stated at cost less accumulated amortization. Amortization is provided using methods and rates intended to amortize the cost of assets over their estimated useful lives. The amortization rates are as follows:

Office furniture and equipment	straight-line method over 5 years
Computer infrastructure	straight-line method over 3 years
Computer software	straight-line method over 3 years
Leasehold improvements	straight-line method over 5 years
Sales Centre - Bosa & FRAM	straight-line method over 3.5 years
N3 Sales Centres	straight-line method over 2 years
Building improvements	straight-line method over 10 years
Elbow River Traverse	straight-line method over 50 years

Amortization commences in the first full month of ownership.

Tangible capital assets are recorded at cost and tested for impairment whenever a change in events or circumstances indicates that the carrying value may not be recoverable. Any resulting impairment loss is recognized in the period it is determined.

Revenue recognition

Community Revitalization Levy, interest, rental and project management fee revenues are recognized when persuasive evidence of an arrangement exists, the amounts are earned and measurable and collection is reasonably assured.

Land sale revenues are recognized upon title of the property passing to the purchaser and receipt of at least 15% of the total proceeds and when collection is reasonably assured.

Miscellaneous revenue includes Sales Centre management fees and advertising revenue on the East Village magazine. Sales Centre management fees and advertising revenues are recognized when service is completed.

Site servicing

Site servicing costs relating to land parcels that have been sold are expensed as incurred.

Remediation

Remediation costs relating to land inventory are capitalized until the land inventory is sold. Remediation costs relating to land parcels that have been sold are expensed as incurred.

Use of estimate

The preparation of financial statements, in conformity with PSAS, requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates include the net realizable value of land inventory, estimated useful lives and potential impairment of tangible capital assets and accrued liabilities.

Actual results could differ from these estimates. These estimates and assumptions are reviewed quarterly and, as adjustments become necessary, they are reported in the statement or operations and accumulated surplus in the period in which they become known.

2. Significant accounting policies (continued)

Future Accounting Pronouncements

CMLC is currently assessing the impact of the following new accounting standards effective for future periods.

Standards effective beginning on or after April 1, 2017

(a) Assets

Assets (“PS 3210”) provides guidance for applying the definition of assets and establishes general disclosure standards for assets. Disclosure information about the major categories of assets that are not recognized is required. When an asset is not recognized because a reasonable estimate cannot be made, the reason(s) for this should be disclosed.

(b) Contingent Assets

Contingent Assets (“PS 3320”) defines and establishes disclosure on contingent assets. Disclosure of information about contingent assets is required when the occurrence of the confirming future event is likely.

(c) Contractual Rights

Contractual Rights (“PS 3380”) defines and establishes disclosure standards on contractual rights. Disclosure of the nature, extent, and timing of any contractual rights is required.

(d) Related Party Transactions

Related Party Transactions (“PS 2200”) defines a related party and establishes disclosures required for related party transactions. Disclosure of information about related party transactions and the relationship underlying them is required when they have occurred at a value different from that which would have been arrived at if the parties were unrelated, and they have, or could have, a material financial effect on the financial statements.

(e) Inter-entity Transactions

Inter-entity Transactions (“PS 3420”) specifically addresses the reporting of transactions between entities controlled by the government’s reporting entity from both a provider and recipient perspective. Disclosure of this information is required whether or not the transaction is given accounting recognition.

Standards effective beginning on or after April 1, 2018

(a) Restructuring Transactions

Restructuring Transactions (“PS 3430”) establishes how to record assets, liabilities, revenues, and expenses related to restructuring transactions as well as disclosure requirements for the recipient and transferor.

3. Cash and cash equivalents

	2017	2016
	$	$
Cash	**1,505,193**	2,352,438
Cash equivalents	**13,500,000**	7,000,000
	15,005,193	9,352,438

The cash equivalents of $13,500,000 (2016 - $7,000,000) represent cashable investments (less than 90 days to maturity) with Alberta Treasury Branch (“ATB Financial”).

4. Accounts payable and accrued liabilities

	2017	2016
	$	$
Accounts payable	**4,773,234**	9,385,573
Vacation pay accrual	**59,735**	60,871
Accrued liabilities	**2,131,167**	2,904,487
	6,964,136	12,350,931

5. Developer deposits

	2017	2016
	$	$
Developer deposits	**3,339,935**	3,339,735

Developer deposits of $3,339,935 (2016 - $3,339,735) are for land purchases and sales agreements.

6. Infrastructure development assets

	2017	2016
	$	$
East Village	**112,944,758**	111,174,248
New Central Library	**190,062,699**	119,142,281
RiverWalk	**24,008,781**	24,006,733
4th Street Underpass	**54,805,921**	54,796,359
The City of Calgary recovery	**(28,000,000)**	(28,000,000)
St. Patrick's Bridge & Island	**50,743,033**	50,516,429
West Village	**2,907,137**	2,461,559
Environmental	**6,004,684**	8,856,855
Victoria Park	**1,884,756**	484,491
9th Ave Parkade	**1,180,551**	135,806
Arts Commons	**228,502**	175,517
David D. Oughton	**165,688**	29,988
Fifth Street Underpass	**10,430**	-
Fort Calgary	**4,128**	-
	416,951,068	343,780,266

In 2010 and 2011, CMLC recovered a total of $28,000,000 from The City for work performed on the 4th Street Underpass as per a cost sharing agreement with The City.

7. Land inventory

	2017	2016
	$	$
Balance, beginning of year	**89,090,255**	61,434,016
Additions	**24,483,992**	28,421,469
Dispositions/transfers	**(469,737)**	(765,230)
Balance, end of year	**113,104,510**	89,090,255

8. Tangible capital assets

			2017
	Cost	**Accumulated amortization**	**Net book value**
	$	**$**	**$**
Office furniture and equipment	**359,118**	**212,039**	**147,079**
Computer infrastructure	**404,524**	**302,021**	**102,503**
Computer software	**140,967**	**121,407**	**19,560**
Building improvements	**8,009,744**	**2,186,862**	**5,822,882**
Sale centres	**1,395,973**	**1,395,973**	**-**
Leasehold improvements	**2,270,279**	**1,086,108**	**1,184,171**
Elbow River Traverse	**3,298,392**	**65,968**	**3,232,424**
	15,878,997	**5,370,378**	**10,508,619**

			2016
	Cost	Accumulated amortization	Net book value
	$	$	$
Office furniture and equipment	324,159	170,692	153,467
Computer infrastructure	357,215	175,268	181,947
Computer software	140,967	94,685	46,282
Building improvements	8,009,744	1,328,511	6,681,233
Sale centres	1,395,973	1,320,548	75,425
Leasehold improvements	1,828,217	769,499	1,058,718
	12,056,275	3,859,203	8,197,072

9. Operating facility

The Corporation has arranged an operating facility to a maximum amount of $15,000,000, which bears interest, payable monthly, at ATB Financial's prime interest rate plus 0.25% per annum. This facility is secured by a general security agreement pledging all assets and obligations of the Corporation. As at December 31, 2017, $Nil (2016 - $Nil) of the operating facility has been drawn down by the Corporation.

10. Long-term debt

	2017	2016
	$	$
Debentures	**193,084,052**	182,200,276
Mortgages	**8,502,048**	8,502,048
Calgary Parking Aurthority 9th Avenue Parkade loan	**841,859**	
New Central Library advance	**-**	10,000,000
New Central Library loan	**175,000,000**	110,591,067
	377,427,959	311,293,391
Add: current portion	**16,894,974**	12,645,095
	394,322,933	323,938,486

During the year, the Corporation issued $26.5 million (2016 - $28 million) in debentures from The City through arrangements with Alberta Capital Finance Authority ("ACFA"). Total debentures outstanding including current portion at December 31, 2017 were $209,979,025 (2016 - $194,845,372).

Debenture details are as follows:

Debenture no.	Interest rate	Maturity date	**2017**	2016
	%		**$**	$
D20080001	4.660	16/06/2028	**15,000,000**	15,000,000
D20080009	4.791	16/06/2028	**14,000,000**	14,000,000
D20080016	4.736	15/09/2028	**11,000,000**	11,000,000
D20090005	5.222	16/03/2029	**8,000,000**	8,000,000
D20090012	5.125	15/06/2029	**10,000,000**	10,000,000
D20090019	4.880	15/09/2029	**8,000,000**	8,000,000
D20100003	4.390	15/03/2025	**5,000,000**	5,000,000
D20100004	4.362	15/06/2025	**15,000,000**	15,000,000
D20100015	3.947	15/09/2025	**13,000,000**	13,000,000
D20110006	3.569	15/06/2026	**9,270,822**	10,130,336
D20110010	3.013	15/09/2026	**6,528,138**	7,150,889
D20120001	2.023	31/12/2017	**-**	2,000,000
D20120002	2.769	15/03/2027	**5,441,586**	5,935,988
D20120008	2.599	17/09/2027	**7,086,629**	7,699,777
D20130003	2.229	15/03/2023	**4,041,117**	4,724,385
D20140006	2.512	16/06/2024	**10,886,223**	12,291,847
D20140012	2.404	15/09/2024	**7,246,673**	8,186,466
D20140015	2.314	15/12/2024	**4,626,831**	5,185,594
D20150008	1.835	15/09/2025	**4,071,700**	4,540,089
D20160007	1.782	15/09/2026	**15,432,479**	17,000,000
D20160009	2.299	15/12/2026	**10,507,661**	11,000,000
D20170001	1.660	15/03/2022	**4,518,392**	-
D20170002	2.277	15/03/2027	**3,820,775**	-
D20170008	2.671	15/09/2027	**8,500,000**	-
D20170009	2.270	15/09/2022	**2,000,000**	-
D20170013	2.532	15/12/2027	**7,000,000**	-
			209,979,026	194,845,371

10. Long-term debt (continued)

Mortgages of $8,502,048 (2016 - $8,502,048) held by The City relate to developable land parcels transferred to CMLC by The City. The mortgages are due on the earlier of December 31, 2019 or when CMLC closes a sale of the related land to a third party. The mortgages are secured by land and are non-interest bearing.

An amount of $10,000,000 of The City's contribution to the New Central Library project budget was received in July 2013 as an advance by The City to CMLC to fund working capital for the New Central Library project. The City has also funded $165,000,000 (2016 - $110,591,067) to the New Central Library project by the end of December 2017. The City's total funding commitment to the New Central Library is $175,000,000, which is a non-interest bearing loan.

Long-term debt is repayable as follows:

	$
2018	191,894,974
2019	29,539,762
2020	23,915,318
2021	23,848,398
Thereafter	125,124,481
	394,322,933

11. Share capital

Authorized, unlimited number

Common shares

CMLC has one common share issued and outstanding for $1 with The City.

12. Accounts receivable

	2017	2016
	$	$
The City of Calgary	**8,408,324**	24,637,554
Canada Revenue Agency	**195,821**	203,514
Calgary Parking Authority	**1,654,780**	76,509
Calgary Public Library	**227,590**	-
Other receivables	**134,562**	184,552
	10,621,077	25,102,129

13. Transactions with The City and City entities

Total purchases from The City and City entities were as follows:

	2017	2016
	$	$
ENMAX	**539,925**	3,843,435
The City of Calgary	**9,050,668**	1,382,202
Calgary Public Library	**114,364**	-
	9,704,957	5,225,637

13. Transactions with The City and City entities (continued)

Purchases from ENMAX Corporation (“ENMAX”) are for infrastructure and energy related goods and services. Purchases from The City are for infrastructure upgrade work, application fees and payment of property taxes to The City. In 2017, interest in the amount of $6,840,526 (2016 - $6,622,826) relating to ACFA debentures was paid to The City.

Accounts payable and accrued liabilities with The City and City entities were as follows:

	2017	2016
	$	$
ENMAX	**852,689**	1,235,651
The City of Calgary	**327,279**	2,921,713
	1,179,968	4,157,364

Amounts payable to ENMAX are for infrastructure and energy related goods and services. Amounts payable to The City include interest of $2,820,438 (2016 - $2,656,672), infrastructure upgrade work, application fees and property taxes.

Revenue from The City and City entities was as follows:

	2017	2016
	$	$
Community Revitalization Levy	**34,251,064**	38,422,727
Calgary Parking Authority	**2,577,167**	320,660
Calgary Public Library	**307,040**	-
The City of Calgary	**1,163,020**	864,706
	38,298,291	39,608,093

Revenues from Calgary Parking Authority are related to profits from CMLC land that are managed by Calgary Parking Authority as parking lots. Revenue from the Calgary Public Library related to rent from the Hillier building lease which is a donation expense to CMLC.

Receivables from The City and City entities were as follows:

	2017	2016
	$	$
The City of Calgary	**8,408,324**	24,637,554
Calgary Parking Authority	**1,654,780**	76,509
	10,063,104	24,714,063

Receivables from The City are related to the fourth quarter of 2017 CRL payment and the New Central Library amounts which were invoiced but not received until after the year-end.

The above transactions have been recorded at the exchange amount, which represents the amount of consideration established and agreed to by the related parties.

14. Donations and contributions

The Corporation made donations of $102,500 as of December 31, 2017. In 2016, a one-time donation of $10,000,000 in relation to the National Music Centre.

15. Letters of credit

In the normal course of operations, letters of credit are issued to The City to facilitate the issuance of development permits necessary to undertake infrastructure work. The Corporation issued letters of credit in the amount of $1,643,500 which is secured under a general security agreement with ATB Financial as at December 31, 2017 (2016 - $1,567,500).

16. Financial instruments

Credit risk

The Corporation's credit risk is primarily attributable to its accounts receivables. The Corporation's credit risk is limited as 97% (2016 - 98%) of the Corporation's accounts receivable balance at December 31, 2017 is due from The City, with the remaining balance comprising Goods and Services Tax receivable, insurance proceeds and chargebacks.

Fair value

The fair values of cash and cash equivalents, accounts receivable, term deposit, mortgages receivable, accounts payable and accrued liabilities, holdbacks payable and interest payable approximate their carrying values due to their short-term maturity. The estimated fair value of the debentures is $173,961,541 (2016 - $198,111,165). The estimated fair value is based on current lending rates with similar maturities obtainable from AFCA.

17. 2017 budget

The budget amounts presented throughout these financial statements are based on the operating and capital budgets approved by the Board of Directors of CMLC and The City of Calgary Council.

18. Commitments

As per the agreement with The City, CMLC has committed to contribute a total of $70 million to build the New Central Library in East Village, CMLC will complete the New Central Library Project no later than December 31, 2018.

Capital commitments of $12,371,298 are also not reflected in the financial statements. This amount represents uncompleted portions of contracts, as at December 31, 2017, on major projects and estimated obligations under other various agreements.

19. Comparative figures

Certain comparative figures have been reclassified to conform to current year's presentation.

Code of Conduct Annual Report

EXECUTIVE SUMMARY

The City of Calgary's Code of Conduct "the Code" is comprised of nine (9) policies. To support the Audit Committee in its role to monitor the adequacy and effectiveness of corporate policies including the Code of Conduct ("the Code"), the City Auditor's Office engaged KPMG LLP to conduct an assessment of the Ethics Program including of The City's Code of Conduct and Whistle-blower programs. KPMG prepared the Ethics Program Assessment report dated 2015 July 08, which was received for information by the Audit Committee on 2015 July 15 and subsequently by Council on 2015 July 27.

The purpose of this report is to provide the Audit Committee with an update on the management practices and processes related to The City's Code of Conduct program.

ADMINISTRATION RECOMMENDATION:

That the Audit Committee:

1. Receives this report for information; and
2. Recommends that Council receive this report for information.

PREVIOUS COUNCIL DIRECTION / POLICY

The Audit Committee Bylaw (48M2012) states that the Audit Committee, among other things, is responsible for "[overseeing] *The City's* compliance with laws, regulations and internal policies including disclosure and internal financial controls, legal compliance and codes of conduct." On 2015 July 16, the Audit Committee approved the City Auditor's recommendations contained in Report AC2015-0560 (as amended). Administration has submitted progress reports on 2015 November 12 (AC2015-1891) and 2016 June 16 (AC2016-0332) to Audit Committee which outlined Administration's process to review and refresh the Code of Conduct.

BACKGROUND

This report provides the Audit Committee with an update on The City's Code of Conduct, in keeping with the Audit Committee Terms of Reference. This report focuses on the progression of the Code of Conduct program and initiatives.

In 2014 August, The City Auditor engaged KPMG LLP to conduct an assessment of The City's Ethics Program, as a component of its governance mandate. The assessment, completed on 2015 July 8, documented twelve (12) Observations and associated Recommendations along with Management Responses and Actions relating to the Code of Conduct. Additional Observations and Recommendations were directed to the Whistleblower Program.

The City Manager maintains accountability for the KPMG report's actions and instructed the Chief Financial Officer's Department to coordinate follow-up actions on the Code in accordance with the timelines outlined in the report. A project to review and revise the Code was established and was included among a number of Human Resources projects in support of the Leadership Strategic Plan contract with Council, directive 2 "a cohesive leadership culture and a collaborative workforce" (C2014-0703). Specific actions that Administration has taken in response to the Observations, Recommendations and approved Actions outlined in the KPMG report are summarized in Attachment 1.

Approval(s): **Sawyer, Eric** concurs with this report. Author: **Sutherland, Jennifer**

Code of Conduct Annual Report

Following a comprehensive review of best practices, Administration designed its refreshed Code of Conduct to articulate, but not replace, its nine (9) foundational policies (Attachment 1). The refreshed Code was launched to all employees in 2017 March. In 2018 June The City introduced Code of Conduct training which supports employees in effectively representing The City in our interactions with citizens, customers and other employees. Having our employees understand the Code reduces the risk for The City, makes us a more attractive employer and builds on our already good reputation in our communities.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

The City of Calgary recognizes that having a Code of Conduct, founded in our values, is key to our success. A strong Code of Conduct benefits everyone; it fosters a safe, healthy and ethical workplace; protects our collective reputation, and strengthens our commitment to making Calgary a great place to make a living and a great place to make a life. The Code of Conduct applies to all employees including: permanent, temporary, on-call and seasonal employees (“employees”).

The Code of Conduct has been organized into four (4) behaviour-based themes to support and reduce the complexity of the nine (9) underlying policies.

<u>Diagram 1:</u>

Safe and Healthy Workplace	Respect in Our Workplace	Proper Use of City Resources	Putting Calgary First
• Occupational Health and Safety Policy • Workplace Violence Policy • Substance Use Policy	• Respectful Workplace Policy • Acceptable Use of City Technology Resources Policy • Social Media, Media Relations and Public Statements Policy • Workplace Violence Policy	• Acceptable Use of City Technology Resources Policy • Conflict of Interest Policy • Environmental Policy • Freedom of Information and Protection of Privacy Act	• Conflict of Interest Policy • Social Media, Media Relations and Public Statements Policy • Freedom of Information and Protection of Privacy Act

The Code of Conduct provides direction, tools, resources and principles to guide behaviour and decision-making, including flow-charts and scenario-based examples to support employees’ understanding of the Code.

The information contained within Attachment 1 is intended to provide the Audit Committee with an update on The City’s Code of Conduct and assurance that The City’s ethics program is serving as an efficient and effective internal control. The information provided in Attachment 1 demonstrates that:

- Throughout the past two years, using a series of coordinated activities, The City of Calgary has designed and implemented a sustainable Code of Conduct, including the recent launch of Code of Conduct training for all employees. The City of Calgary has aligned its values-based Code of Conduct with best practices to manage reputation risk inherent in The City's strategies, programs, processes and initiatives.
- The Code of Conduct is underpinned by the essential behaviours of our organization: competence, character, commitment and collaboration.
- Each of these activities has contributed to the successful completion of many of the KPMG 2015 Ethics Audit recommendations.

In 2018 June, the Code of Conduct learning (training) was rolled out to all employees supported by a comprehensive communication campaign, themed "you are a reflection of The City." This values-based learning promotes ethical decision making by applying the Code of Conduct Decision Tree. This tool is pivotal in our effort to teach employees how to think through various situations, rather than memorize the 'right' thing to do in every situation, for every Code of Conduct policy. For leaders, who had advance access to our learning, we included a laminated copy of the decision tree in the Leader Package, with contact information for leader support on the reverse side. (Attachment 2).

Stakeholder Engagement, Research and Communication

Administration is continuously seeking opportunities to advance the proactive application of the Code of Conduct which 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. Designing, developing and implementing the refreshed Code of Conduct required a coordinated and collaborative approach between the Chief Financial Officer's Department, Policy Owners and Senior Leadership.

Strategic Alignment

This report assists the Audit Committee in its role to monitor the adequacy and effectiveness of corporate policies including Code of Conduct and Conflict of Interest. The Code of Conduct review project is aligned with Council Priority: A Well-run City. On 2014 September 15, Council approved the Leadership Strategic Plan which includes the development of a "Cohesive leadership culture and collaborative workforce," founded on the values of a responsible and accountable public service. The Code of Conduct is an important vehicle for communicating values, expected behaviours and accountability.

Social, Environmental, Economic (External)

The Code guides employee actions to support our corporate culture where City services are coordinated, integrated and citizen and customer-focussed; employees work together and as a team; services are supported by a sustainable financial plan; and The City instils confidence and trust in all that we do as an organization.

Code of Conduct Annual Report

Financial Capacity

Current and Future Operating Budget:

Activities related to the Code of Conduct are within approved budgets and programs.

Current and Future Capital Budget:

None related to this report.

Risk Assessment

A Code of Conduct serves as a principal tool to address operational and strategic risks. The Code of Conduct is designed to support the proactive management of The City of Calgary's Principal Corporate Risk: Reputation Risk; *damage to the image of The City or negative perceptions by citizens or stakeholders as a result of actions of elected officials or City employees* (AC2017-0020) by introducing preventative, administrative controls. The activities within The City's ethics program promote accountability, manage risk, and support an effective governance structure. The Code of Conduct addresses standards for workplace conduct in areas subjected to inherent risk for the organization.

REASON(S) FOR RECOMMENDATION(S):

The City of Calgary is committed to promoting a culture of respectful, ethical and safe behaviour in the workplace, guided by a Code of Conduct. This report provides the key outcomes from the project that was established to address actions raised in the KPMG report as well as additional measures in support of the Code of Conduct and ethical behaviour.

ATTACHMENT(S)

1. Attachment 1 – Code of Conduct Annual Report
2. Attachment 2 – The Code of Conduct Decision Making Tree

Code of Conduct

Annual Report

2018 June 19

The story behind The Code of Conduct

The City of Calgary recognizes that having a Code of Conduct, founded in our values, is key to our success. A strong Code of Conduct benefits everyone; it fosters a safe, healthy and ethical workplace; protects our collective reputation and; strengthens our commitment to making Calgary a great place to make a living and a great place to make a life.

As a result of the 2015 Ethics Audit, completed by KPMG, The City focused on refreshing our Code of Conduct to align it with best practices. Our Code of Conduct is now values-based, allowing employees to engage the corporate values as a framework for decision-making, rather than listing a complex set of detailed rules. The refreshed Code of Conduct, launched in 2017 March, is framed in four (4) behaviour based themes which articulate, but do not replace, the nine (9) underlying policies.

In 2017 Q4 we developed our Code of Conduct learning (training), which was fully launched to the on 2018 June 4 promoted by a comprehensive awareness campaign, supporting both the Leadership Strategic Plan (C2014-0703) and Council's Imperatives (C2014-0703).

This report has been designed to provide the Audit Committee (Council) with an update on the status of the KPMG Ethics Audit recommendations while also providing assurance of sound practices within our ethics program. Therefore, this report is organized using the following:

1. Code of Conduct Supporting Policies

2. City of Calgary Code of Conduct Progress

a. High level **recent accomplishments** in 2017-2018.
b. Headline performance measures to show **how we are doing.** Where available, baseline information for the measures show history (represented by a solid red line) and forecast (indicated by a dotted red line). Anticipated changes are represented by a solid gray arrow, to depict where we can "turn the curve" on our performance.
c. **The story behind the numbers** describes the conditions, causes and forces at work that helps explain the current and expected performance.
d. **What we propose to do** highlights initiatives planned or currently underway to advance success in the focus area.

Ongoing performance accountability is essential to the success of the Code of Conduct. A sustainment strategy will be developed to integrate these initiatives in the work we do and to continue to measure and report on our performance.

3. KPMG 2015 Ethics Audit Update

Code of Conduct- Supporting Policies

The Code of Conduct is framed into four (4) behaviour based themes which articulates, but does not replace, the nine (9) existing policies. These four themes are designed to focus on The City's values and, to reduce complexity of the Code. The four themes and corresponding policies are:

A Safe and Healthy Workplace

Occupational Health and Safety (HS-ESM-001)

Workplace Violence (GN-040)

Substance Use (HR-TR-005)

Respect in our Workplace

Respectful Workplace (HR-LR-001)

Acceptable Use of City Technology Resources (IM-IT-002)

Social Media, Media Relations and Public Statement (ALT2016-0798)

Proper Use of City Resources

Acceptable Use of City Technology Resources (IM-IT-002)

Conflict of Interest (HR-LR-004)

The City of Calgary's Environmental Policy (UEP001)

Freedom of Information and Protection of Privacy Act

Putting Calgary First

Conflict of Interest (HR-LR-004)

Social Media, Media Relations and Public Statement (ALT2016-0798)

Freedom of Information and Protection of Privacy Act

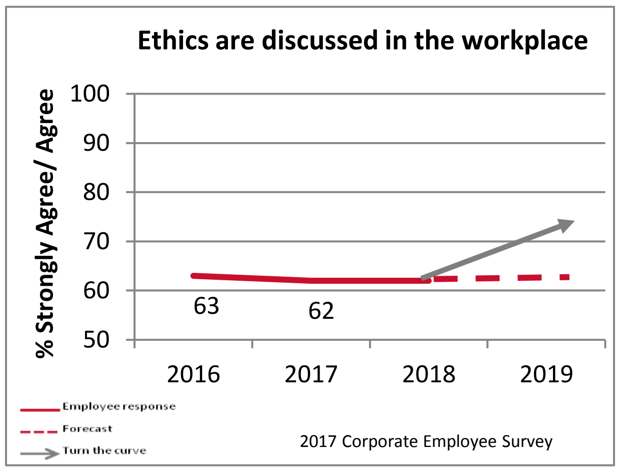
City of Calgary Code of Conduct Progress

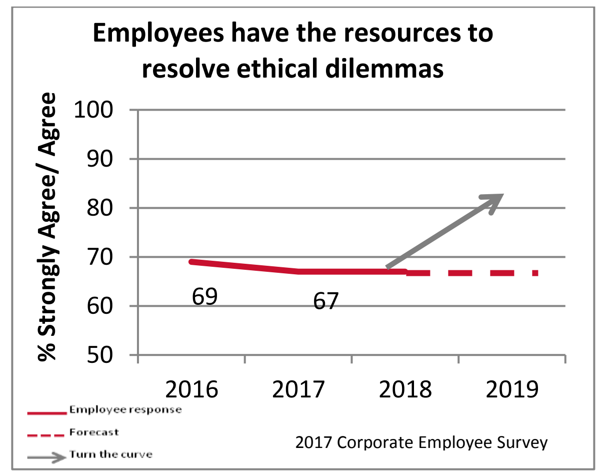
The City of Calgary's values based Code of Conduct outlines expectations and standards of behaviour to help employees remain focused on delivering our common purpose; making life better every day.

Recent accomplishments

- Code of Conduct team integrated the 2015 KPMG Ethics Audit recommendations with best practices to design and develop Code of Conduct learning (training) to support employees to make ethical decisions, while understanding what is expected of them as public servants. The Code of Conduct learning, officially launched on 2018 June 4:
  - Is values-driven and is underpinned by our behaviour-based cultural imperatives (character, competence, collaboration, commitment and individual responsibility, collective accountability).
  - Provides direction, tools, resources and principles to guide behaviour and decision-making; including, a decision making tree, and scenario-based examples to support employees and leaders understanding of the code.
  - Is offered in two forms; eLearning, for employees with computer access and facilitated sessions for employees without computer access.
  - As of 2018 June 12, 1270 employees have completed the training.
- A comprehensive awareness campaign was delivered to all employees including: building advertisements, digital screen images, leadership packages (Attachment 2) and, a video featuring Jeff Fielding.
- Refreshed Code of Conduct was launched on calgary.ca in 2017 March as a fully accessible micro-site, paired with an accessible PDF for download. To date, the microsite has received 12,785 in during the period of 2017 March- 2017 May.
- Corporate Employee Survey now includes three questions directly related to the Code of Conduct, including: "I would report unethical behaviour in my workplace"; "Ethics and the Code of Conduct are discussed in my workplace" and; "If I am faced with an ethical dilemma, I know where I can go to find help in resolving the issue."
- Inclusion workshops have been delivered to improve intercultural competencies, unconscious bias, bridging cultures respectful workplace and human rights. In 2018 a strong Human Rights communications campaign has been launched to employees in recognition of the 70th anniversary of the Declaration of human rights.

How we are doing?





The story behind the numbers

In 2017 the refreshed Code of Conduct was launched to the organization using an awareness campaign. This refreshed Code was designed using aspirational, descriptive and proscriptive content to support its nine (9) standing policies. In Q2 2018 the Code training was rolled out to City leaders, managers and supervisors in 2017 February, followed by a full launch to all employees in 2017 March.

Starting in 2016 September, the Corporate Employee Survey (CES) was expanded to include three questions directly related to the Code of Conduct. The results of the CES indicated an opportunity to; enhance leadership accountability through ongoing discussions of ethics at all levels of the organization and; provide education on the tools and resources to support employees facing ethical dilemmas. Since the annual CES was administered six months prior to the Code of Conduct learning implementation, these results can only serve as a status quo baseline. Given the 2018 June Code of Conduct launch of the training, the results are expected to increase slightly on the 2018 September CES, and significantly on the 2019 September CES.

What we propose to do:

- Continue to advance the Code of Conduct training program for all employees.
- Continue to actively provide awareness of the Code of Conduct and embed its principles within existing and new programs, processes and initiatives.
- Continue to apply the Results Based Accountability™ approach to evaluate the progress on the Code of Conduct.
- Continue to progress and complete KPMG Ethics Audit recommendations.

KPMG 2015 Ethics Audit Update

#	KMPG Report Action (abridged)	KPMG Report Date	Status
5.1.1	Consider application or implication of sign-off	2017, June 30 (HR)	Accept the Risk
5.1.1	Continue and possibly enhance communication strategy for the Code	2017, June 30 (HR)	Complete
5.1.2	Complete a review of training needs and approaches	2017, December 31 (HR)	Complete
5.1.2	Complete a review of a tracking mechanism for training and ease of access to code and related amendments	2017, December 31 (HR)	Complete
5.1.2	Discuss training needs with Council	2017, December 31 (City Clerk's)	Complete
5.1.3	Review of Code of Conduct for staff of Office of the Councillors	2016, March 31 (HR)	Complete
5.1.3	Assist Council in any review Council chooses to undertake	2016, June 30 (HR)	Complete
5.1.3	Review responsibility and process to identify and resolve any conflicts between policies in the Code or with supporting policies and documents; Review the complexity of the Code with objective of providing an understandable and effective code	2017, March 31 (HR)	Complete
5.1.3	Review current investigation approach and matrix for applicability to the overall code of conduct and to ensure clarity and effectiveness	2017, June 30 (HR)	Complete
5.1.3	Review the effectiveness of the process for policy review and procedure to record evidence of the review	2016, September 30 (HR)	Complete
5.1.4	Review the reporting processes and determine whether a generic reporting process should be created	2017, March 31 (HR)	Complete
5.1.4	Consider expanding Bid Submissions forms to clearly include identification of current and former employees. At that time also consider enhancements to reference spouses/partners of staff.	2016, June 30 (Supply)	Complete
5.1.5	Explore the development of a mechanism to monitor and report on Code violations/investigations and report regularly to City Manager/Senior Management	2018, June 30 (HR)	In Progress
5.1.6	Document clear roles and responsibilities for the code processes	2016, March 31 (HR)	Complete
5.1.6	Revisit the individual performance evaluation process to ensure it reflects corporate values and, by extension, the values inherent in the Code.	2017, March 31 (HR)	Accept the Risk

Calgary

ONWARD

You make a big difference

As a leader at The City of Calgary, how you behave and what you do matters. If a concern is brought to you by an employee – even if it's not your employee – you are required to act. Know that you are not alone, you have support.

Contact your HR Business Partner

To find out who your HR Business Partner is call 403-268-5800

Contact Corporate Security

Call 403-268-8868

Contact your Safety Advisor

To find out who your Safety Advisor is visit **myCity/safety**

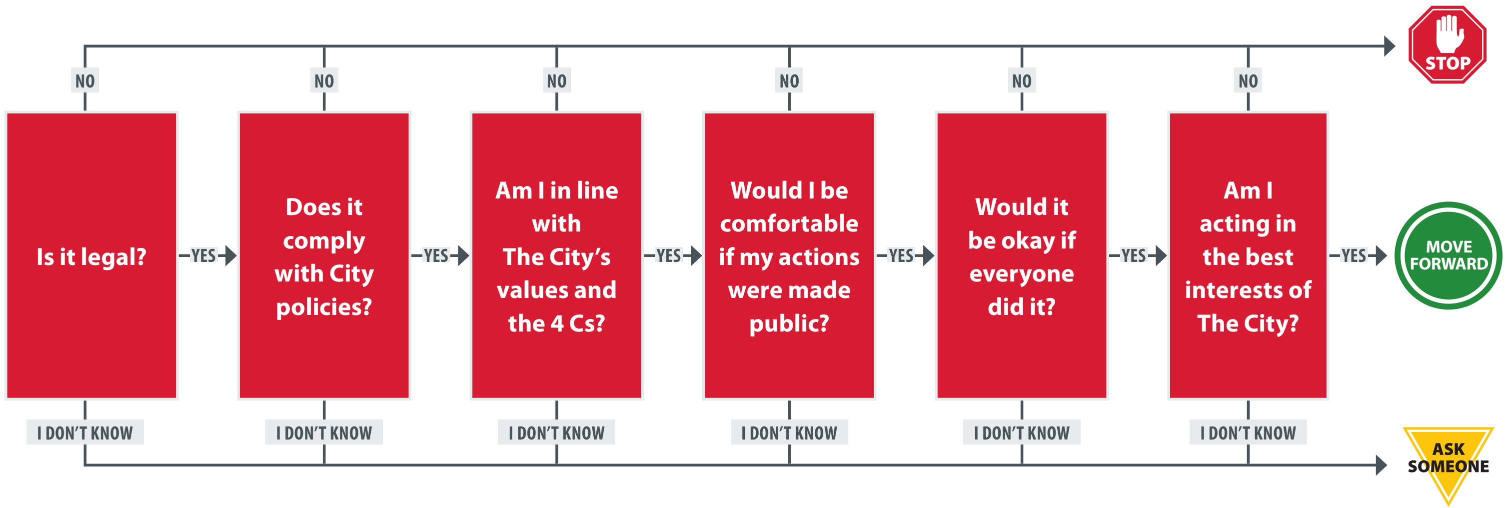
Contact Media Relations

Please direct media to The City's 24 hour media relations line at 403-828-2954

Visit **calgary.ca/employeecode**

Code of Conduct decision tree

Ask yourself:



IT'S YOUR RESPONSIBILITY TO FOLLOW THE CODE OF CONDUCT

Make sure you know before you act. If you are unsure, ask someone who knows or check **calgary.ca/employeecode**

External Auditor 2017 Management Letter

EXECUTIVE SUMMARY

Presentation of the annual Management Letter received from Deloitte LLP, The City's External Auditor for 2017, relating to the audit of The City's 2017 consolidated financial statements.

ADMINISTRATION RECOMMENDATION:

That the Audit Committee:

1. Requests the External Auditor to provide an update regarding the implementation status of the recommendations contained in the 2017 Management Letter (Attachment) at the 2019 January Audit Committee meeting; and

2. Recommends that Council receives this Report and Attachment for information.

PREVIOUS COUNCIL DIRECTION / POLICY

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

"receives and reviews the External Auditor's Management Letter(s), together with any Administration responses, and forward, either in full or in summary, to Council for information."

Schedule B, section 1(f)

BACKGROUND

At the 2018 April 17 Audit Committee Meeting the External Auditor, Deloitte LLP, presented their 2017 External Auditor's Year-End Report, AC2018-0270. This report was subsequently received for information by Council at their 2018 April 23 Regular Meeting.

The External Auditor has prepared their annual Management Letter to The City's Administration regarding identified matters that may be of interest to Administration as well as an update on matters identified during prior year end audits.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

Administration has reviewed and responded to each recommendation in the External Auditor's Management Letter and have also provided updates with respect to previous year's findings and recommendations as applicable.

Audit Committee should consider ensuring that the recommendations made by the External Auditor are implemented after an appropriate interval of time, by directing that the External Auditor prepare a follow-up report for the Audit Committee's 2019 January meeting.

External Auditor 2017 Management Letter

Stakeholder Engagement, Research and Communication

Administration has been asked to review and respond to the recommendations in the External Auditor's 2017 Management Letter. Administration and the External Auditor have discussed the observations, recommendations and responses.

Strategic Alignment

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:

There is a line item in the Audit Committee budget for external auditing services. 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

Recommendations made by the external auditor at the conclusion of the audit of the 2017 City of Calgary financial statements are followed up in 2019 January to provide a report on the status of Administration's implementation of the management letter points.

REASON FOR RECOMMENDATION:

This report is for information only and is provided pursuant to Schedule B, section 1(f) of the Audit Committee Bylaw 48M2012.

ATTACHMENT(S)

Deloitte LLP 2017 Management Letter

Deloitte.

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

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

June 8, 2018

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

Dear Mr. Sawyer:

We have recently completed our audit of the consolidated financial statements of The City of Calgary ("The City") for the year ended December 31, 2017. During the course of our December 31, 2017 audit, we identified certain matters that may be of interest to Administration which have been summarized in this letter. These matters were not material in nature in the context of the financial statements taken as a whole and did not impact our ability to issue our audit report. The December 31, 2017 observations are included in Appendix A attached to this letter.

We have also included an update to matters identified during the fiscal 2016, 2015 and 2014 year-end audits, included as Appendix B, C and D, respectively.

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

Year Identified	Title	Observation / Description	Status
2017	Contributions	Contributions are not applied consistently	New
2017	Unsigned developer contribution agreement	Unsigned developer contribution agreement	New
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	Addressed
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	Addressed

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	Addressed
2015	Adoption and implementation of PS3260	The adoption of this new standard was incomplete	Addressed
2015	Implementation of new TCA policies	We recommend that Administration implement processes to regularly monitor the new TCA policies and processes application	Partially addressed
2013 - 2015	Tangible Capital Assets	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	#1-3: Partially Addressed #4: Addressed

The objective of a financial statement audit conducted in accordance with Canadian generally accepted auditing standards ("GAAS") is to express an opinion on the fairness of the presentation, in all material respects, of The City's financial statements for the year ended December 31, 2017 in accordance with Canadian public sector accounting standards ("PSAS") and is not designed to identify all matters that may be of interest to Administration. Accordingly, an audit would not usually identify all such matters. This letter has been prepared to summarize our observations and recommendations regarding business issues, potential efficiencies and internal controls.

We designed our financial statement audit to provide reasonable, but not absolute, assurance of detecting material misstatements whether caused by error or fraud. As part of our examination, we reviewed and evaluated certain aspects of the systems of internal control over financial reporting to the extent we considered necessary in accordance with Canadian GAAS. The main purpose of our review was to assist in determining the nature, extent and timing of our audit tests and to establish the degree of reliance that we could place on selected controls; it was not to determine whether internal controls were adequate for Administration's purposes or to provide assurance on the design or operational effectiveness of internal control over financial reporting.

The identification of weaknesses in internal control in an audit is influenced by matters such as our assessment of materiality, our preliminary assessment of the risks of material misstatement, the audit approach used and the nature, timing and extent of the auditing procedures conducted. For example, where we use a substantive approach for a particular financial statement assertion, we do not generally perform tests of controls, and where we do perform tests of controls we may vary the nature, timing and extent of our control testing from year to year. Accordingly, our understanding of The City's controls is limited in nature.

Had we been requested to extend our testing of controls to additional financial statement assertions or to perform additional substantive testing beyond what we have judged to be necessary to obtain sufficient and appropriate evidence to support the content of our auditor's report, other matters of interest to Administration may have come to our attention. Accordingly, our audit should not be relied upon to identify all significant deficiencies. A significant deficiency is defined in the Canadian Auditing Standards Section 265 as a deficiency or combination of deficiencies in internal control that, in the auditor's professional judgment, is of sufficient importance to merit the attention of those charged with governance.

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,

Deloitte LLP

Chartered Professional Accountants

cc: The Audit Committee of The City of Calgary

Appendix A - December 31, 2017 year-end observations

1. Contributions

Year Identified - 2017

Observation:
During our testing of capital deposits, one of 22 samples tested relating to revenue recognized in fiscal 2017 related to expenses which had been incurred in fiscal 2015. We discussed this specific sample with the business unit, and noted that the business unit receives contributions from various external parties, and that this contribution was recognized as revenue in 2017 for expenses incurred in 2015. Based on discussions with business unit operational and finance personnel, contributions received can be for an entire project or for a portion of the project. At the time the costs are incurred by The City, the specific contributions are applied directly against the specified project; if not utilized for the specified project, the contributions are refunded. We also note that there can be written or verbal agreements between business units and external parties relating to contributions received by The City.

Recommendation:
We recommend:

a. The business unit conducts a review of the policy and processes relating to contributions with the objective to ensure consistency in the processes and policies utilized to account for contributions and compliance with the accounting guidance (PS 3100-Restricted Assets and Revenues, paragraphs 7 to 11);

b. All contributions have written agreements; and

c. All contributions are used in accordance with the stipulations as per the original agreements.

Administration response:
Administration agrees with Deloitte's recommendations with consideration that this was an isolated sample. In 2018, Administration will review current processes and procedures, as part of The City's ongoing review of its agreements, to identify any gaps and ensure consistent processes and procedures. In addition, Administration will monitor and review transactions using a risk-based approach to ensure that there is consistency and full compliance with the accounting guidance.

2. Unsigned developer contribution agreements

Year Identified - 2017

Observation:

During our audit testing of other receivables for developer contributions, we noted that one of three samples selected for testing did not have a signed copy of the developer contribution agreement on file. For this one sample, we obtained email communication between The City and the developer, which discussed finalizing the signed agreement. We also note The City regularly conducts business with this developer. However, the agreement had not been signed as of March 2018, being the timing of year end field work. The lack of a signed agreement may put The City at a risk of loss if the developer does not provide the funding or does not comply with the terms and conditions of the agreement.

Through our inquiry process for obtaining the signed agreement, we also noted that there was some confusion between business units as to which business unit is responsible for obtaining and maintaining the signed agreement on file.

Recommendation:

We recommend that The City review its processes in regards to maintenance and responsibility of signed agreements to limit instances of confusion between business units. We also recommend business units follow up with developers on a regular basis (e.g. monthly or quarterly) for any unsigned agreements to ensure The City receives the signed agreements on a timely basis.

Administration response:

Administration agrees with this recommendation and notes that there have been instances in which developer contributions were not signed on a timely basis. To strengthen The City's processes for signed developer contribution agreements and thereby, reduce the risk associated with untimely execution of agreements, The City implemented new controls in Q4 2017 which require all developer agreements to be signed before developers are approved to start their development activities.

Appendix B – December 31, 2016 year-end observations – Update for 2017 year-end

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.

Auditor's update (based on 2017 year-end audit procedures):

Deloitte discussed with Finance the procedures around the work plan. The work plan will be updated by the Finance Leads supporting each business unit on an annual basis and provided to Corporate Financial Reporting with any significant contracts being identified and discussed. We reviewed the completed work plan for 2017, noting that the Finance Leads had completed their own assessment and provided the work plan to Corporate Financial Reporting. Deloitte will continue to monitor this process through audit procedures applied in future audits.

We also obtained the August and November 2017 quarterly meeting minutes for discussion of complex accounting issues. The meetings held were to discuss upcoming accounting standards and responding to accounting issues. We also obtained a meeting request from one of the business units for July 2017 to discuss the accounting treatment with Finance in regards to two significant agreements entered into. Administration plans to continue these quarterly and ad hoc meetings with business units during 2018.

This recommendation has been satisfactorily addressed.

2. Tangible capital asset ("TCA")

Year Identified - 2016

Observation:
During our 2016 year-end audit procedures, we noted that reconciliations between the Land Inventory Data Application (LInDA) system and PeopleSoft Asset Management (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.

Auditor's update (based on 2017 year-end audit procedures):
At December 31, 2017, Administration has completed 95% of the reconciliations from PSAM to LInDA. The remaining 5% of data is currently under review and as it is more complex, requires additional time. Administration is also scheduled to perform the reconciliation from LInDA to PSAM in 2018 once the PSAM to LInDA reconciliations are completed. Based on the reconciliations performed by Administration, a prior period error was identified and corrected as part of the restatement of the 2016 financial statements. We applied substantive audit procedures to test the restatement.

We note that Administration is still on track to complete the full reconciliation by fiscal 2019. With the completion of the reconciliation, Administration plans to implement a control process on a monthly basis to ensure that all changes in LInDA are also reflected in PSAM and vice versa. We will continue to apply audit procedures to test the completion of the reconciliations and the controls implemented.

As this observation is still in progress, this recommendation will be carried forward to fiscal 2018.

Administration update (June 2018):
Administration continues to agree with this recommendation. The TCA Program will continue the reconciliation of land between LInDA and PSAM, and will correct errors as they are discovered. The project is on track to be completed by fiscal 2019.

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.

Auditor's update (based on 2017 year-end audit procedures):
During our year-end audit procedures, we held discussions with Administration around the revised process for depositing cheques in a timely manner, which includes the cashiers directly receiving cheques from developers instead of project managers. With the revised process, cheques are deposited into the bank within 1 business day of receipt.

This recommendation has been satisfactorily addressed.

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.

Auditor's update (based on 2017 year-end audit procedures):
We obtained the training session materials and attendance records for the May, September and December 2017 meetings held between the business units and Corporate Financial Reporting. The materials and topics discussed included accounting guidance, deadlines for financial reporting and various other items.

We also obtained the August and November 2017 quarterly meeting minutes for discussion of complex accounting issues. The meetings held were to discuss upcoming accounting standards and responding to accounting issues. Administration plans to continue these during 2018.

This recommendation has been satisfactorily addressed.

Appendix C - December 31, 2015 year-end observations – Update for 2017 year-end

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.

Auditor's update (based on 2017 year-end audit procedures):
As part of our 2017 testing of liability for contaminated sites, we assessed and performed internal control and substantive procedures around the five remaining sites and note that the assessment of these five has been completed we note that no new sites were identified requiring further assessment. We further obtained the meeting minutes from October 2017 between ESM and UEP finance noting that discussions took place in regards to the status of the remaining site assessments and whether any other sites were identified.

This recommendation has been satisfactorily addressed.

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.

Auditor's update (based on 2017 year-end audit procedures):
We held regular discussions with Administration regarding the new TCA policies implemented in 2017 (Land and Land Improvements). We performed internal control and substantive procedures for the new TCA policies implemented and newly developed system controls during our year-end fieldwork. We also obtained the training session materials for the May 2017 TCA session, noting that meetings are being held in regards to the new TCA policies.

We note that the only remaining asset category that requires assessment is vehicles. Administration will continue discussions in June 2018 to determine if an update to the vehicle policy is required. We will continue to hold regular discussions with Administration to determine what conclusions are reached around the vehicle TCA policy and we will plan our audit procedures accordingly.

Administration update (June 2018):
Administration continues to agree with this recommendation. The formation of the centralized TCA reporting team has facilitated consistent application of TCA policies and guidelines. The vehicles asset class will be revisited and is expected to be completed by 2019.

Appendix D - December 31, 2014 year-end observations – Update for 2017 year-end

As we communicated in our year-end report presented on April 17, 2018, The City has continued to expend focus and effort on the accounting of TCA, including implementation of many of our recommendation points issued during the prior years' audits, as well as continuous staff education and training.

During fiscal 2017, Administration made significant progress in regards to TCA accounting and reporting. Specifically, as part of the TCA Project Charter established in 2014, we note that a TCA Costing System was implemented in April 2017. We also note that the centralized TCA team became fully operational starting February 2017. The TCA Costing System will allow for accounting of TCA through automated systems, taking away the manual element at the business unit level.

It is expected that both the TCA costing system and centralized TCA team will allow for the application of consistent accounting approaches to TCA, which will be simple and streamlined, which with full implementation will allow for overall compliance with TCA polices and processes by The City.

For the implementation of the TCA Costing System, we held discussions with the appropriate individuals and reviewed Administration's process outlining the steps of the transfer of data to the new system. We performed substantive and internal control procedures over the transfer of information to the new TCA Costing System. We also performed substantive and internal control procedures over the new centralized TCA team's processes and the design and implementation of controls.

We note that based on our year end procedures, observations 1-3 have been partially addressed through the TCA costing system and centralized TCA team. However, as both the TCA Costing System and centralized TCA team were implemented part way through 2017, we understand that Administration's TCA sustainment processes will continue to develop and mature. We will then apply the appropriate auditing procedures and complete an assessment of the full implementation of our recommendations relating to TCA during our fiscal 2018 audit.

#	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	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". 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	We recommend that: • 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	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. **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.	Capital project review process to be assessed during 2015 and the decision of the appropriate process to be implemented will be made in 2016. **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.	City Treasurer, Director of Finance **Partially addressed**

#	Observation Title	Year Identified	Observation	Recommendation	Administration Response	Completion Timeline	Process Owner / Recommendation Status
			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.	should be completed on an invoice level and not a project level. 2016 Update: We continue to recommend the above noted recommendations.	**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.	**Administration update (June 2017):** The TCA Program will continue to develop and implement process improvements in 2017.	
					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.	**Administration update (January 2018)** The team will continue to identify and implement opportunities for system and process improvement in 2018.	**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. 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.
					Administration Update (June 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 hiring additional staff to reduce resource constraints faced in 2017. The TCA reporting team continues to be 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.	**Administration update (June 2018)** Ongoing during 2018.	**Auditor update (June 2018)** This recommendation is partially addressed, as noted above.

#	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	In 2013, we communicated in our observation that "There is, at times, a significant delay in "hand-off" of TCA assets between business units". 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.	We recommend that: • 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. 2016 Update: We continue to recommend the above noted recommendations.	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. **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. **Administration update (June 2017):** Administration established a new TCA reporting team that will be responsible for: • 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. **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. The TCA costing module will continue to be improved to address the needs of tracking and loading multi business units' projects. The TCA reporting team is looking at transfers monthly and will record accruals on an as needed basis. **Administration update (June 2018):** The TCA reporting team continues to commit to the appropriate transfer of hand off packages.	Capital project review process to be assessed during 2015 and the decision of the appropriate process to be implemented will be made in 2016. **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. **Administration update (June 2017):** The TCA Program will continue to develop and implement process improvements in 2017. **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. **Administration update (June 2018)** Ongoing during 2018.	City Treasurer, Director of Finance **Partially addressed** **Auditor update (January 2018)** We held regular discussions with Administration during the year regarding the TCA reporting team's structure and process. We will test the TCA processes implemented by Administration. We will communicate any deficiencies to both Administration and the Audit Committee. **Auditor update (June 2018)** This recommendation is partially addressed, as noted above.

#	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	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". 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.	We recommend that: • 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. 2016 Update: We continue to recommend the above noted recommendations.	Administration continues to agree with this recommendation. Understanding the benefit of TCA linked to an invoice costing tool, this will be assessed by Administration. Administration agrees with this recommendation and will be looking into further process control improvements to ensure timely recording of land donations. **Administration update (January 2017):** Administration continues to agree with this recommendation and continues to make process improvements including: • 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 Remaining asset categories (land, land improvements, and vehicles) will be investigated in 2017 for process improvement opportunities. **Administration update (June 2017):** Administration continues to agree with this recommendation and is making progress, which include: • 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. Further actions to be taken by Administration is also noted in MLP #2 of Appendix A.	The invoice costing tool review will be assessed during 2015 and a decision of the appropriate invoice costing tool will be made in 2016. Process improvement controls in relation to donated land to be identified in 2015. **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). The TCA program is on schedule to implement the TCA Costing System in April 2017. **Administration update (June 2017):** The TCA Program implemented the TCA Costing system in April 2017. Further process improvements to the remaining asset categories (land and vehicles) will continue to be made in 2017.	Finance Manager, Corporate Financial Reporting **Partially addressed**

#	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.
					Administration update (June 2018): Administration continues to agree with this recommendation and is working on enhancing existing tools to improve processes.	**Administration update (June 2018)** Ongoing during 2018.	**Auditor update (June 2018)** This recommendation is partially addressed, as noted above.

#	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	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. 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.	With the implementation of the various recommendations noted relating to TCA accounting and processes, these errors and issues identified will be resolved. 2016 Update: We continue to recommend the above noted recommendation.	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. **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. **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. **Administration update (January 2018)** The TCA reporting team collaborated with Deloitte to complete the system implementation audit in Q4 2017.	Capital project review process to be assessed during 2015 and the decision of the appropriate process to be implemented will be made in 2016. **Administration update (January 2017):** The TCA program is on schedule to implement the TCA Costing System in April 2017. **Administration update (June 2017):** The TCA Program will collaborate with Deloitte to complete the system implementation audit in 2017. **Administration update (January 2018)** Deloitte with the system implementation audit in Q1 2018.	City Treasurer, Director of Finance **Addressed** **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. **Auditor update (June 2018)** This recommendation has been satisfactorily addressed.

EMPLOYEE EXPENSE AUDIT

EXECUTIVE SUMMARY

The City Auditor's Office issued the Employee Expense Audit Report to Administration on June 12, 2018. The report includes Administration's response to four recommendations raised by the City Auditor's Office. Administration accepted all but one recommendation, which was partially agreed to, and has committed to the implementation of action plans no later than December 31, 2019. 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

City of Calgary (City) employees incur expenses in the course of conducting City business, such as, travel, meals, training and development, and professional fees and dues. City Administration has developed policies to define the business rules and restrictions for employee expenses and has also defined The City's shared values and the expected behaviours for City employees: Character, Competence, Commitment, and Collaboration (4Cs).

This audit was undertaken as part of the approved City Auditor's Office 2017/18 Annual Audit Plan. The objective of this audit was to assess employee expenses for compliance with City policies and alignment with The City's shared values and the 4Cs, and identify efficiency and cost saving opportunities.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

Using data analytics, we obtained employee expense reimbursement and Corporate Credit Card (CCC) data from October 1, 2016 to September 30, 2017 and selected a sample of transactions using a non-statistical (judgemental) approach focused on high dollar transactions.

All employee reimbursements and CCC expenses tested in our sample of 64 high dollar transactions complied with applicable City policies and aligned with The City's shared values and the 4Cs. In addition, a year-over-year downward trend on total employee expenses from January 1, 2015 to December 31, 2017 may be viewed as a positive result of Administration's intentional management of controllable costs.

We raised two recommendations to enhance policy and guidance related to the use of personal vehicles, and consistent course reimbursement. We also made two recommendations related to opportunities to improve efficiency by automating the employee expense reimbursement process, and reducing the 100% validation of expense claims to a sample approach.

Stakeholder Engagement, Research and Communication
This audit was conducted with Finance and Human Resources 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
In 2017, The City paid approximately $4.5M for employee expenses for out of town travel, courses, memberships, parking, and car allowances. Non-compliance with policies and misalignment with the City's shared values and the 4Cs can result in payment for inappropriate expenses, unnecessary costs and reputational damage.

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
AC2018-0756 EMPLOYEE EXPENSE AUDIT

Calgary

City Auditor's Office

Employee Expense Audit

June 12, 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

City of Calgary (City) employees incur expenses in the course of conducting City business, such as, travel, meals, training and development and professional fees and dues. In 2017, The City paid approximately $4.5M for employee expenses for out of town travel, courses, memberships, parking, and car allowances. Although the Corporate Credit Card is the preferred method of payment, employee expenses paid directly by an employee are reimbursed through the employee expense claim, petty cash claim, or mileage claim process.

City Administration has developed policies to define the business rules and restrictions for employee expenses and has also defined the shared values[1] and expected behaviours for City employees: Character, Competence, Commitment, and Collaboration (4Cs). Non-compliance with policies and misalignment with shared values and the 4Cs can result in payment for inappropriate expenses, unnecessary costs and reputational damage.

The objective of the audit was to assess employee expenses for compliance with City policies and alignment with The City's shared values and the 4Cs, and identify efficiency and cost saving opportunities. Data analytics were utilized to identify and select a sample of expense reimbursements and credit card payments from October 1, 2016 to September 31, 2017.

All employee reimbursements and Corporate Credit Card expenses tested in our sample of 64 high dollar transactions complied with applicable City policies and aligned with shared values and the 4Cs. In addition, a year-over-year downward trend on total expense claims from January 1, 2015 to December 31, 2017 may be viewed as a positive result of Administration's intentional management of controllable costs.

We raised two recommendations focused on enhancing policy and guidance related to the use of personal vehicles, and consistent course reimbursement practices. Enhanced policy will improve general awareness to ensure employees that use personal vehicles to perform City duties have appropriate insurance, a valid driver's license and a mechanically fit vehicle. Additional guidance was recommended specific to employee development reimbursement guidelines to promote consistent practices and transparency, and support One City, One Voice.

We also identified resource efficiency opportunities, through automation of the employee reimbursement process, and reducing the 100% validation of expense claims to a sample approach.

Finance and Human Resources agreed with all but one recommendation, which was partially agreed to, and have indicated in their responses a commitment to implement action plans no later than December 31, 2019. The City Auditor's Office will follow-up on all commitments as part of our ongoing recommendation follow-up process.

[1] The City's shared values are individual responsibility and collective accountability.

1.0 Background

The City of Calgary (The City) pays for business related expenses incurred by city employees and contractors, such as travel, meals, parking, training and development, and professional fees and dues. In 2017, The City spent approximately $4.5M[2] on employee expenses incurred in the course of conducting City business. The Corporate Credit Card (CCC) is the preferred method of payment for employee expenses. However, where expenses are paid directly by an employee, they are reimbursed through an employee expense claim.

City Administration has developed policies and guides to define the business rules and restrictions for employee expenses, including the following:

- FA-010 (D) Accounts Payable- Transactions and Payments- Effective: 2015/04/01; Revision due: 2018/04/01
- FA-011 (D)- Reimbursement of Employee Travel, Vehicle, Parking, Insurance, Petty Cash and Other Expenses- Effective: 2015/02/06; Revision due: 2017/02/06
- FA-016 (E)- Accounts Payable Corporate Credit Card- Effective: 2013/11/12; Revision due: 2017/12/05
- FA-048 (B)- Reimbursement of Meal and Hosting Expenses- Effective: 2015/02/06; Revision due: 2017/02/06
- HR-001 (A)- Car Allowance- Effective: 2017/05/25; Revision due: 2020/05/25
- Local Travel/Car Allowance Administration Guide- Revised January 2017.

City Administration has also defined the shared values[3] and the essential behaviours of our organization: Character, Competence, Commitment and Collaboration (4Cs). All employees are expected to demonstrate these shared values and behaviours.

Non-compliance with employee expense policies and misalignment with shared values and the 4Cs can result in payment for inappropriate expenses, unnecessary costs and reputational damage. The Employee Expense Audit was part of the City Auditor's Office 2017/2018 Audit Plan, approved by Audit Committee.

[2] Total expenditures of $4.5M do not include amounts invoiced directly by vendors and paid by The City (i.e. not processed on a CCC or through employee expense claim processes).
[3] The City's shared values are individual responsibility and collective accountability.

2.0 Audit Objectives, Scope and Approach

2.1 Audit Objective

The objective of this audit was to assess employee expenses for compliance with City policies and alignment with The City's shared values and the 4Cs, and identify efficiency and cost saving opportunities.

2.2 Audit Scope

The audit focused on a sample of employee reimbursement and CCC claims charged to the following accounts from October 1, 2016 to September 30, 2017:

Account Category	Account Type	Account Number	Account Description
Out of Town Travel	Meals and Gratuities	77540	Business Travel - Travel expenditures of public servants. It includes transportation by air, rail and sea, bus, taxi and air taxi. It includes highway tolls. It also includes expenses for food and accommodation and incidentals such as tipping.
Other Common Expenses	Course, Conference, Seminars	77660	Conferences - Amounts paid for conference fees. A conference includes a congress or convention or other formal gathering in one location where participants discuss, contribute to or are informed about matters of common interest.
		77550	Training and Staff Development - All fees related to the purchase of training packages and courses of an educational nature from external parties. The primary purpose of courses and training is to enable participants to maintain or acquire skills or knowledge.
		77560	
		77570	
		77580	
	Memberships and Subscriptions	77520	Membership Fees and Dues - Amounts paid for membership fees. Membership fees include payments for corporate, departmental, agency and individual memberships, registrations and licensing with accredited boards, associations, societies and similar professional and technical organizations.
Car Allowance and Parking	Car Allowance	77500	Car and Parking Allowance - Car allowances paid to City employees. Paid through payroll.
	Parking	30997	Parking - Not CPA - Parking costs paid to external service providers (not Calgary Parking Authority).
		30998	Parking - CPA - Parking costs paid to CPA through other means than the monthly billings. Will include purchase of tokens and payment or reimbursement of daily parking amounts.

Given Administration's emphasis on intentionally managing controllable costs over the last two years, we performed trend analysis of expenditures from January 1, 2015 to December 31, 2017.

Out of Scope
For the purpose of this audit, employee expenses charged to the following accounts were out of scope:

- Accounts 30992 and 30993- Meeting Supplies/Refreshments
- Account 30996- Employee Recognition and Awards.

In addition, CCC monitoring processes and controls in the Accounts Payable (AP) division within Finance were considered out of scope since they were covered in an earlier Corporate Credit Card (Data Analytics) Audit- AC2018-0035.

2.3 Audit Approach

The audit assessed the following:

- Compliance to City policies, shared values and the 4Cs by obtaining data through the use of data analytics and selecting a sample of CCC transactions and employee reimbursements (including Petty Cash) coded to the accounts noted above, and reviewing detailed back-up (tests of details). The sample focused on high dollar transactions.
- Effectiveness of the design of controls over employee expense approvals by reviewing the signing authority structure, and related policy.
- Efficiency and cost saving opportunities by evaluating employee expense trends and the use of available financial system functionality.

3.0 Results

The audit sampling approach was non-statistical (judgmental) focused on high dollar transactions. Using data analytics, data was pulled from various systems: PeopleSoft Financial & Supply Chain Management System (FSCM), PeopleSoft Human Capital Management System (HCM), Financial Data Warehouses and the Credit Card System.

We selected the following employee reimbursement and credit card charges as our sample:
- Twenty employee reimbursement claims and five petty-cash reimbursements selected from the accounts listed under the audit scope;
- Twenty CCC transactions selected from the Business Travel Account, which were expanded to include additional related transactions (e.g. if a flight was selected, expanded sample to include the related meal, taxi fare, accommodations) for a total sample of 35; and
- Four mileage reimbursement expenses for the use of personal vehicles to carry out City work.

The total dollar value of the 64 transactions in our sample was $90,441.

3.1 Overall Compliance

All expense charges selected in our test sample complied with City expense policies and aligned with The City's shared values and the 4Cs. In addition, there were no instances of duplicate payments for the sampled CCC transactions, where an employee also submitted an expense reimbursement for the same expense.

<u>Employee Expense Approval</u>
All employee expenses require approval by the employee's supervisor (DeptID Owner). All sampled employee expenses were approved by the appropriate approval authority (one level up). In addition, we tested a sample of ten senior management team CCC transactions to verify expenses were approved by the appropriate DeptID Owner as outlined in FA-010 (D) Accounts Payable- Transactions and Payments, Signing Authority and Authorization. There were no exceptions noted.

<u>Employee Memberships</u>
The City pays for employee professional dues and memberships associated with job roles. Membership fees include payments for individual memberships, registrations and licensing with accredited boards, associations, societies and similar professional and technical organizations. We reviewed a sample from the highest dollar transactions:
- Chartered Professional Accountants (CPA);
- The Association of Professional Engineers and Geoscientists (APEGA);
- The Association of Science and Engineering Technology Professionals of Alberta (ASET); and
- The Alberta Professional Planners Institute (APPI).

We evaluated the consistency of payments to identify instances where additional fees were incurred due to late payments and noted that fees for the sample tested were consistent with expected fees. In addition, we noted that AP batch processed high volume membership payments, which resulted in greater efficiency.

Mileage Reimbursement
Where a mileage reimbursement was claimed, we verified no fuel was expensed on the employee's CCC for the same trip, for a sample of five high dollar transactions. We also verified that mileage claims submitted by senior management who receive a monthly car allowance to cover local travel up to a 100km radius from the City centre were, in all cases, related to out of town travel.

3.2 Policy and Guideline Improvements

In the fieldwork phase of the audit we identified improvements to existing policies and guidelines that will enhance risk mitigation with respect to employee use of personal vehicles in the performance of City duties and consistent course reimbursement practices. Four policies are due for revision, including one of two related to the use of personal vehicles, which we have brought forward to Administration.

Use of Personal Vehicles
Guidance on use of personal vehicles is referenced in two separate Administration policies and in one guide and includes the requirement to complete Form X96 (Travel Plan Insurance Declaration) every three years. We recommended policy updates requiring that employees using personal vehicles for City duties provide a signed Form X96 annually confirming the mechanical fitness of the motor vehicle and provide documentation of appropriate motor vehicle liability insurance and a valid driver's license. (Recommendation #1).

Inconsistent Course Reimbursement Practices
Since our sampling of employee reimbursement expenses focused on large dollar transactions, 11 of 20 samples reviewed related to reimbursements for courses. We identified inconsistent course reimbursement practices with respect to reimbursement percentage, study-days, and commitment to return for work. To promote consistency and transparency, and support One City, One Voice, we recommended that HR review current practices and develop employee development reimbursement guidelines (Recommendation #2).

3.3 Trending

We performed trending analysis of employee expenses from January 1, 2015 to December 31, 2017. As shown in Diagram 1, employee expenses in aggregate decreased by 18% in 2016 and by 12% in 2017. The decrease was not attributed to a reduction in staff levels as these remained relatively consistent from 2015 to 2017 (less than 3% change year-over-year).

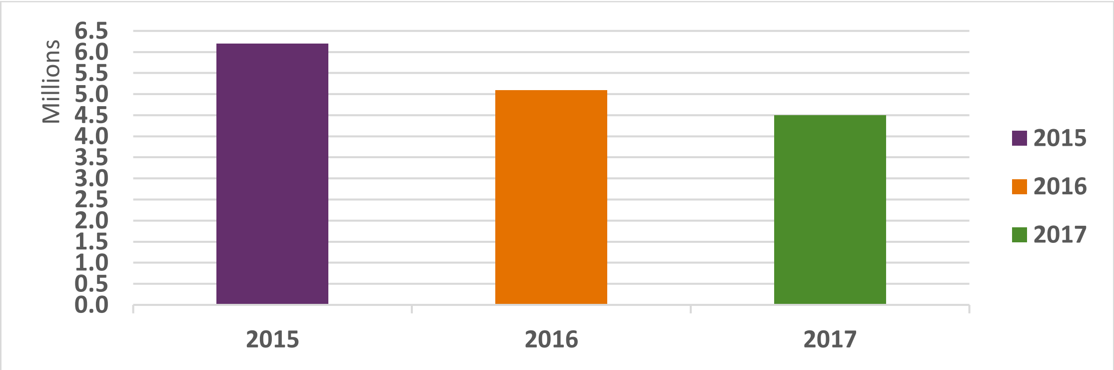

Diagram 1

There was also a significant reduction in expenses from 2015 to 2017 coded to Out of Town Travel (36%), Conferences (39%) and Training and Staff Development (37%). Due to the variability of coding within employee expense accounts and coding errors identified in testing (Section 4.3) we are unable to provide complete assurance over these numbers, however, positive results on an aggregate basis, support the intentional management of controllable costs.

3.4 Efficiency and Cost Saving Opportunities

Throughout the audit we evaluated results to identify efficiency and cost saving opportunities. We recommended the following to enhance the efficiency of employee reimbursement processes by reducing employee input and processing time, reducing the potential for coding errors, and related corrective entry time, as well as the number of expense claim compliance verifications performed. We believe these efficiencies gained and/or opportunities to redeploy resources could be significant.

Automated Employee Expense Claim Workflow

To increase the efficiency and effectiveness of the employee expense process, we recommended that Finance should implement an automated employee expense claim workflow (Recommendation #3). Utilizing the automated expense module included in The City's current financial software, would reduce manual system entry and allow for reallocation of staff to other priorities. In addition, automated forms with built in currency exchange, calculation functionality and account coding controls, will result in reduced review time and fewer errors.

Employee Expense Claim Compliance Verification

When non-compliance is identified by AP staff as a result of employee expense claim verifications, there is no process in place to track and monitor exceptions. In order to identify training and awareness opportunities, we recommended tracking and monitoring non-compliance and recurring errors (Recommendation #4). In addition, we recommended that Finance should implement a risk and sample based employee expense claim verification approach, rather than the current practice of reviewing 100% of claims previously approved by the DeptID Owner.

We would like to thank staff from Finance and Human Resources for their assistance and support throughout this audit.

4.0 Observations and Recommendations

4.1 Use of Personal Vehicles

Employees who use their personal vehicles for City business are required to complete Form X96 every three years. Employees who receive per kilometer (km) reimbursements should complete a relevant signed Form X96 annually to ensure that they have adequate and appropriate motor vehicle liability insurance based on intended business use, a vehicle in sound mechanical condition, and adequate driving privileges. Annual confirmation of these conditions reduces both financial and reputational risk to The City.

We identified 19 employees who received $5,000 or more in per km mileage reimbursements (approximately 10,000km). These claims were cumulative from October 1, 2016 to September 30, 2017. We followed up with the DeptID Owner for four claims to determine if there was a current Form X96 on file (within the past year) and obtained an up to date form for two samples. Pay Services provided up to date forms for the remaining two samples (2016 renewal process).

The requirement to complete Form X96 is referenced in Administration Policies HR-001 (A)-Car Allowance and FA-011 (D)- Reimbursement of Employee Travel, Vehicle, Parking, Insurance, Petty Cash and Other Expenses, and the Local Travel/ Car Allowance Administration Guide (Guide). Although the Guide indicates that Pay Services will coordinate a renewal process of Form X96 every three years, there is no annual requirement for the DeptID Owner to review Form X96 or for the employee to annually reconfirm appropriate insurance and the mechanical fitness of the vehicle. There is also no requirement for the employee to present proof of valid business insurance and driver's license.

Recommendation 1

The Chief Human Resources Officer and the Director Finance/City Treasurer update Policy HR-001 (A)-Car Allowance, Policy FA-011(D)-Reimbursement of Employee Travel, Vehicle, Parking, Insurance, Petty Cash and Other Expenses, and the Local Travel/Car Allowance Administration Guide and associated practices to require DeptID Owners to ensure that:

- Form X96 (Travel Plan Insurance Declaration) is completed annually for all employees receiving per kilometer reimbursements; and
- Employees provide proof of valid business insurance and driver's license.

Management Response

Partially agree.

We believe the 3-year cycle for completion of Form X96 that is currently in place is sufficient due to our value-based culture and the administrative burden that would result from annual completion. We agree there is value in an annual reminder to employees. The implementation of HR's Learning Management System may result in technological advances that would make annual completion feasible in the future.

Action Plan	Responsibility
HR will continue to request completion of the Form X96 every three years. In addition, HR will issue annual communication (e.g. Take5) to leaders and employees reminding them of their responsibilities under the policy and the associated guidelines, including the requirement to have appropriate business insurance and a valid driver's license.	Lead: Manager, HR Support Services Support: HR Leader, Corporate Pay Commitment Date: December 31, 2018

City Auditor's Response
An annual reminder to employees and DeptID Owners will raise awareness and may reduce the risk exposure in the short term. We advise HR to periodically reassess the related risk exposure and consider alternative risk mitigation solutions as appropriate.

4.2 Inconsistent Course Reimbursement Practices

City practices to reimburse employees for courses vary across the organization. The City should establish employee course reimbursement guidelines to support consistent practices and One City, One Voice. Adopting consistent practices will support transparency and reinforce an equitable approach to employee course support and reimbursement. If the financial investment in the course is significant, practices could include reimbursement only on successful completion.

Eleven of 20 ($34,116) expense claims reviewed related to payments for external courses, three ($14,662) of which were related to one semester of Master of Business Administration designation. The reimbursement percentage and other incentives (e.g. study-days) were not always formally documented and in some instances were verbally discussed and approved. We noted that for our sample:

- Eight completed Form X35 (Training Application), which outlined the expected return to work commitment.
- One department in our sample utilized a Management Development Programs (MDP) form, which included criteria to assess the percentage reimbursement, study-days and return to work commitment.
- There were varying practices with respect to the percentage reimbursed (from 55% to 75%).
- One case included authorized employee work time to complete course assignment requirements.

Recommendation 2
The Chief Human Resources Officer review current reimbursement practices for employee development and develop City of Calgary guidelines to support consistent practices.

Management Response

Agree.

Action Plan	Responsibility
Corporate guidelines will be provided to assist in decision making on reimbursement practices. Our review of current reimbursement practices will include elements such as the amount and timing of reimbursements and best practices.	Lead: Manager, Talent Development Support: Lead, Learning and Development Commitment Date: December 31, 2019

4.3 Automated Employee Expense Claim Workflow

The employee expense claim process is manual and does not leverage the available FSCM Expenses Module. Finance should use an automated workflow, which will improve the efficiency and effectiveness of the expense claim process and the utilization of AP resources. In addition, an automated workflow may reduce the risk of errors inherent in a manual process.

Currently, employees manually fill out the expense claim form and forward to their DeptID Owner for review and approval. The form is then sent to AP where AP analysts enter each claim into FSCM.

We identified three coding errors in our sample of 20 employee expense claims related to employee relocation expenses that were charged to the Business Travel Account (77540). Two of the samples were not subsequently reversed. AP advised that they do not check account coding since accurate account coding is the responsibility of the employee and the DeptID Owner.

The City's financial software, FSCM, includes an automated expense module. Utilizing this module will result in the elimination of AP analyst data entry time which will allow the reallocation of resources to other high priority activities. Automated forms with built in currency exchange, calculation functionality and account coding controls, will result in reduced review time and fewer errors. This module will also provide AP with the ability to generate reports to better understand employee expenditures and increase monitoring effectiveness as a result of improved coding.

Recommendation 3

The Manager of Tax, Payables and Receivables should implement the automated Expenses Module, which is part of the existing PeopleSoft Finance and Supply Chain Management system.

Management Response

Agree.

Action Plan	Responsibility
a) Accounts Payable will evaluate implementing the Expense Module in The City's financial software, FSCM. b) If implementation of the Expense Module in FSCM is not feasible, Accounts Payable will evaluate other options to enhance the existing employee expense claim process. c) Contingent upon the identification of options to enhance the existing employee expense claim process, Accounts Payable will implement enhancements identified.	Lead: Finance Leader, Accounts Payable Support: Information Technology Commitment Date: a) September 30, 2018 b) March 31, 2019 c) June 30, 2019

4.4 Employee Expense Claim Compliance Verification

There is no tracking or monitoring of expense claim trends identified during compliance verification of employee expense claims. Tracking and monitoring of trends supports the identification of global training and awareness opportunities. In addition, AP analysts verify 100% of expense claims for compliance. Employee expense claims should be verified using a risk based approach that focuses on coverage across the organization as well as high dollar transactions, which will allow AP to reallocate staff to high priority activities.

When AP analysts enter each claim into FSCM they review the details of the claim and validate compliance to Policy FA-011 (D)- Reimbursement of Employee Travel, Vehicle, Parking, Insurance, Petty Cash and Other Expenses, FA-016 (E)- Accounts Payable Corporate Credit Card, and Policy FA-048 (B)- Reimbursement of Meal and Hosting Expenses. From October 1, 2016 to September 30, 2017, AP entered and verified approximately 1,000 employee expense claim forms, which may include multiple expenses. When non-compliance is identified, AP notifies the employee or the DeptID Owner. There is no tracking or monitoring of expense claim trends (e.g. non-compliance, recurring errors).

AP's practice is to verify employee expense claims when entering the claim in FSCM. Employing a risk based approach will increase efficiencies by enabling AP analysts to track and monitor expense claim trends.

Recommendation 4

The Manager of Tax, Payables and Receivables should:

a) Track and monitor employee expense claim trends to identify and communicate training and awareness opportunities to the organization; and
b) Implement a risk based approach to the existing employee expense claim verification process that reduces the number of verifications.

Management Response

Agree.

Action Plan	Responsibility
a) Accounts Payable will evaluate processes to track and monitor expense claim trends and identify opportunities to communicate training and awareness to the organization. b) Contingent upon the implementation of process enhancements identified in Management Response 3c) evaluate implementing a risk-based audit approach to the employee expense claim verification process that reduces the number of verifications.	Lead: Finance Leader, Accounts Payable Support: Internal Controls and Risk Management Commitment Date: a) December 31, 2018 b) June 30, 2019