

June 19, 2019

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

Dear Ms. Male:

We have recently completed our audit of the consolidated financial statements of The City of Calgary ("The City") for the year ended December 31, 2018. During the course of our December 31, 2018 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 December 31, 2018 financial statements taken as a whole and did not impact our ability to issue our audit report. The December 31, 2018 observations are included in Appendix A attached to this letter. We have also included an update to matters identified during the prior year's audits in Appendices B-E.

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

Year Identified	Appendix	Title	Observation/Description	Status
December 31, 2018	A	Review of deferred revenue recognition policies and procedures and training at the business unit level	Administration to review deferred revenue recognition accounting policies and processes and training at the business unit level	New
December 31, 2017	B	Contributions	Contributions are not applied consistently	In progress (carried forward to fiscal 2018)
December 31, 2017	B	Unsigned developer contribution agreement	Unsigned developer contribution agreement	Addressed
December 31, 2016	C	TCA – Reconciliation between LInDA and PSAM	Reconciliations between LInDA and PSAM are not performed on a regular basis	Addressed
December 31, 2015	D	Implementation of new TCA policies	We recommend that Administration implement processes to regularly monitor the new TCA policies and processes application	Addressed

Year Identified	Appendix	Title	Observation/Description	Status
December 31, 2013 - 2015	E	Tangible Capital Assets	<ol style="list-style-type: none"> 1. Untimely review of WIP and accruals 2. Delay in hand-off of TCA assets between business units 3. TCA costing linked to asset management systems 	Addressed

The objective of a financial statement audit conducted in accordance with Canadian generally accepted auditing standards ("Canadian 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, 2018 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 select 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 informal style.

Chartered Professional Accountants

cc: The Audit Committee of The City of Calgary

Appendix A - December 31, 2018 year-end observations

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

Year Identified – 2018 (and 2017 carried forward)

Observation:

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

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

Recommendation:

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

Review of revenue recognition policies and processes

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

Training at the Business Unit level

3. We understand that due to the organizational structure of finance personnel roles, several individuals could be responsible for performing part of the accounting of a full transaction. As such, we recommend the following:

- All individuals responsible for the accounting of a full transaction for capital deposits or reserves are included in the training sessions to understand the full accounting cycle and implication on the financial statements.
- Training continues to be held on a regular basis (versus one time) during the year to ensure accounting processes and procedures are fully understood at the business unit level.
- Training be conducted on a timely basis for individuals new to the role due to staffing changes.

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

4. The business unit conduct a review of the policy and processes relating to contributions with the objective to ensure consistency in the processes and policies utilized to account for contributions and compliance with the accounting guidance (PS 3100, *Restricted Assets and Revenues*, paragraphs 7 to 11);
5. All contributions have written agreements; and
6. All contributions are used in accordance with the stipulations as per the original agreements.

Administration response:

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

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

Appendix B - December 31, 2017 year-end observations – Update for 2018 year-end

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.

Administration update (January 2019):

Administration continues to agree with these recommendations with consideration that this was an isolated sample. During 2018, Administration reviewed current processes and procedures, to ensure consistent application and has developed a work plan for 2019 using a risk-based approach to ensure there is consistency and full compliance with the accounting guidance.

Auditor's response (based on November 2018 interim audit procedures):

We held discussions with Administration, and we understand that Administration has implemented processes to address this recommendation. Through these discussions, it was noted that a work plan has been developed, which will be implemented through fiscal 2019. We will review Administration's work plan during our year-end fieldwork, apply audit procedures as applicable and will report any deficiencies or further recommendations to Administration and the Audit Committee upon completion of the 2018 year-end audit. As Administration's work plan will be implemented through fiscal 2019, we will continue to work with Administration in addressing this recommendation in the next fiscal year.

Auditor's update (based on 2018 year-end audit procedures)

Through discussions held with Administration as well as through our audit procedures applied during the year-end audit fieldwork, it was noted that the business units performed a review of the capital project expenditures and the available funding for these specific projects, however, this was not performed on a timely basis. This resulted in a restatement of the 2017 financial statements as revenue had not been applied in the correct period. As Administration's work plan is still being implemented through fiscal 2019, this recommendation has been carried forward to fiscal 2018. Please refer to 2018 recommendation #1.

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 fieldwork. 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.

Administration update (January 2019):

Administration continues to agree with the recommendation. The new controls implemented in Q4 2017 have had positive results in receiving signed agreements from developers. In 2018, Administration identified that the process involves providing agreements to developers in multi-stages, causing a potential delay in the receipt of signed agreements. To mitigate this risk in 2019, the agreements will be provided to developers as a package that needs to be executed simultaneously ensuring that the City receives signed agreements from developers in a timely manner.

Auditor's response (based on November 2018 interim audit procedures):

During our year-end audit procedures, we will test the new controls implemented in Q4 2017 to confirm that they are designed and implemented according to Administration's new process. We will also review a selection of agreements from developers to determine whether The City has the appropriate signed agreement on file. We will report any significant deficiencies to Administration and the Audit Committee upon completion of the 2018 year-end audit.

Auditor's update (based on 2018 year-end audit procedures):

During our year-end audit procedures, we tested the controls in place and confirm that they are designed and implemented in accordance with Administration's new process. We also reviewed a selection of agreements from developers noting that they were all appropriately signed. This recommendation has been satisfactorily addressed.

Appendix C – December 31, 2016 year-end observations – Update for 2018 year-end

1. Tangible capital asset ("TCA") – Reconciliation between LInDA and PSAM

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 fieldwork 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.

Auditor's update (based on 2018 year-end audit procedures):

At December 31, 2018, Administration has completed the reconciliations from PSAM to LInDA. Deloitte notes that they did not find any errors in the Land Inventory balance this year.

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.

Administration update (January 2019):

Administration agrees with the recommendation that reconciliations of land be performed between the LInDA and PSAM systems on a regular basis. The TCA Program established a monthly land reconciliation process in 2018 between LInDA and PSAM; with errors corrected as they are discovered. This reconciliation will transition into sustainment in 2019. The TCA Program is still on track to complete the full reconciliation by fiscal 2019.

Auditor's response (based on November 2018 interim audit procedures):

We will review the Administration prepared reconciliations during our year-end fieldwork. We will also perform detail testing through a sample basis on TCA additions/disposals. We will report any deficiencies or further recommendations to Administration and the Audit Committee upon completion of the 2018 year-end audit.

Auditor's update (based on 2018 year-end audit procedures):

We obtained Administration's prepared reconciliations during our year-end fieldwork noting that it was completed and reconciled. We performed detail testing on a sample basis on TCA additions/disposals noting no deficiencies. This recommendation has been satisfactorily addressed.

Appendix D - December 31, 2015 year-end observations – Update for 2018 year-end

1. *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 fieldwork and will complete these procedures during the year-end fieldwork. 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 fieldwork. 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 it 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 fieldwork and will complete these procedures during the year-end fieldwork. 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.

Administration update (January 2019):

The vehicle asset class policy was approved effective January 1, 2018. This completes the asset class review and policy update. The TCA reporting team ensures consistent and compliant application of the policies.

Auditor's response (based on November 2018 interim audit procedures):

We held regular discussions with Administration during the year regarding the new TCA policy implemented. We commenced our internal control and substantive audit procedures for the new vehicle asset class policy during interim fieldwork and will complete these procedures during year-end fieldwork. We will report any significant deficiencies or errors to Administration and the Audit Committee upon completion of the 2018 year-end audit.

Auditor's update (based on 2018 year-end audit procedures)

We held regular discussions with Administration regarding the new TCA policies implemented in 2018 (Vehicles). We performed internal control and substantive procedures for the new TCA policy implemented. We also obtained the training session materials for the July 2018 TCA session, noting that meetings are being held in regards to the new TCA policies.

We note that there are no remaining asset categories which require further assessment, as such, this recommendation has been satisfactorily addressed.

Appendix E - December 31, 2014 year-end observations –Update for 2018 year-end

As we communicated in June 19, 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 2018, Administration made significant progress in regards to TCA accounting and reporting. 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 reporting 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 reporting team will allow for the application of consistent accounting approaches to TCA, which will be simple and streamlined, and with full implementation will allow for overall compliance with TCA polices and processes by The City.

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

We have summarized the observations below. The full history of these observations was communicated in our letter of recommendations presented on June 19, 2018.

#	Observation title	Year identified	Background	Administration update (January 2019)	Auditor update
1	Tangible Capital Assets - Untimely review of work in progress and accruals	2013 - 2015	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. During 2017, a TCA reporting team was established and the TCA Costing System was implemented. The TCA reporting team is reviewing WIP transactions for TCA policy compliance on an on-going basis and will record accruals on an as-needed basis.	The TCA reporting team is reviewing expenditures on an ongoing basis to ensure compliance. Assets are loaded or accrued in the year the asset goes in-service.	(based on November 2018 interim audit procedures) We will hold discussions with the TCA reporting team regarding the frequency of the process. We will test a selection of capital expenditures incurred and accruals made to TCA. We will communicate any deficiencies to both Administration and the Audit Committee upon completion of the 2018 year-end audit. (based on 2018 year-end audit procedures)

System and process improvements will continue to be refined in 2018.

We held discussions with the TCA reporting team throughout the duration of the year-end audit. We tested a selection of capital expenditures incurred and accruals made to TCA noting no issues based on our testing. This recommendation has been satisfactorily addressed.

#	Observation title	Year identified	Background	Administration update (January 2019)	Auditor update
2	Tangible Capital Assets – Delay in hand-off of TCA assets between business units	2013 - 2015	<p>There is, at times, a significant delay in “hand-off” of TCA assets between business units.</p> <p>During 2017, a TCA reporting team was established and the TCA Costing System was implemented. 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>The TCA reporting team has been working with operations staff to ensure hand-off packages are provided with sufficient time to record prior to year-end.</p> <p>Due to the timing of asset in-service dates and respective hand-off package receipt timing, the TCA reporting team will review and record the costs as required.</p>	<p>(based on November 2018 interim audit procedures)</p> <p>We held regular discussions with Administration during the year regarding the TCA reporting team’s structure and process.</p> <p>During our year-end audit procedures, we will test a selection of hand-off packages with respect to in-service dates. We will communicate any deficiencies to both Administration and the Audit Committee upon completion of the 2018 year-end audit.</p> <p>(based on 2018 year-end audit procedures)</p> <p>We held discussions with Administration throughout the duration of the year-end audit. We tested a selection of hand-off packages noting no issues based on our testing. This recommendation has been satisfactorily addressed.</p>

<p>3 Tangible Capital Assets – TCA costing linked to asset management systems</p>	<p>2013 - 2015</p>	<p>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>During 2017, a TCA reporting team was established and the TCA Costing System was implemented.</p> <p>Further actions to be taken by Administration is also noted in MLP #1 of Appendix B.</p>	<p>Operations have developed processes that identify donated land without reliance on LInDA. The Construction Completion Certificate (“CCC”) is used as the primary identifier for donated land transfers.</p>	<p>During our year-end audit procedures, we will test the implementation of the revised process of identifying donated land. We will communicate any deficiencies to both Administration and the Audit Committee upon completion of the 2018 year-end audit.</p> <p>(based on 2018 year-end audit procedures)</p> <p>We held discussions with Administration throughout the duration of the year-end audit. We tested the implementation of the revised process for identification of donated land assets. We noted no issues based on our testing. This recommendation has been satisfactorily addressed.</p>
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