

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	<ol style="list-style-type: none"> <li>1. Untimely review of WIP and accruals</li> <li>2. Delay in hand-off of TCA assets between business units</li> <li>3. TCA costing linked to asset management systems</li> <li>4. Use of manual processes to account and record TCA transactions</li> </ol>	#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,

A handwritten signature in black ink that reads "Deloitte LLP". The signature is written in a cursive, slightly stylized font.

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.  <b>Administration update (January 2017):</b> 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.  <b>Administration update (January 2017):</b> 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  <b>Partially addressed</b>

#	Observation Title	Year Identified	Observation	Recommendation	Administration Response	Completion Timeline	Process Owner / Recommendation Status
			<p>some business units are still analyzing WIP on a project versus an invoice level. For 2016, the net error of TCA WIP is not material. We held regular discussions with Administration during the year regarding the new TCA policies implemented. We tested the implementation of the revised Buildings and Engineered Structures TCA policies. We will continue to test the TCA processes implemented by Administration as they are put into action.</p>	<p>should be completed on an invoice level and not a project level.</p> <p>2016 Update: We continue to recommend the above noted recommendations.</p>	<p><b>Administration update (June 2017):</b> Administration continues to agree with this recommendation. The newly established TCA reporting team will review costs at an invoice level each month using the TCA costing system.</p> <p><b>Administration update (January 2018)</b> Administration continues to agree with this recommendation. The TCA reporting team is reviewing WIP transactions for TCA policy compliance on an on-going basis. The TCA reporting team is currently limited by resource constraints but is committed to the review and loading of assets and reducing the reliance on accruing in service assets where possible. System and process improvements will continue to be refined in 2018.</p> <p><b>Administration Update (June 2018):</b> 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.</p>	<p><b>Administration update (June 2017):</b> The TCA Program will continue to develop and implement process improvements in 2017.</p> <p><b>Administration update (January 2018)</b> The team will continue to identify and implement opportunities for system and process improvement in 2018.</p> <p><b>Administration update (June 2018)</b> Ongoing during 2018.</p>	<p><b>Auditor update (January 2018)</b> We held regular discussions with Administration during the year regarding the TCA reporting team's review. We will continue to test the TCA processes implemented by Administration.</p> <p>During our interim testing for the year ended December 31, 2017, we tested the initial implementation of the revised Land and Land Improvements TCA policies. We will further test these new policies during year-end procedures. We will communicate any deficiencies to both Administration and the Audit Committee.</p> <p><b>Auditor update (June 2018)</b> This recommendation is partially addressed, as noted above.</p>

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

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

#	Observation Title	Year Identified	Observation	Recommendation	Administration Response	Completion Timeline	Process Owner / Recommendation Status
					<p><b>Administration update (January 2018)</b>            Administration continues to agree with this recommendation and is using the process improvements made in 2016 and 2017.</p> <p><b>Administration update (June 2018):</b>            Administration continues to agree with this recommendation and is working on enhancing existing tools to improve processes.</p>	<p><b>Administration update (January 2018)</b>            Further process improvements to the Land and Land Improvements asset categories were completed in 2017.</p> <p>Policies and process changes for the vehicles asset class will be revisited and are expected to be completed by 2019.</p> <p><b>Administration update (June 2018)</b>            Ongoing during 2018.</p>	<p><b>Auditor update (January 2018)</b>            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.</p> <p><b>Auditor update (June 2018)</b>            This recommendation is partially addressed, as noted above.</p>

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