

# **Board of Management of the Toronto Zoo**

## **Audit Results – Year Ended December 31, 2006**

Report to the Members of the Board of Management

 **ERNST & YOUNG**

*Quality In Everything We Do*



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April 23, 2007

Members of the Board of Management of the Toronto Zoo

Dear Members of the Board of Management:

We are pleased to present the results of our audit of the financial statements of the Toronto Zoo (the “organization” or the “Zoo”).

This report to the Board of Management summarizes the issues of audit significance discussed with management and provides the communications required by our professional standards.

Our audit was designed to express an opinion on the December 31, 2006 financial statements of the organization. In planning the audit, we held discussions with management, considered current and emerging business risks, performed an assessment of risks that could materially affect the financial statements, and aligned our audit procedures accordingly. We received the full support and assistance of the organization’s personnel in conducting our audit.

This report is intended solely for the use of the Board of Management, the management and ultimately the City of Toronto Council, and is not intended to be and should not be used by anyone other than these specified parties. We disclaim any responsibility to any third party who may rely on it. Further, this report is a by-product of our audit of the December 31, 2006 financial statements and indicates matters identified during the course of our audit. Our audit did not necessarily identify all matters that may be of interest to the Board of Management in fulfilling its responsibilities.

We appreciate this opportunity to meet with you to discuss the contents of this report and answer any questions you may have about these or any other audit-related matters.

Very truly yours,

**Chartered Accountants**  
**Licensed Public Accountants**  
Diana Brouwer  
416-943-7177

## Required Communications

Generally accepted auditing standards in Canada require the auditor to communicate certain matters to the Board of Management that may assist them in overseeing management's financial reporting and disclosure process. Below we summarize these required communications as they apply to your organization.

Area	Comments
<p><b>Auditors' Responsibilities Under Generally Accepted Auditing Standards (GAAS)</b></p> <p>As set out in the planning document presented to the Board of Management, we designed our audit to express an opinion on your organization's financial statements.</p> <p>The financial statements are the responsibility of management. Our audit was designed in accordance with GAAS to obtain reasonable, rather than absolute, assurance that the financial statements are free from material misstatement.</p> <p>As a part of our audit, we obtained a sufficient understanding of the internal control structure to plan our audit and to determine the nature, timing and extent of testing performed.</p>	<p>We anticipate issuing an unqualified audit opinion dated March 23, 2007 upon approval of the financial statements by the Board of Management and completion of certain outstanding procedures. The following procedures are outstanding:</p> <ul style="list-style-type: none"><li>• <i>Confirmation from the Board there are no outstanding matters for which we have not addressed</i></li></ul>
<p><b>Changes to Audit Approach Outlined in Planning Document</b></p> <p>In our planning document, we indicated that we would conduct our audit in accordance with Canadian generally accepted auditing standards in order to deliver to you our final report for your 2006 financial statements. Our plan to you indicated that our strategy would be to test and rely on controls around payroll and other disbursements, while the remainder of the audit would be substantive in nature with the use of confirmations and specific testing of account balances.</p>	<p>There were no changes to the audit approach outlined in the planning document.</p>

## Required Communications (continued)

Area	Comments
<p data-bbox="280 308 1025 376"><b>Adoption of, or Changes in, an Accounting Principle , Including Material Alternative Accounting Treatments Discussed with Management and Acceptability of a Particular Policy used by Management</b></p> <p data-bbox="280 384 1025 536">We determine that the Board of Management is informed about the initial selection of, and any changes in, significant accounting principles or their application when the accounting principle or its application, including alternative methods of applying the accounting principle, has a material effect on the financial statements.</p> <p data-bbox="280 544 1025 767">In addition, we report to the Board of Management all alternative accounting treatments within Canadian generally accepted accounting principles (GAAP) for policies and practices related to material items (including recognition, measurement, presentation and disclosure alternatives) that have been discussed with management during the current audit period including acceptability of the policies or methods ultimately selected by management.</p>	<p data-bbox="1025 384 1968 408">None.</p>
<p data-bbox="280 786 1025 810"><b>Sensitive Accounting Estimates and Disclosures</b></p> <p data-bbox="280 818 1025 978">The preparation of financial statements requires the use of accounting estimates. Certain estimates and disclosures are particularly sensitive due to their significance to the financial statements and the possibility that future events may differ significantly from management’s current judgments.</p> <p data-bbox="280 986 1025 1118">We determine that the Board of Management is informed about management’s process for formulating particularly sensitive accounting estimates and disclosures and about the basis for our conclusions regarding the reasonableness of those estimates.</p>	<p data-bbox="1025 818 1968 914">There are significant judgments or estimates required to prepare the financial statements where actual amounts may be significantly different from the estimates. Refer to the section on “Items of Significance Discussed with Management”.</p>
<p data-bbox="280 1137 1025 1182"><b>Major Issues Discussed with Management Including Accounting for Significant Unusual Transactions and for Controversial or Emerging Areas</b></p> <p data-bbox="280 1190 1025 1318">We determine that the Board of Management is informed about the methods used to account for significant unusual transactions and the effects of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.</p>	<p data-bbox="1025 1190 1968 1286">We are not aware of any significant unusual transactions recorded by the organization or of any significant accounting policies used by the organization related to controversial or emerging areas for which there is a lack of authoritative guidance.</p>

## Required Communications (continued)

Area	Comments
<p><b>Significant Audit Adjustments and Unrecorded Audit Differences Considered by Management to be Immaterial</b></p> <p>We provide the Board of Management with information about adjustments arising from the audit (whether recorded or not) that could in our judgment either individually or in the aggregate have a significant effect on the organization's financial statements.</p> <p>We inform the Board of Management about unrecorded audit differences accumulated by us (i.e. adjustments either identified by us or brought to our attention by management) during the current audit period and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.</p>	<p>There were no significant recorded audit adjustments related to the current year.</p> <p>There were no unrecorded audit adjustments that could, in our judgment, either individually or in the aggregate, have a significant effect on the financial reporting process.</p> <p>Refer to "Summary of Audit Differences" section.</p>
<p><b>Disagreements with Management</b></p>	<p>None.</p>
<p><b>Serious Difficulties Encountered in Dealing with Management when Performing the Audit</b></p>	<p>None.</p>
<p><b>Significant Weaknesses in Internal Controls</b></p> <p>We communicate all significant weaknesses in internal control over financial reporting that may have been identified during the course of our audit.</p>	<p>No significant weaknesses in internal control were identified.</p>
<p><b>Fraud and Illegal Acts</b></p> <p>We report to the Board of Management fraud and illegal acts involving senior management and fraud and illegal acts (whether caused by senior management or other employees) that cause a material misstatement to the financial statements.</p> <p>We are also required to make inquiries of the Board of Management related to fraud, including both (1) their views about the risks of fraud, and (2) their knowledge of any actual or suspected fraud.</p>	<p>We are not aware of any matters that require communication.</p> <p>We would request that the Board members raise with us any areas of risk not addressed in our communications and that they inform us of their knowledge of any actual or suspected fraud.</p>

## Required Communications (continued)

Area	Comments
<b>Consultation with Other Accountants</b>	None of which we are aware.
<b>Other Information in Documents Containing Audited Financial Statements</b>	
Our financial statement audit opinion relates only to the financial statements and accompanying notes. However, we also review other information in the Annual Report, such as Management's Discussion and Analysis, for consistency with the audited financial statements.	None of which we are aware.
<b>Related Party Transactions</b>	
Related party transactions identified by the auditor that are not in the normal course of operations or that involve significant judgments made by management concerning measurement or disclosure must be disclosed to the Finance Committee.	Related party amounts are with respect to the City of Toronto and the Toronto Zoo Foundation and are disclosed within the financial statements. The City's transactions are conducted in the normal course of operations.
<b>Major Issues Discussed with Management in Connection with Initial or Recurring Retention</b>	None.
<b>Matters Relating to Component Entities of the Organization</b>	
When the financial statements of an organization (primary entity) include financial information from financial statements of a component entity (a subsidiary, investee (other than a portfolio investment), or joint venture; or an entity whose financial information from financial statements is included with those of the primary entity), the auditor communicates with the Board of Management those matters relating to the component entities that in the auditor's judgment are of significance in the context of the primary entity (for example, weaknesses in systems of internal control that have resulted, or could result, in material errors in the primary entity's consolidated financial statements).	None of which we are aware.

## Required Communications (continued)

Area	Comments															
<p><b>Auditors' Independence</b></p> <p>Canadian generally accepted auditing standards (GAAS) require that we communicate at least annually with you regarding all relationships between your organization and Ernst &amp; Young that, in our professional judgment, may reasonably be thought to bear on our independence.</p>	<p>Refer to "Independence Letter" section.</p>															
<p><b>Other Audit and Non-Audit Services Provided to Your Organization</b></p>	<p>During the 2006 audit, we incurred additional time with respect to the computer software conversion that took place in late 2005. See below for additional fees charged for this.</p>															
<p><b>Fees</b></p>	<ul style="list-style-type: none"> <li>• A summary of our fees is included below for your reference.</li> </ul> <table style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: left;"></th> <th style="text-align: right;">2006</th> <th style="text-align: right;">2005</th> </tr> <tr> <th style="text-align: left;"></th> <th style="text-align: right;">\$</th> <th style="text-align: right;">\$</th> </tr> </thead> <tbody> <tr> <td style="text-align: left;">Annual audit fees – Toronto Zoo</td> <td style="text-align: right;">15,000</td> <td style="text-align: right;">15,000</td> </tr> <tr> <td style="text-align: left;">Commodity tax</td> <td style="text-align: right;">—</td> <td style="text-align: right;">5,000</td> </tr> <tr> <td style="text-align: left;">Computer software conversion testing/control testing</td> <td style="text-align: right;">8,500</td> <td style="text-align: right;">—</td> </tr> </tbody> </table> <p>Audit fees are inclusive of expenses and GST in accordance with our agreed proposal with the City of Toronto.</p> <p>Additional fees are before GST.</p>		2006	2005		\$	\$	Annual audit fees – Toronto Zoo	15,000	15,000	Commodity tax	—	5,000	Computer software conversion testing/control testing	8,500	—
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Commodity tax	—	5,000														
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## Items of Audit Significance Discussed with Management

During the course of planning and executing our audit, the following items/matters of audit significance were discussed with management:

Item	Description	Audit Results and Comments
<b>Operating Agreement Between the Toronto Zoo and the Zoo Foundation</b>	<ul style="list-style-type: none"> <li>• The operating agreement between the Board of Management of the Toronto Zoo and the Zoo Foundation expired December 31, 2001. The expired agreement remains in effect as no new agreement has yet been made.</li> <li>• During its meeting of December 15, 2004, the Board of Management of the Zoo approved a new agreement for a six year term ending December 31, 2008 but the approval on the Foundation side has not yet occurred.</li> <li>• Management has indicated that a revised agreement will be forthcoming in 2007.</li> </ul>	<ul style="list-style-type: none"> <li>• We have reviewed the new agreement in order to address anything that may have an impact on our audit or on disclosure for the 2006 audited financial statements. Nothing was noted.</li> <li>• We concur with the disclosures made in the financial statements.</li> </ul>
<b>Employee Future Benefits</b>	<ul style="list-style-type: none"> <li>• Mercer Human Resources Consulting prepares the actuarial valuation of the employee future benefits on behalf of the Board of Management.</li> <li>• The valuation was updated 2006 for accounting purposes with a full re-evaluation being done for the 2007 year.</li> <li>• There were no changes to benefit plans during 2006 that would have an impact on the calculation of the previous valuation prepared by Mercers. However, updated data provided to Mercer's for the 2006 accounting update has resulted in an actuarial gain in the amount of \$278,143 with respect to long-term disability.</li> </ul>	<ul style="list-style-type: none"> <li>• We confirm through our audit procedures that there have not been any changes to plans offered by the Board that would have an impact on the valuation as previously provided by Mercers.</li> <li>• The Board's policy is to amortize the gain over the average remaining service period during which the benefits will be paid. As a result, we concur that the \$278,143 actuarial gain will begin to be amortized in fiscal 2007.</li> <li>• We concur with the accounting and disclosure of amounts within the 2006 financial statements.</li> </ul>
<b>Due From City of Toronto</b>	<ul style="list-style-type: none"> <li>• The Zoo has many ongoing transactions with the City of Toronto. Management tracks the transactions and records all items as they occur – with many of these amounts dating back several years.</li> </ul>	<ul style="list-style-type: none"> <li>• We confirm with the City, the amounts recorded by the Zoo.</li> <li>• We recommend that management continue to work with the City in trying to clear these items.</li> </ul>



## Items of Audit Significance Discussed with Management (continued)

Item	Description	Audit Results and Comments
<b>Pay Equity</b>	<ul style="list-style-type: none"> <li>The Zoo has a significant balance for pay equity accrual on their books. This is a result of the Pay Equity Act and amounts have been estimated payable to incumbents in predominantly female gender positions. Management anticipates the final payouts will occur in April/May 2007.</li> </ul>	<ul style="list-style-type: none"> <li>We concur with the provisions made in the statements.</li> </ul>
<b>Capitalization of assets</b>	<ul style="list-style-type: none"> <li>Capital assets have been included in the financial statements since 2005. Capital asset purchases are now reflected in the financial statements and general ledger accounts as purchases of assets as incurred.</li> </ul>	<ul style="list-style-type: none"> <li>We have reviewed the detail supporting the adjustments to include the net book value of capital assets in the financial statements.</li> </ul>
<b>Financial Instruments</b>	<ul style="list-style-type: none"> <li>As noted under “New Developments in Accounting or Auditing Standards” in our planning document to you, there are changes in the accounting for and disclosures related to financial instruments.</li> <li>The new rules are effective for the Board’s fiscal 2007 year and although may be early adopted, we understand that they will be implemented in 2007.</li> <li>The new rules will require consideration of such things as the categorization of investments – categorized as held for trading, available for sale etc. and additional disclosures required by the new standards. Also, certain contracts may be impacted by the new rules.</li> <li>Management will need to familiarize themselves with the rules and the impacts on the 2007 financial statements.</li> </ul>	<ul style="list-style-type: none"> <li>We have provided management with a brochure on the new developments for their consideration.</li> <li>We recommend management review any contracts they have that may be impacted by the new rules (e.g. Hydro contracts with embedded derivatives).</li> </ul>
<b>Changes to the 2006 Financial Statements</b>	<p>The following changes were made to the statements in 2006 (as compared to the 2005 presentation):</p> <ul style="list-style-type: none"> <li>Account names for the expenses have changed, as well as the expense allocation to each account.</li> <li>Prior year’s figures have been adjusted to reflect current year’s allocation methodology. This was done for comparative purposes.</li> </ul>	<ul style="list-style-type: none"> <li>We agree with the changes to the statements.</li> </ul>

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## Summary of Audit Differences

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During the course of our audit, we accumulate differences between amounts recorded by your organization and amounts that we believe are required to be recorded under generally accepted accounting principles. Following is a summary of those differences we have identified through the date of this report:

	Recording/Differences Would Have Increased (Decreased) Net Assets/Excess of Revenue over Expenses	
	<u>2006</u>	<u>2005</u>
	\$	\$
Known Audit Differences:		
Understatement of Employee Benefit Liability	Nil	17,000
Likely Audit Differences:		
Unsupported WSIB balance in Accounts Payable	<u>19,000</u>	<u>—</u>
Total Unadjusted Audit Differences in Net Assets Before Tumaround Effect of Prior Year Differences	19,000	<u>17,000</u>
Tumaround Effect of Prior Year Differences in Net Assets	<u>(17,000)</u>	
Total Unadjusted Audit Differences in Excess of Revenue over Expenses	<u><u>2,000</u></u>	

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## Independence Letter

March 23, 2007

The Board of Management of the Toronto Zoo

We have been engaged to audit the financial statements of the Board of Management of the Toronto Zoo (“Board”) for the year ending December 31, 2006.

Pursuant to Canadian generally accepted auditing standards, we communicate at least annually with you regarding all relationships between Ernst & Young and its related entities and the Board and its related entities that, in our professional judgment, may reasonably be thought to bear on our independence.

We have prepared the following comments to facilitate our discussion with you regarding independence matters arising since March 21, 2006, the date of our last letter.

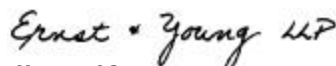
We are not aware of any relationships between Ernst & Young and the Board that, in our professional judgment, may reasonably be thought to bear on our independence, since March 21, 2006, the date of our last letter.

Canadian generally accepted auditing standards require that we confirm our independence to the audit committee in the context of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario. Accordingly, we hereby confirm that we are independent with respect to the Board within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario as of March 23, 2007.

The total fees charged to the Board for audit services from January 1, 2006 to March 23, 2007 are set out in the “Other Required Communications” in this Audit Results package.

This report is intended solely for the use of the Board of Management, management, and others within the Board (ultimately the City of Toronto) and should not be used for any other purposes.

Yours truly,



**Chartered Accountants**  
**Licensed Public Accountants**

Diana M. Brouwer

416-943-7177

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## Letter of Recommendations

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April 23, 2007

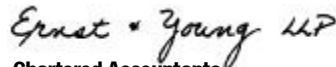
Members of the Board of Management of the Zoo

Dear Members of the Board of Management:

In planning and performing our audit of the financial statements of the Board of Management of the Toronto Zoo for the year ended December 31, 2006, we considered its internal control structure to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. Our consideration of internal control for the limited purpose of determining the nature, timing, and extent of our auditing procedures to express an opinion on the organization's 2006 financial statements would not necessarily disclose all deficiencies in internal control over financial reporting. While our purpose was not to provide assurances on the internal control structure, certain matters came to our attention that we want to report to you. These matters, along with our recommendations, are described in the accompanying memorandum. This report is intended solely for the use of the Board of Management, management and ultimately the City of Toronto and is not intended to be and should not be used by anyone other than these specified parties. We disclaim any responsibility to any third party who may rely on it.

We would be pleased to discuss the above matters or to respond to any questions, at your convenience.

Very truly yours,



**Chartered Accountants**  
**Licensed Public Accountants**

Diana Brouwer  
416-943-7177

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# Letter of Recommendations

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## Information Technology Points

Through our observations and testing of the information technology at the Toronto Zoo, we have identified the following areas where management should consider strengthening controls:

### Program Change Controls

#### *1.0 Observation and Recommendation:*

The applications of Admits and Vigilant are not configured for password complexities and other password related requirements. Thus, the application managers have to personally setup all user accounts with passwords.

Relaxed passwords can easily be broken which could lead to unauthorized access to system files and resources.

We recommend that the application managers contact the application vendors to inquire whether password parameters can be set within the application. If they cannot be set, we recommend that the application managers allow the users to setup their own passwords while following the password guidelines.

#### *2006 Update*

Admits and Vigilant still do not have any specific password security settings (i.e. length, expiry). For both applications, the application manager sets up the user's password, creating a risk of unauthorized access.

#### *2006 Management Response - update*

Use of Vigilant retail software has been discontinued in Q1 2007 and all access to the new retail system (Compass) is set-up by Computer Services. The Admits system has been upgraded to integrate the new debit / credit card payment processes and a request has been made to the software provider for a change to security to enable individual users to set their own passwords.

#### *2005 Management Response*

The implementation of the components in the new ERP system to replace the Vigilant software and to upgrade the Admits system is scheduled for 2006. Requests have been made to the Admits software provider to upgrade security. In the interim users set their own passwords following prescribed guidelines.

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## Letter of Recommendations

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### Logical Access Controls

#### 1.0 *Observation and Recommendation:*

The administration process for termination requests are not centralized for the applications of Vigilant and Admits. For these applications, terminations are governed by the application manager. Computer Services might not be contacted if one of the users has been terminated since the application manager that terminates the user might not know if that user had access set up by Computer Services.

A non-centralized system for removing accounts can lead to some accounts not being promptly removed. This may lead to unauthorized access.

We recommend that all termination requests should emanate from Human Resources. This way, there will be no confusion as to where the requests are coming from. Computer Services should then be the only people that can add or remove access for all applications.

#### *2006 Update*

Termination requests are still not centralized for Vigilant and Admits. For both applications, the application manager is notified of the termination because they work in the same department and are involved in the termination process.

#### *2006 Management Response - update*

This will no longer be an issue for the retail system as Vigilant has been replaced by Compass software and all access and terminations are completed through Computer Services. The computer access forms have an area for inclusion of an expiry date and Computer Services uses this as a means of scheduling the removal of users unless informed otherwise by the Manager, Retail & Rides and / or Human Resources. Admits terminations are communicated simultaneously to Human Resources and Computer Services by the System Administrator for Admits. The Human Resources Branch provides details of terminated employees to the manager of Computer Services for purposes of ensuring that a centrally controlled listing of access to all applications is current.

#### *2005 Management Response*

The Human Resources Branch provides details of terminated employees to the manager of Computer Services for purposes of deleting access to applications.

#### 2.0 *Observation and Recommendation:*

There is not a formal way to track new access requests for Vigilant and Admits.

Without proper access requests, users might gain inappropriate access to system resources without proper approval.

We recommend that Access Requests Forms be filled out and approved by appropriate personnel for all users that require application access to Vigilant and Admits.

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## **Letter of Recommendations**

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### ***2006 Update***

A formal process to track new access requests for Vigilant and Admits has not yet been implemented. If a new user requires access, the application manager will create an account.

### ***2006 Management Response - update***

Systems access is now controlled by Computer Services with the exception of Admits, where access is controlled by the Systems Administrator for Admits. Computer access request forms are authorized by managers and include an area for an expiry date used by Computer Services as a means of scheduling the removal of users unless informed otherwise at a later date by the approving manager. For purposes of centralized control for all applications, the Systems Administrator for Admits notifies Computer Services of all users set-ups and terminations to ensure that the listing of access to all applications is current.

### ***2005 Management Response***

Consistent with the 2004 response from management, this point will be addressed by the replacement of the Vigilant software and the upgrade of the Admits system is scheduled for 2006.

### **3.0 *Observation and Recommendation:***

Users are not required to read or sign the new hire policy and procedure documentation.

By not enforcing users to review and sign the new hire policy, users will not be familiar with the rules that govern system and application usage. This might lead to improper use of systems.

We recommend that all new hires review and sign the policy and procedure documentation.

### ***2006 Update***

New hires are still given a copy of the policy, however, no formal sign-off is required.

### ***2006 Management Response - update***

Currently, users of the Zoo's system are given a copy of the Computer Access & Security policy ADM-003, Computer Software Copyright policy ADM-004, Computer System Error/Enhancement policy ADM-005 and Electronic Mail (E-Mail) policy ADM-010 to review. New employees are required to execute a written acknowledgement of the Terms and Conditions of Use of the system. Additionally, as a planned review and revisions to these policies is completed in 2007, all existing employees will be required to formally sign-off to indicate their compliance.

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## Letter of Recommendations

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### *2005 Management Response*

Currently new users to the Zoo's system are given a copy of the Computer User Manual, Computer Access & Security policy ADM-003, Computer Software Copyright policy ADM-004, Computer System Error/Enhancement policy ADM-005 and Electronic Mail (E-Mail) policy ADM-010 to review. The policies referred to are reviewed by new employees and a sign-off process will be instituted.

## **Physical Security**

### **1.0 Observation and Recommendation:**

The room is not equipped with a sensor to cut power off to the servers if the sprinkler goes off.

The equipment in the server room will be damaged if the sprinkler goes off.

We recommend that the Board of Management of the Toronto Zoo implement a water sensor on the floor to cut the power to the servers should the sprinklers activate. A dry pipe sprinkler system for fire suppression could also be implemented.

### *2006 Update*

No changes have been made to the sprinkler system. The sprinkler system is separate from the rest of the building, meaning that the sprinkler will not turn on unless it detects fire in the room.


### *2006 Management Response - update*

This issue has been investigated and every effort has been made to protect the physical security of new servers within enclosed racks. A complete systems back-up is run on a daily basis for all production servers and tapes are transferred and stored at another secured location. The Fire Marshall would not agree with a sprinkler shut-off system and other fire suppression alternatives are very costly to implement.

### *2005 Management Response*

This issue has been investigated and every effort has been made to protect the physical security of new servers within enclosed racks. The Fire Marshall would not agree with a sprinkler shut-off system.





ERNST & YOUNG LLP

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