Deloitte.

June 8, 2016

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, 2015. During the course of our December 31, 2015 audit, we identified certain matters that may be of interest to Administration which have been summarized in this letter. These matters were not significant or 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, 2015 observations are included in Appendix A attached to this letter.

The accompanying observations and recommendations also include an update to matters identified during our prior year-end audits, included as Appendix B. As was communicated in our update to the prior year management letter presented at the January 21, 2016 Audit Committee meeting, we note that Administration is in the process of implementing recommendations from the prior years' management letters relating to Tangible Capital Assets ("TCA") accounting balances and related processes. We support Administration's continued efforts to implement the recommendations that were issued in the prior years' management letters, as well as their broader initiatives established in the TCA Project Charter.

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, 2015 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, Chartered Accountants

cc: The Audit Committee of The City of Calgary

Appendix A - December 31, 2015 year end observations

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, 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, 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.

2. *Adopt and implementation of new accounting standards*

Year Identified – 2015

Observation:
We note that there are several new accounting standards required to be implemented by The City in upcoming fiscal years, some of which are highly complex and will be quite time consuming to adopt and which may impact a number of business units (e.g. PS 3450 - *Financial Instruments* ("PS 3450")). PS 3450 is required to be adopted for the year ending December 31, 2020. During the performance of our 2015 audit procedures, we noted adoption and implementation issues with PS 3260. There is a risk that similar issues could occur for the upcoming new accounting standards.

Recommendation:
We would strongly encourage Administration to commence the process of implementation of the new standards well in advance of the formal adoption date. We would recommend that a work plan be implemented for all new accounting standards which includes the roles/responsibilities of those business units and corporate financial reporting personnel, deliverables and key internal reporting deadlines to ensure the adoption of these standards is fully completed to meet the fiscal year-end implementation requirements. It would be highly beneficial to involve the Corporate Financial Reporting team with the applicable business units to ensure implementation of the new standard is complete and in accordance with the applicable standards.

Administration response:
Administration agrees with this recommendation. Corporate Financial Reporting, in collaboration with the external auditor, will continue to develop an on-going comprehensive work plan for new accounting standards required to be implemented in 2017-2020, by the end of fiscal 2016. This work plan will include an assessment of roles/responsibilities of business units and the Corporate Financial Reporting team, timelines of when each new standard will be assessed, as well as expected deliverables. Business unit engagement strategies such as training sessions will continue to be delivered in 2016 and beyond for accounting standards being implemented in the fiscal year.

3. Communication between business units and Corporate Financial Reporting

Year Identified – 2015

Observation:
The City's accounting and financial reporting processes require significant effort, coordination and communication between the business units and the Corporate Financial Reporting team. We observed many 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. We also note that there is inconsistency in the application of accounting standards at the business unit level. Finally, certain material agreements entered into by business units were not communicated to the Corporate Financial Reporting team on a timely basis. As such, there is a risk that policies and procedures are not implemented as intended or that material agreements are not accounted for appropriately or on a timely basis within the year-end financial statements.

This was evidenced by the following matters identified during our 2015 audit procedures:

a. In the prior year we had communicated an observation relating to the timely removal of terminated employees from PeopleSoft. "Take 5" notices were sent to all business units in 2015, indicating the expectation of communication between the business units and Human Resources and/or Payroll Services of employee terminations as soon as the business unit was aware of an employee termination and in any event no later than the last day worked. However, based on our audit procedures performed in 2015, 6 out of 25 terminations selected for testing indicated that this communication was not completed by the applicable business unit within the timeframe outlined. Accordingly, the control to ensure timely removal of terminated employees has not been implemented nor is it operating effectively, as business units are not communicating employee terminations in a timely manner to Human Resources;

b. Certain business units are unaware of the accounting and financial reporting implications relating to related authority and inter-entity transactions. For example, the Roads business unit did not appropriately account for transactions with Calgary Municipal Land Corporation ("CMLC"), as Roads was not aware that CMLC is a subsidiary of The City, which required the 2014 consolidated financial statements to be adjusted. The necessity of this knowledge at the business unit level is paramount to accurate financial reporting;

c. Legal assessments and reviews by the law department were not completed in a timely manner. For example, through the implementation of PS 3260, one of the factors that may have resulted in delays in the implementation of this new standard was the untimely review of the legal assessment relating to this standard by the law department, which subsequently may have caused delays in the ESM business unit completing its part of the analysis, ultimately resulting in an impact on the Corporate Financial Reporting team and the overall implementation of this standard;

d. The Recreation business unit implemented its own policy relating to betterments (TCA costs that are capitalized vs expensed) which is inconsistent with The City's TCA policy; and

e. The Corporate Financial Reporting team was not engaged to review the public-private partnership ("P3") Agreement entered into by The City before it was finalized (refer to observation #4) on a timely basis by the applicable business unit.

Recommendation:

We recommend that:

a. All business unit supervisors follow The City's policy to inform Human Resources of terminated employees on a timely basis (e.g. prior to last day of work);

b. Corporate Financial Reporting team hold information sessions with the Finance Leads and Finance Service Leads of all business units to provide clarification and further information regarding accounting matters;

c. Accountability and adherence to deadlines and timelines be enforced. Administration should consider if it is possible for the Corporate Financial Reporting team to be granted authority to enforce deadlines related to the preparation of annual financial statements as well as other key financial reporting deadlines (i.e. – May periodicals), as well as any other matters (such as new accounting standards) that have a financial and reporting impact; and

d. Administration formalize a process to ensure appropriate and timely communication between all parties. This could include a monthly meeting between all business unit finance leads, Corporate Financial Reporting team and other relevant stakeholders to discuss significant events, unusual transactions, new contracts entered into, operational overview and other new business that may have an overall financial reporting impact to The City as a whole.

Administration response:

Administration agrees with the recommendations. To strengthen overall communications throughout The City, the following actions will be considered:

a. Administration notes that there are appropriate controls in place that address observation a, while timely communication of terminated employees was identified as an area for improvement, The City does have mitigating controls in place to ensure that terminated employees do not continue to receive salaries and wages. Employee status changes are monitored through the use of:

   - Biweekly reviews of employee action reports to eliminate terminated employees' scheduled time from the payroll system; and
   - Completion of randomized monthly audits by Human Resource specialists to confirm review of employee actions.

   Further, Administration reports that we are not aware of any overpayments made to terminated employees during fiscal 2015. Administration agrees that business unit supervisors should follow The City's policy to inform Human Resources of terminated employees on a timely basis. Administration will continue to monitor existing processes for changes in employee status and communicate any changes or clarification as needed to business units in the event that further action is required;

b. Corporate Financial Reporting will continue to provide training in 2016 to Finance personnel that specifically addresses accounting treatment for intercompany transactions and related entities, as well as any changes to accounting and financial reporting standards. Consistent with current processes, Finance Leads and Finance Service Leads will be identified as key personnel that are required to attend the training sessions and presented materials will also be made available on The City's intranet for ease of access;

c. Corporate Financial Reporting, UEP Finance, ESM and Law agree that it is important to have PS 3260 legal assessments and reviews completed in a timely manner. As part of the work plan identified in response #2, this working group will establish clear deadlines for the review and legal assessment by the law department of PS 3260 sites to ensure completion of implementation of this standard;

d. Administration recognizes the importance of accountability and adherence to deadlines and timelines for financial reporting purposes and the implementation of new accounting standards; the Chief Financial Officer will work with Administration to further enforce this recommendation;

e. The Corporate TCA project is continuing to develop process improvements to increase the consistency of how TCA is reported and accounted for. The TCA project and program will communicate process changes, as well as the importance of complying with The City's TCA reporting policy through the use of internal communications and training sessions in fiscal 2016;

f. Administration recognizes the importance of reviewing P3 agreements, as well as other significant contracts, to support annual financial reporting requirements. As will be discussed in Administration's response to observation #4, the Corporate Financial Reporting and Corporate & Innovative Financing group will involve relevant business units and corporate functions to develop a communications strategy in 2016 to ensure existing and future P3 agreements are reviewed and assessed on a timely basis; and

g. Administration agrees that regular communication is important to ensure that the corporation is aware of financial reporting changes and impacts. As a result, the Corporate Financial Reporting team is considering new ways to improve the overall communication between business units and corporate functions:

- The Corporate Financial Reporting team will continue to meet with business units and corporate functions in May, September and December 2016 to discuss operational and financial changes as required;
- A pilot TCA network is being developed by the Corporate TCA project to allow The City to exchange TCA best practices in 2016; and
- Corporate Financial Reporting will continue to provide training and updates on a regular basis to business units throughout the year to ensure that accounting policies and standards are being consistently applied by all business units.

4. Major contract review by Corporate Financial Reporting

Year Identified - 2015

Observation:
The City has started to enter into significant contracts that have both operational and accounting and financial reporting implications. During 2015, The City entered into its first P3 relating to The City Composting Facility Project. While the contract itself was effective June 2015, a complete accounting and financial reporting analysis had not been completed by the Corporate Financial Reporting team and related business unit prior to finalizing the contract itself or during the finalization of the 2015 year-end financial statements. Since the contract commenced in June 2015 and the facility was in early stages of construction, the impact on the 2015 year-end financial statements was limited and not material. However, as construction progresses, the agreement terms and milestones established in the agreement related to The City's obligations become increasingly complex, and accordingly the impact on the 2016 and 2017 year-end financial statements may be material.

We further note that P3 agreements are a fairly recent type of arrangement for The City. These agreements are unique (no two P3 agreements are the same) and may include many different types of arrangements (e.g. design, build, maintain and finance) 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 As there is currently no specific accounting standard under PSAS which provides accounting and financial reporting guidance, an entity is required to complete its own analysis specific to the agreement entered into in conjunction with existing accounting standards.

Recommendation:
We recommend a complete and thorough analysis be completed of the P3 agreement entered into by The City during fiscal 2015 to determine the full impact on future fiscal year ends impacted by the agreement. A complete analysis would include establishing a team of both operational and Corporate Financial Reporting personnel to review the terms of the P3 agreement to fully comprehend the accounting and financial reporting matters as well as establish set deadlines for the completion of the review, preparation of related documentation and analysis of the agreement to determine the accounting and financial reporting implications.
We also understand through discussions with Administration that there may be similar P3 agreements being entered into in the upcoming years. We recommend that a member of the Corporate Financial Reporting team be involved in all major contracts to ensure that there is a complete understanding of the accounting and financial reporting implications. An in-depth review and analysis of the accounting and reporting implications should be completed prior to the finalization of these contracts.

Finally, we recommend that Administration consider implementation of a policy or process whereby all significant contracts/agreement having a financial reporting impact are stored on a shared folder or database to be easily accessed by either the Corporate Financial Reporting team or relevant business units, as applicable.

Administration response:
Administration agrees with this recommendation. Corporate Financial Reporting will meet with the Corporate & Innovative Financing group on a quarterly basis to obtain updates about P3 arrangements and develop a comprehensive work plan in 2016 to:
a.   Strategize the assessment of each P3 agreement; and
b.   Identify corporate functions and business units that will need to be consulted as part of Administration's analysis.

Corporate Financial Reporting will review the 2015 P3 agreement for the organics composting facility by August 2016 to determine the appropriate accounting and financial reporting treatments. P3 agreements will be reviewed on a timely basis in 2016 and subsequent fiscal years, if needed. Administration will also encourage cross sharing of information between business units and the Corporate Financial Reporting team to ensure that relevant agreements are reviewed and Administration will further evaluate the current process for accessibility of all significant contracts/agreements that have a financial reporting impact.

5.   Consolidation

Year Identified - 2015

Observation:
The City's consolidated financial statements include the consolidation and elimination entries relating to four funds (operating, capital, tangible capital asset and the reserve fund) and 10 related entities as noted below:
•   Attainable Homes Calgary Corporation
•   Calgary Convention Centre Authority
•   Calgary Municipal Land Corporation
•   Calgary Parking Authority
•   Calgary Public Library Board
•   Calhome Properties Ltd.
•   Calgary Economic Development Ltd. (CED)
•   Calgary Film Centre Ltd. a subsidiary of CED
•   Calgary Arts Development Authority Ltd. (CADA)
•   cSPACE Projects a subsidiary of CADA

Currently, Administration uses a spreadsheet to prepare The City's consolidated financial statements, which includes approximately 108 elimination and consolidation entries resulting in a very complex consolidation exercise. The use of spreadsheets for a highly complex consolidation is not a best practice, as the use of a spreadsheet inherently increases the risk of errors relating to formulas, calculations or simple human error (unintentional deletion or incorrect data entry) which may go undetected by the preparer or reviewer.

Recommendation:

We recommend that Administration implement an automated process relating to the preparation of the consolidated financial statements. For example, a dedicated consolidation information technology software should be utilized (i.e. SAP, Hyperion).

Administration response:

Administration agrees with this recommendation. Currently, there are sufficient internal controls in place in completing the consolidation, however, Corporate Financial Reporting will review the current consolidation process in 2016 for additional improvements and consider the available options for the implementation of an automated process for the future. Corporate Financial Reporting recognizes that given the nature and size of The City, including its related authorities, an automated process for the consolidation would result in efficiencies. Corporate Financial Reporting will leverage knowledge from across the corporation, External Auditor's and Software Vendors to ensure that an effective and efficient solution is achieved to satisfy the need for an automated consolidation process by the end of fiscal 2017.

6. *Transfer of data between information technology systems*

Year Identified - 2015

Observation:

As part of our audit testing of the local improvement levy revenue, we tested the transfer of information between the local improvement levy system and the property tax web application system ("PTWEB"). We noted that information from the local improvement levy system such as roll number, amount of the levy and residential address, is downloaded to an "XML" file and saved to a secured network folder which could potentially be accessed by any employee of The City. This information is then uploaded into PTWEB and forms part of the total property taxes due to The City by the taxpayers. As the "XML" file is unsecured, there is a risk that the data could be manipulated or accessed by unauthorized individuals (i.e. information may be deleted or changed). Through our audit testing, we were not able to determine if this folder had been accessed or information changed. Further, as the information is stored on a network folder, it is difficult to determine if there was any unauthorized access to the information.

Recommendation:

We recommend that Administration restrict access to the network folder to only those individuals within the Local Improvement Levy department and the PTWEB department that require access to this information.

Administration response:

Administration agrees with this recommendation. Administration recognizes the importance of securing sensitive information and that only authorized individuals have access to ensure that the integrity of the information is maintained. While there is some level of security over system files and access, Information Technology and Finance recognizes that these folders require further restrictions and therefore the network folder access will be reviewed and restricted access will be implemented to the appropriate individuals requiring access by July 2016.

7. *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.

Appendix B - December 31, 2014 Year End Observations – Update for 2015 year end

#	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". In 2014, we noted that a review of project costs, accruals and work in progress was occurring within each business unit. However, some business units are reviewing this information on a monthly basis whereas other business units are completing this review quarterly or semi-annually. There is lack of consistency relating to the timeliness of this process amongst business units and as a result, there may be a risk that there is a large volume of information for business units to process at year-end resulting in possible errors that could be rectified earlier. 2015 Update: In 2015, we noted that some business units are still reviewing this information quarterly or semi-annually. We also noted that some business units are analyzing WIP on a project versus an invoice level. This results in errors upon completion of the projects as invoices are all entered as capital as the project is in progress. However, upon completion of the project and actual review of the individual invoices that make up the project, some items are then deemed to be non-capital in nature and are required to be expensed.	We recommend that (new recommendation from 2014): • 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. 2015 Update: We continue to recommend a review of project costs, accruals and work in progress on a monthly basis. In addition, we recommend that work in progress analysis should be completed on an invoice level and not a project level.	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 2016) Administration continues to agree with this recommendation. During 2015, the TCA project team has started a review to determine a consistent process to be applied on accounting for TCA costs and capital expenditures. Administration update (June 2016) Administration continues to agree with this recommendation. In 2016, the TCA program (includes the TCA Costing project, Corporate TCA project and TCA Finance) was established to allow The City to develop a uniform TCA solution. The TCA program will continue the TCA project's efforts in ensuring the timely review of WIP.	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 2016) The TCA project team continues to assess the capital project review process and the decision of the appropriate process to be implemented will be made in 2016. Administration update (June 2016) The first phase of the TCA program's assessment of the capital project review process will be completed in Q3 2016.	City Treasurer, Director of Finance In progress

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". In 2014, we continued to note that there exists delay in the "hand-off" of TCA assets between business units. As such, there may be an increased risk that business units could be recording the same TCA costs twice due to the time delay noted in the "hand-off" of projects.	We continue to 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.	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 2016) Administration continues to agree with this recommendation. The TCA Project team has begun reviewing the multi-BU multi-year process to determine a consistent approach and a formalized process.	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 2016) The TCA project team continues to assess the process and the decision of the appropriate process to be implemented will be made in 2016.	City Treasurer, Director of Finance In progress
			2015 Update: In 2015, we noted that there are still delays in the hand-off of assets between business units.	2015 Update: We continue to recommend a formalized process of "hand-off packages". We recommend that an automated process be implemented to account for transfer of TCA assets between business units. A review of all transfers should be completed on a monthly basis as part of an overall TCA checklist for completeness and accuracy.	Administration update (June 2016) Administration continues to agree with this recommendation. The TCA program finalized preliminary findings for the multi-BU multi-year process. The TCA program will start a comprehensive assessment of existing processes in Q3 2016.	Administration update (June 2016) System and process improvements will be completed and in place for projects starting in 2017.	
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". In 2014, we noted that there remains reliance on the asset management systems as part of the process for TCA accounting. In addition, we noted that some business units rely on the LINDA system to identify any donated land in the year. The information within the LINDA system initiates with the	We continue to recommend that: • TCA accounting and reporting be linked to invoice costing, as opposed to asset management systems; and We recommend that: • 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.	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 2016) Administration continues to agree with this recommendation. Understanding the benefit of TCA linked to an invoice costing tool is continually being	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 2016) The TCA Costing System project was approved on November 5, 2015 with an	Finance Manager, Corporate Financial Reporting In progress

| | | | 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. | | assessed by Administration. As a result, the TCA Costing System project (an invoice costing tool) was approved on November 5, 2015 with an anticipated implementation date of April 2017.

Administration agrees with this recommendation. The TCA finance team plans to look into the land and land improvement components starting Q4, 2016 and work to develop a framework in seeking an ultimate solution. During the 2015 year, additional controls have been put in place in identifying the more reliable source of donated land information and reconciling discrepancies noted in a timelier manner. | anticipated implementation date of April 2017.

Process improvement controls in relation to donated land continues to be assessed in 2016. | |
| | | | 2015 Update: In 2015, we noted that the Roads business unit determines their TCA disposals based on when the asset replacement is loaded into the Geographic Information System ("GIS") based on record drawings. The record drawings being used to update the disposals within the TCA ledger are not being received on a timely basis. The record drawings are provided by the contractors and developers to the Transportation Infrastructure ("TI") business unit. TI then provides these record drawings to the Roads business unit. As the process is multi step and results in delays, there is a risk that TCA disposals are not complete as at period end. | 2015 Update: We continue to recommend the above noted recommendations. We also recommend that an alternative source of determining when disposals occur should be vetted. | Administration update (June 2016)

Administration continues to agree with the recommendations.

In 2016, the TCA program introduced automated disposal processes for Buildings. Similar process changes will be considered and implemented for the remaining asset categories.

The TCA program has started its overall assessment of system requirements (i.e. invoice costing tool) to support the TCA reporting process in 2016. Administration continues to anticipate the final implementation of the new system by April 2017.

The TCA program has initiated its collaboration with business units in reviewing potential solutions for land and land improvements. As noted in Administration's January 2016 update, the detailed review of existing processes will occur in Q4 2016. | Administration update (June 2016)

The TCA program will conduct preliminary investigations with business units in Q3 2016 to identify process improvement opportunities for donated land.

The TCA program still anticipates to complete implementation of a system solution (i.e. invoice costing tool) by April 2017. | |

| 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.

In 2014, we continued to note that accounting for TCA transactions is still a manual process whereby spreadsheets are utilized to track movement in the TCA balance. | With the implementation of the various recommendations noted relating to TCA accounting and processes, these errors and issues identified will be resolved. | 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 2016)

Administration continues to agree with this recommendation. The TCA Project team continues to develop a comprehensive strategy and work plan with the goal of comply, simplify and consistency.

The TCA Costing System project has been approved on November 5, 2015 with an anticipated implementation date of April 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 2016)

Capital project review process continues to be assessed and the decision of the appropriate process to be implemented will be made in 2016.

The TCA costing project was approved on November 5, 2015 with an anticipated implementation date of April 2017. | City Treasurer, Director of Finance

In progress |
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| | | | 2015 Update: We noted that TCA accounting is still a manual process. | 2015 Update: We continue to recommend the above noted recommendation. | Administration update (June 2016)

Administration continues to agree with the recommendations.

The TCA program is continuing its review and implementation of TCA reporting policy changes in 2016. Current and future process improvements will emphasize use of automated processes.

The TCA program's TCA Costing System project will be implemented by April 2017. | Administration update (June 2016)

The TCA Costing System project is in place and has started its design work. Final implementation is still scheduled for April 2017. | |

5	Tangible Capital Assets Training	2013 - 2015	In 2013, we recommended that "In order to ensure that there are consistent policies throughout The City and that key personnel in the TCA process have the appropriate knowledge of TCA policies and procedures, we recommend the following be considered by business units in conjunction with the corporate finance group in relation to training: • Schedule training sessions multiple times throughout the year to be flexible with business unit schedules and increase attendance; • Encourage or provide a mechanism (for example, regular meetings) for cross-sharing of information between business units so best practices and lessons learned are communicated throughout the business units; • Increase technical TCA training for operations personnel and project managers responsible for categorizing TCA expenditures and identification of TCA at the project level; and • Simplify TCA processes into overall flow charts and step by step guidance so that new personnel can easily and accurately pick up TCA reporting responsibilities". In 2014, we noted that TCA training sessions were held throughout the year and were mandatory for Finance and Operations personnel. However, based on discussions with several business units, it appears that project managers and accounting personnel within the business units do not appear to have a concrete and clear understanding of TCA items/transactions. This is evidenced through the uncertainty of accounting for "one off" transactions or unusual events. For example, within the Calgary Police Service business unit, several prior year flood transactions were incorrectly accounted for, as well as in OLSH land inventory was inappropriately classified.	We continue to recommend that: 1 - Scheduled training sessions continue to occur multiple times throughout the year to be flexible with business unit schedules and increase attendance. This will allow for business units to pose questions relating to unusual transactions at these events and will ensure that new accounting for TCA transactions are completed in a consistent manner across the Organization; 2 - A mechanism for cross-sharing of information between business units is developed so best practices and lessons learned are communicated throughout the business units; 3 - An increase in technical TCA training for operations personnel and project managers responsible for categorizing TCA expenditures and identification of TCA at the project level is completed; and 4 - A simplification of the TCA processes into overall flow charts and step by step guidance so that new personnel can easily and accurately pick up TCA reporting responsibilities is developed. 5 - A mechanism for business unit personnel be developed so that any uncertainties or questions relating to treatment of TCA transactions may be addressed during touch point meetings scheduled at regular times throughout the year between key business unit and finance team personnel.	Administration continues to agree with this recommendation with points 1 and 5. Scheduled training sessions will continue to occur multiple times throughout the year to be flexible with business unit schedules and ensuring the appropriate level of attendance. Communication will also be developed to ensure business unit personnel have a mechanism to ask for clarification relating to treatment of TCA. With regards to points 2, 3 and 4 these items will be addressed as part of the overall TCA Project capital project review with the goal of comply, simplify, and consistency. Administration update (January 2016) Administration continues to agree with this recommendation. In regards to points 1 and 5. • Scheduled training sessions have continued to occur multiple times throughout the year to be flexible with business unit schedules and ensuring the appropriate level of attendance; and • Communication mechanisms such as lunch and learn sessions, one-on-one meetings and online Q&A postings have been developed to ensure business unit personnel have a mechanism to ask for clarification relating to the treatment of TCA. With regards to points 2, 3, and 4, a consultant has been engaged by Administration in Q3 2015 to review the current process flow charts and to provide overall recommendations on improving the process.	Q4 2015 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 2016) The Q4 2015 timeline was achieved. Capital project review process continues to be assessed and the decision of the appropriate process to be implemented will be made in 2016.	Finance Manager, Corporate Financial Reporting City Treasurer, Director of Finance In progress

			2015 Update: In regards to points 1 and 5 we noted; • Scheduled TCA training sessions occurred throughout the year with various Business Units; and • Communication has been developed to ensure business unit personnel have a mechanism to ask for clarification relating to treatment of TCA. With regards to points 2, 3 and 4 we will work with Administration to review the process flow charts and improvements made once developed and implemented.	2015 Update: We continue to recommend the above noted recommendations.	Administration update (June 2016) Administration continues to agree with the recommendations. In regards to points 1 and 3, Administration will continue to provide on-going training and communications to key business unit personnel. All business units are also granted access to The City's intranet where presented materials are kept. With regards to point 2 and 5, the TCA program is in the process of establishing a TCA network in which key business unit personnel will regularly meet to exchange best practices. With regards to point 4, the TCA program has performed its review of the consultant's recommendations. Further assessments will be performed in 2016 to validate findings and finalize changes.	Administration update (June 2016) System and process improvements will be completed and in place for projects starting in 2017.	

6	Human Resources Removal of terminated employees	2013 - 2015	In the prior year, we observed that terminated employees were not removed from the PeopleSoft system in a timely manner and, in certain cases, continued to be paid following the date of termination beyond regular vacation or standard pay that would be owing to the employee. In the prior year, this recommendation included two parts. The first issue resulted from the untimely communication by business units to Human Resources of the change in status of employees and the second issue related to the removal of user access within information technology based on the change in employee status (item #12 below). For the year ended December 31, 2014, we obtained a listing from Administration of all terminated employees during the year and noted that it took an average of nine business days for a terminated employee to be removed from the PeopleSoft system. While this timeframe may be acceptable to The City, a clear definition of when a terminated employee should be removed from PeopleSoft should be documented and clearly communicated to all business units. Furthermore, we identified one employee that was on short term leave who, subsequent to termination, continued to be paid their salary for two pay periods. The total amount paid to the employee was not material (less than $5,000) and The City is currently seeking repayment. We note that the payment to terminated employees continues to be an issue as has been identified in prior year management letter points. We noted that Administration sent out "Take 5" communications to business units two times in 2014 (September and December), as a reminder for business units to frequently review their pay reports and notify Human Resources when an employee's status was updated. We had indicated in our prior year recommendation that a control be developed to ensure that terminated employees were removed from PeopleSoft in a timely manner. Based on our year-end procedures, we noted that a process was implemented whereby Human Resources generates a report from PeopleSoft every two weeks of all terminated employees.	We continue to recommend that: • All business unit supervisors follow The City policy to inform Human Resources of terminated employees on a timely basis. The City should communicate to the business units what they deem to be an acceptable time frame for notification of termination to the Human Resources department (i.e. define what constitutes "timely"); and • That Human Resources perform a check of all employees within approximately two weeks of termination, to ensure timely removal of the employee from the PeopleSoft system and discontinuation of pay.	Based on Administration's internal communication Take 5 notices in 2015 and updating the Payroll Procedure Manual, Administration has observed improvements to this item as no overpayments has been made. As a result, HR will continue with the internal communication Take 5 notices in 2016 (semi-annual) to the City's supervisors on what an acceptable timeframe is for notification of termination. Administration continues to agree with this recommendation. Bi-weekly checks are done by the Senior Pay Analyst to ensure the Pay Administrators have removed all scheduled time post termination for employee departures processed in the current pay period. In addition, the Senior Pay Analyst changes the schedule type to "NONE" to prevent any reload of schedules. Ad-hoc / random audits are performed monthly by the Training, Audit and Documentation Specialist in the area to ensure the above process is being done on a consistent basis. Administration update (January 2016) Based on Administration's internal communication Take 5 notices in 2015 and updating the Payroll Procedure Manual, Administration has observed improvements to this item as no overpayments have been made. As a result, HR will continue with the internal communication Take 5 notices in 2016 (semi-annual) to the City's supervisors on what an acceptable timeframe for notification of termination is.	Pay Services has scheduled a Take 5 reminder for Department ID owners. This information was communicated on June 12, 2015 and another notice will be issued in December 2015. Completed. A process reminder was sent out to Pay Services Staff May 2015 and Payroll Procedure Manual updated to clarify this requirement. Administration update (January 2016) N/A	Department id owners supported by HR-Manager, Pay Services Completed.

			Human Resources then performs a random check of specific terminated employees within PeopleSoft to confirm that their employment status had been updated. However, this process does not address the risk that business units are not informing Human Resources of terminated employees in a timely manner. 2015 Update: We noted that communication via "Take 5" notices were sent to Business units ("BU's") indicating the expectation of communication between BU's and HR of employee terminations as soon as they are aware an employee is leaving and no later than the last day of work. However based on our audit procedures performed, 6 out of 25 terminations selected for testing indicated that HR was not notified of the termination by the respective BU until after the effective termination date of the employee. Accordingly, the control to ensure timely removal of terminated employees has not been implemented nor is it operating effectively. Business units are not communicating employee terminations in a timely manner to HR. We do however note that there were no salary payments to terminated employees subsequent to their termination dates for the samples we selected for testing.	2015 Update: We note that this recommendation has been partially addressed. However, the business units are not communicating in a timely manner to HR. This recommendation has been carried forward as Item #3a in the 2015 year end observations.	Administration update (June 2016) Refer to response in 3a.	Administration update (June 2016) Refer to response 3a.	
7	Item to be presented in camera					