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ATTACHMENT
ISC: UNRESTRICTED

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June 3, 2020

Ms. Carla Male, Chief Financial Officer
The City of Calgary
800 MacLeod Trail SE
Calgary, AB T2P 2M5

Dear Ms. Male:

We have recently completed our audit of the consolidated financial statements of The City of Calgary ("The City") for the year ended December 31, 2019.

We examined the accounting procedures and systems of internal control employed by The City. Our examination would not necessarily disclose all weaknesses in the systems of internal control as these examinations are based on selective tests of the accounting records and related data. Furthermore, this letter does not necessarily include all of those comments of an accounting, internal control or computer systems nature which a more extensive or special examination of these areas might disclose.

We did not identify any matters that would be of interest to Administration resulting from the 2019 audit. We have however, included in this letter an update to observations we identified during the prior years' audits. Our update to the prior years' observations is based on procedures we performed during the 2019 audit.

These matters were not significant or material in nature in the context of the December 31, 2019 financial statements taken as a whole and did not impact our ability to issue our audit opinion. Please note that this letter is a by-product of the audit and therefore, may not include all items that are of interest to Administration.

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 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

Update to December 31, 2018 and 2017 year-end observations

1. Review of deferred revenue recognition accounting policies and processes and training at the business unit level

Year Identified – 2018 (and 2017 carried forward)

Observation:

The City's accounting and financial reporting processes require significant effort, coordination and communication between Portfolio Finance and the Corporate Financial Reporting ("CFR") team. It is important that there is timely performance of internal controls and processes that ensure complete and accurate accounting at the business unit level for the preparation of accurate annual consolidated financial statements. Due to the decentralized organizational structure of The City, each Portfolio Finance Team is responsible for material complex accounting transactions that have a significant impact on the City's annual consolidated financial statements. Thus, it is important that internal controls are operating effectively at the business unit level. Furthermore, it is important that business unit finance personnel have the appropriate level of in-depth knowledge and technical expertise of financial accounting and reporting matters to ensure timely and accurate financial reporting.

The City restated the 2017 financial statements as a result of a material misstatement identified by Administration for the accounting of revenue relating to capital deposits. Administration advised that the restatement was the result of a delay in review of capital projects financing deficits. Through discussions with business unit personnel, CFR and performance of audit procedures, we understand that there were internal controls that existed around capital project financing deficits, however they were either not designed appropriately or did not work as intended. Following the restatement, we do note that Administration has developed and implemented new controls and procedures to prevent/detect future misstatements relating to capital deposits (these will be subject to audit testing during the fiscal 2019 audit).

Recommendation:

While the restatement was related to certain business units, our recommendations below apply to all business units which are responsible for material, complex deferred revenue transactions:

Review of revenue recognition policies and processes

1. As the restatement related to accounting for capital deposits, reserves and revenue, we recommend Administration perform a review of revenue recognition policies and procedures to ensure internal controls designed to prevent and detect misstatements are operating effectively and there is compliance with internal policies and related accounting guidance.
2. As the City formally prepares consolidated financial statements on an annual basis, operational activity during the last three months of the fiscal year is high. We recommend that Administration perform a review of the annual processes that impacts revenue recognition to ensure these are being completed in a timely manner and any gaps in internal controls are rectified.

Training at the Business Unit level

3. We understand that due to the organizational structure of finance personnel roles, several individuals could be responsible for performing part of the accounting of a full transaction. As such, we recommend the following:
   - All individuals responsible for the accounting of a full transaction for capital deposits or reserves are included in the training sessions to understand the full accounting cycle and implication on the financial statements.
   - Training continues to be held on a regular basis (versus one time) during the year to ensure accounting processes and procedures are fully understood at the business unit level.
   - Training be conducted on a timely basis for individuals new to the role due to staffing changes.

Recommendations carried forward from fiscal 2017, MLP #1:
The December 31, 2017 management letter included recommendations relating to capital deposits and Administration's response in January 2019 was as follows: "*During 2018, Administration reviewed current processes and procedures, to ensure consistent application and has developed a work plan for 2019 using a risk-based approach to ensure there is consistency and full compliance with the accounting guidance".* The recommendations from 2017 have been carried forward as part of the 2018 recommendation given that both our 2017 and 2018 recommendations relate to capital deposits:

4. The business unit conduct 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);
5. All contributions have written agreements; and
6. All contributions are used in accordance with the stipulations as per the original agreements.

Administration's response:
Administration agrees with the recommendations. To strengthen financial reporting throughout The City a work plan will be developed in 2019 and the following actions will be considered:

1. Administration will perform a review of revenue recognition accounting policies and processes to ensure internal controls are designed to prevent and detect misstatements and they are operating effectively and in compliance with internal policies and related accounting guidance.
2. Administration will perform a review of the annual processes that impact revenue recognition to ensure these are being completed in a timely manner.
3. Administration will work to develop training programs for new and existing staff to ensure the appropriate level of knowledge and technical expertise of financial accounting and reporting matters to ensure timely and accurate financial reporting.
4. Addressed through action #1.
5. Administration will ensure that processes are in place for having written agreements for all contributions.
6. Addressed through action #1 as this is part of revenue recognition standards.

Auditor's update January 2020 (based on 2019 interim audit procedures):
We held discussions with Administration and reviewed the work plan implemented by Administration in fiscal 2019. We note that during fiscal 2019, Administration has implemented processes to address this recommendation as indicated in Administration's response below. Through these discussions and review of the work plan, we understand that the work plan was partially implemented in fiscal 2019, in accordance with the implementation plan, and will continue to be implemented through fiscal 2020. During our year-end fieldwork, we will apply audit procedures as applicable (relating both to internal controls and detailed testing as well as new processes implemented in 2019) and will report any deficiencies or further recommendations to Administration and the Audit Committee upon completion of the 2019 year-end audit. As Administration's work plan will be implemented through fiscal 2020 we will continue to work with Administration in addressing this recommendation in the next fiscal year.

During fiscal 2019, we have also expanded our testing on the offsite levy balance, which is part of the capital deposits balances. We will complete our testing in March 2020 and report back to Administration and the Audit Committee.

Administration's response January 2020 (based on November 2019 interim audit procedures):
Administration continues to agree with these recommendations. During 2019, Corporate Financial Reporting developed a work plan to address the recommendations and started work to mitigate the risk of revenue recognition misstatements going forward. Actions taken during 2019 include:

a. Leveraged the Hyperion tool to import monthly PeopleSoft actual expenditures and financing entries and refresh the carry-forward balances from all approved capital budgets. Business unit

Finance provides a copy of the carry-forward form three times per year indicating that analysis has been performed and financing entries, where appropriate have been recorded. This ensures that funding for capital projects are recognized in the correct period. This detective control improvement partially addresses recommendations #1, 2 and 4.

b. Using a risk-based approach, business units were analyzed and prioritized based on two factors: their relative deferred revenue balance and prior year restatement amounts. Corporate Financial Reporting worked with Portfolio Finance and Portfolio and Strategy in 2019 to understand historical processes and procedures, identified gaps in process and procedures and developed new controls to address these gaps. This work will continue in 2020 to ensure that all business units' processes and procedures are reviewed to mitigate the risk of revenue recognition misstatement going forward. This work partially addresses recommendations #1, 2, 5 and 6.

c. Corporate Financial Reporting held sessions in May, September and December which included information about the new detective control for financing deficits. This provided Portfolio Finance with an understanding of the new control, its purpose and how it can detect issues pertaining to the recognition of funding. This work partially addresses recommendation #3.

d. During 2019, Operations developed new processes and requirements to ensure that Development Agreements are signed on a timely basis. Starting in 2020, a Developer can only receive a Development Agreement if they have agreed to the "Terms and Conditions" (also known as the Master Development Agreement) between the City and the Developer. The Master Agreement discusses the administrative duties, offsite levy rates, application for certificates, maintenance periods and general provisions. The Master Agreement also details the obligations that the City requires of all land developers to follow. This work addresses recommendation #5.

e. Corporate Financial Reporting, Portfolio Finance and Portfolio and Strategy have been limited by resource constraints in 2019 but are committed to the review of processes and procedures including internal controls to ensure that revenue recognition is occurring in a timely manner.

Auditor's update June 2020 (based on 2019 year-end audit procedures):

During fiscal 2019, Administration made significant progress in regards to the recommendations relating to revenue recognition of capital deposits identified during 2018 and 2017 audits based on their work plan.

Administration began reviewing revenue recognition policies and processes and implementing new controls across priority business units (as identified by Administration) in 2019. The most significant of these new controls is the carry-forward form control for financing deficits. We performed an evaluation of the design and implementation of the new carry-forward form control for financing deficits on a test basis, noting appropriate steps are being taken to ensure this new control is designed and implemented effectively. Based on Administration's work plan, in 2020, Administration plans to review the remaining business units' revenue recognition policies and procedures and implement new controls.

Administration also held multiple training sessions in 2019 regarding revenue recognition of capital deposits. As part of our audit procedures, we noted that the training session materials and topics included additional information relating to capital deposits, such as the new carry-forward form control for financing deficits.

New processes and requirements regarding Master Development Agreements will begin in 2020. Based on our 2019 year-end audit procedures performed, we noted that all agreements we selected for testing had a corresponding written agreement.

During the fiscal 2019 audit, we also expanded our testing on the offsite levy balance, which forms part of the capital deposits balance. We performed additional internal control walkthroughs to better understand Administration's processes and we designed more robust substantive procedures to ensure offsite levies which formed part of our audit selections were recognized appropriately. Based on our testing performed, no misstatements were identified.

The following summarizes our update to the prior years' recommendations:

Recommendation #	Status	Update and Completion Timeline
1, 2, 4, 5 and 6	In progress	Consistent with Administration's work plan, these recommendations are still in progress as the recommendations were not applied across all business units in 2019. In 2020, Administration plans to review the remaining business units' revenue recognition policies and procedures and implement new controls. For recommendation #5, the new process for Master Development Agreements will also commence in 2020. We will evaluate the design and implementation of the new policies and procedures during our 2020 year-end audit procedures and will report any deficiencies or further recommendations to Administration and the Audit Committee.
3	Addressed	Recommendation satisfactorily completed in 2019.

Administration's response:

Administration continues to agree with these recommendations. During 2020, Corporate Financial Reporting will continue the work plan developed in 2019 to address the recommendations to mitigate the risk of revenue recognition misstatements going forward. Actions taken include:

a. As discussed in the January update above, Corporate Financial Reporting and the Corporate Budget Office successfully leveraged the Hyperion tool to import monthly PeopleSoft actual expenditures and financing entries and refresh the carry-forward balances from all approved capital budgets. Portfolio Finance provides a copy of the carry-forward working paper three times per year indicating that analysis has been performed and financing entries, where appropriate have been recorded. This detective control improvement ensures that funding for capital projects are recognized in the correct period and continues to partially address recommendations #1, 2 and 4.
b. Using a risk-based approach, business units were analyzed and prioritized based on two factors: their relative deferred revenue balance and previously restatement amounts. In 2020, Corporate Financial Reporting will continue to work with Portfolio Finance to understand historical processes and procedures, identify gaps in processes and procedures and develop new controls to address these gaps. This work will ensure that all business units' processes and procedures are reviewed to mitigate the risk of revenue recognition misstatement going forward. This work partially addresses recommendations #1, 2, 4, 5 and 6.
c. During 2019, Operations developed new processes and requirements to ensure that Development Agreements are signed on a timely basis. Starting in 2020, a Developer can only receive a Development Agreement if they have agreed to the "Terms and Conditions" (also known as the Master Development Agreement) between the City and the Developer. The Master Agreement discusses the administrative duties, offsite levy rates, application for certificates, maintenance periods and general provisions. The Master Agreement also details the obligations that The City requires all land developers to follow. The 2020 Development Agreement negotiations were finalized in early 2020, and the new process of signing and sealing the development agreements, including terms and conditions and special clauses, are now part of the formal process. This work addresses recommendation #5.

d. Corporate Financial Reporting and Portfolio Finance continue to be limited by resource constraints. In 2020, further constraints have arisen as a result of the COVID-19 pandemic and could cause delays in execution of the work plan. We remain committed to the review of processes and procedures including internal controls to ensure that revenue recognition is occurring in a timely manner. An assessment of progress against the work plan will be performed in September 2020. We will prioritize this work as much as possible in the current environment and if required, a revised work plan will be presented to Audit Committee on October 22, 2020.