City of Toronto

Audit Results – Year Ended December 31, 2007

Report to Audit Committee of the Council of the City of Toronto

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June 10, 2008

Members of the Audit Committee
of the Council of the City of Toronto

Dear Members of the Audit Committee:

We are pleased to present the results of our audit of the financial statements of the City of Toronto (the "City" or the "organization").

This report to the Audit Committee 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, 2007 consolidated financial statements of the City. 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 Audit Committee, Council and management, 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, 2007 consolidated 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 Committee 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,

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Required Communications

Generally accepted auditing standards in Canada require the auditor to communicate certain matters to the Audit Committee 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
Auditors' Responsibilities Under Generally Accepted Auditing Standards (GAAS)	
As set out in the planning document presented to the Audit Committee, we designed our audit to express an opinion on the City's financial statements. 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 consolidated financial statements are free from material misstatement. 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.	We anticipate issuing an unqualified audit opinion dated May 15, 2008 upon approval of the financial statements by City of Toronto Council plus: • confirmation from the Audit Committee that there are no areas of concern that have not been addressed in this document.
Changes to Audit Approach Outlined in Planning Document	
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 on your 2007 consolidated financial statements. Our plan to you indicated that our strategy was to test and rely on controls in connection with City payroll and City and Police purchases/disbursements accounting streams, with substantive procedures covering the remainder of the accounts as the use of confirmations, detailed analytic procedures and specific testing of account balances is the more efficient approach for us to take in those areas.	There were no changes to the audit approach outlined in the planning document.
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	
We determine that the Audit Committee 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. In addition, we report to the Audit Committee 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.	There were no changes in significant accounting principles or their application in 2007.

Required Communications (continued)

Area	Comments
Sensitive Accounting Estimates and Disclosures 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. We determine that the Audit Committee 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.	There are significant judgments and/or estimates required to prepare the financial statements where actual amounts may be significantly different from the estimates. We discuss the more significant accounting estimates further within the "Areas of Audit Emphasis and Items of Audit Significance Discussed with Management".
Major Issues Discussed with Management Including Accounting for Significant Unusual Transactions and for Controversial or Emerging Areas We determine that the Audit Committee 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.	We are not aware of any significant unusual transactions recorded by the City or of any significant accounting policies used by the City related to controversial or emerging areas for which there is a lack of authoritative guidance.
Significant Audit Adjustments and Unrecorded Audit Differences Considered by Management to be Immaterial We provide the Audit Committee 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 City's financial statements. We inform the Audit Committee 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.	Significant audit differences identified by us have been adjusted by management. There were no unrecorded audit adjustments that could, in our judgment, either individually or in the aggregate, have a significant impact on the consolidated financial statements. Refer to "Summary of Audit Differences" section of this report for the listing of unrecorded audit adjustments.
Disagreements with Management	None.
Serious Difficulties Encountered in Dealing with Management when Performing the Audit	None.

Required Communications (continued)

Area	Comments
Significant Weaknesses in Internal Controls	
We communicate all significant weaknesses in internal control over financial reporting that may have been identified during the course of our audit.	No significant weaknesses in internal control were identified.
Fraud and Illegal Acts	
We report to the Audit Committee 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.	Our audit procedures include ongoing discussions with the Auditor General's Office on instances of fraud and our review of their annual report on fraud to the Audit Committee. We are not aware of any matters that require communication based on our audit procedures performed on the consolidated financial statements.
We are also required to make inquiries of the Audit Committee related to fraud, including both (1) their views about the risks of fraud, and (2) their knowledge of any actual or suspected fraud.	We would request that the Committee 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.
Consultation with Other Accountants	None of which we are aware.
Other Information in Documents Containing Audited Financial Statements	
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.	Once completed, we will review the Annual Report for consistency between the audited consolidated financial statements and other sections of the report.
Related Party Transactions	
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 Audit Committee.	Significant related party amounts that are not eliminated for the government business enterprises are disclosed within the notes to the financial statements. The significant disclosures are with respect to Toronto Hydro.
Major Issues Discussed with Management in Connection with Initial or Recurring Retention	None.

Required Communications (continued)

Area	Comments
Matters Relating to Component Entities of the Organization 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 Audit Committee 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).	The consolidated financial statements of the City reflect the assets, liabilities, revenues and expenditures of the operating fund, capital fund, reserves and reserve funds of the City, and except for the government business enterprises which are accounted for using the modified equity basis of accounting, include all organizations that are accountable for the administration of their financial affairs and resources to City Council and are controlled by the City (as noted in note 1 to the consolidated financial statements). All audit differences identified upon performance of the individual audits of the component entities of the City have been discussed with management of that entity and communicated to the Audit Committee or Board of that entity. Any audit differences identified in these entities that met our reporting threshold at the consolidated City level have been included in our detailed listing of unadjusted amounts (refer to "Summary of Audit Differences" section for details). We are not aware of any matters relating to those entities that could have a significant impact on the City's consolidated financial statements.
Auditors' Independence Canadian generally accepted auditing standards (GAAS) require that we communicate at least annually with you regarding all relationships between your organization and Ernst & Young that, in our professional judgment, may reasonably be thought to bear on our independence.	Refer to "Independence Letter" section.
Other Audit and Non-Audit Services Provided to Your Organization	Audit services provided to the City are in accordance with the request for proposal. From time to time, we have been engaged to perform specified procedures on various subsidy reports prepared by the City; however, fees have been separately negotiated and separate purchase orders have been issued for these engagements. Any fees charged to the City are included in the Fees section of this report.

Required Communications (continued)

Area	Comments
Fees	A summary of our fees is included below for your reference.

	2007 $	2006 $
Annual audit fees (City only)	$319,000	$319,000
Audit related fees:	$35,000	16,000

The above fee is in accordance with the City's request for proposal for audit services. The total annual audit fee for the entities listed in the RFP is $757,000 per year inclusive of expenses and GST. Audit related fees are with respect to amounts that are considered out of scope from the original proposal and for 2006 consisted of our audit procedures around the insurance risk liability, and the tax repayment account. For 2007, audit related fees will include the same amounts as for 2006 plus amounts for the work with respect to the new financial instrument rules for the ABC's and the accounting for the purchase and related landfill liability for the new Green Lane landfill. Current year amounts are discussed and agreed upon with management prior to billings being done.

Any additional fees billed for audit related services are disclosed in our reporting package to the respective entities. In addition, there are additional fees in the year with respect to some special reports required for Ministry purposes. These special reports generally have a fee of approximately $9,500 per report.

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
Significant Accounting Estimates – Tax Provisions (not including Payments in Lieu of Taxes)	• Valuation of property taxes is a complex process within the City due to the number of rules and regulations. The appeal process alone creates many estimates and judgments around the valuation of tax receivables at the end of the year. • As at December 31, 2007, the City has made a total provision against taxes in the amount of $396.2 million (2006 - $365.6 million). Of this provision, $373.9 million (2006 - $365.6 million) has been received from taxpayers and $336.7 million (2006 - $311.5 million) would be repaid to taxpayers if their appeal was successful and $37.2 million (2006 - $31.8 million) would be repaid to taxpayers once their vacancy rebate was processed. Amounts that are potentially repayable to taxpayers have been reclassified to accounts payable and accrued liabilities. • After the reclassification identified above, a provision of $22.3 million (2006 – $22.0 million) remains and is recorded as a reduction of taxes receivable at December 31. This provision consists mainly of provisions against interest charges and, to a lesser extent, contaminated properties. The provision also includes estimates of charitable rebates. • With respect to appeals, the 2007 at-risk rates used by management and applied against appeals were consistent with 2006. In 2006, management analyzed its at-risk rate on appeals based on appeals from 1998-2005 and determined that a rate of 7% for amounts under appeal remained appropriate for Commercial and Industrial properties. Management's analysis of the at-risk rate on appeals over the same period for the remaining property classes, namely Residential, indicated that a rate of 6% was an appropriate rate for providing for amounts under appeal. Experience in 2007 supported using the same at-risk rates in 2007. • *(see comments that continue on following page)*	• Our audit procedures include a review of the City's process for estimating the impact of appeals on current receivables recorded by the City. In addition, we correspond directly with the Municipal Property Assessment Corporation (MPAC) on the rate of appeals heard and won to test the reasonability of estimates made by City staff at year end. • Based on the benchmarks provided by MPAC in evaluating the reasonableness of the provision made, the City has provided for an amount equal to approximately 0.10% of the total assessment base (or 6% or 7% of the assessed values of the properties under appeal), which is within the guidelines determined by MPAC. • Based on our review of the assumptions used by management, historical experience with collection and subsequent receipts of receivables, we concur with the reasonableness of provisions for taxes receivable made by City staff.

Items of Audit Significance Discussed with Management (continued)

Item	Description	Audit Results and Comments
Significant Accounting Estimates – Tax Provisions (not including Payments in Lieu of Taxes) **(continued from above)**	• The Municipal Property Assessment Corporation (MPAC) has indicated a reasonable provision for amounts under appeal and reconsiderations would not exceed 0.75% of the total assessment base of the City. The City's provision for amounts under appeal is approximately 0.10% of its total assessment base. • With respect to vacancy rebates, the City is currently processing rebates related to 2004, 2005, 2006 and 2007. Applications for vacancy rebates relating to 2007 were accepted until February 28, 2008. Since vacancy rebates are not processed on a timely basis, the City estimated the 2007 vacancy rebates based on the most recent completed year. As a result, the 2007 vacancy provision was based on processed 2003 applications.	• See comments on the page above.
Significant Accounting Estimates – Payments in Lieu of Taxes	• Payments in lieu of taxes are payments made to municipalities by entities that are part of the provincial or federal government for properties that are exempt from property taxation, which mainly consist of Crown properties. • Collection history indicates that these entities will pay based on their own methods of calculating the levies, which may include the utilization of their own property assessment database, applying adjustments to the levy such as capping and clawback, and/or budgetary constraints. • As at December 31, 2007, the City has made a total provision against payments in lieu of taxes in the amount of $131.9 million (2006 - $118.3 million). Of this provision, $32.2 million (2006 - $17.6 million) has been received from taxpayers and would be repaid to taxpayers if their appeal was successful. Amounts that may be repaid to taxpayers have been reclassified to accounts payable and accrued liabilities for financial reporting purposes.	• Based on our review of the assumptions used by management, historical experience with collection and subsequent receipts of receivables, we concur with the reasonableness of the provision for payments in lieu of taxes made by City staff.

Item	Description	Audit Results and Comments
Tax Repayment Account	• In 2006, the City implemented a formal process with respect to the administration, management and disposition of taxpayer credit balances included in the City's tax repayment account. • This process allows the transfer of credit balances to general revenues once the origin of the overpayment has been verified as a tax overpayment, sufficient due diligence has been performed to notify taxpayers of these credit balances, the amounts have remained in the tax repayment account for over three years, and there have been no subsequent repayments of balances after the three years. • As a result of this formal process, approximately $9 million was recorded in revenue in 2007 (2006 - $49 million. This policy was first implemented in 2006 on a prospective basis).	• Our audit procedures tested that only amounts that satisfied the criteria of this process were transferred to revenue during the year. • Through our testing procedures, we identified instances where additional balances could have been transferred to revenue during the year but were not. Overall, these amounts were insignificant to the consolidated financial statements.
Significant Accounting Estimates – Employee Benefit Costs	• Future employee benefit costs represent a significant unfunded liability within the City. • Actuarial valuations for the other retirement and post-employment benefits are conducted on a periodic basis. The last actuarial review was completed by Mercer Human Resource Consulting in 2007 using the data as of December 31, 2006. • Mercer's new report identified actuarial losses of $65.3 million, the largest portion of which was a $70.5 million loss with respect to post retirement benefits and a $45.6 million gain on sick leave. The remaining differences were in the long term disability plan and WSIB. The main reasons for the reduction in future payments required for the post retirement benefits is a result of the change in the discount rate from 6% to 5% offset by the fact that claim costs for the City were lower than expected based on projections from the previous valuation. The change in the sick leave is again due to the change in the discount rate as noted above offset by a gain in the demographics of the employees – legacy employees with richer benefits retiring and being replaced by non-legacy employees. • The current year actuarial loss combined with experience gains and losses identified in prior valuations, results in an unamortized loss at December 31, 2007 of $133.0 million which is being amortized over a 9-15 year period.	• Our audit procedures included testing the membership data used to prepare the new report. • Our procedures included testing that the assumptions related to various rates used within the actuarial calculations were reasonable. • Our procedures included testing that the City was in compliance with the appropriate accounting principles for the calculation, presentation and disclosure of these liabilities within the consolidated financial statements. • We concur with the accruals made and the information presented within the consolidated financial statements.

Items of Audit Significance Discussed with Management (continued)

Item	Description	Audit Results and Comments
Significant Accounting Estimates – Water Receivable and Provision	• The water accrual at December 31, 2007 captures revenue between the last billing dates to the year-end for each individual account and is based on consumption estimates produced by the WMACS system multiplied by a seasonal factor as determined by management. • The provision for non-collectible water accounts relates mainly to old accounts as a policy adopted in 2003 allows for uncollected charges to be added to the tax roll. In 2007, approximately $10 million was transferred to the tax roll (2006 - $13 million). • The provision decreased to $4.5M in 2007 from $11.2 million in 2006. $6.6 million of the decrease was the result of the write-off of specific balances which reduced both the account balance and, the provision. • Non-linked water accounts are accounts for tenants who live in multi-residential or condominium units, where the units are registered under the owner of the property. As a result, arrears for these accounts are the responsibility of the tenant and cannot be added to the owner's tax roll. The provision relating to these accounts is estimated by applying a percentage based on historical experience to accounts under investigation and applying a similar percentage to an estimate of the year-end water accrual that relates to non-linked accounts. • The City's collection policy, which involves arrears notices, use of collection agencies and water shut-off, has reduced the need for any significant additional increase in the provision for the current year.	• Based on our review of the assumptions used by management and the subsequent billings for 2007, we concur with the reasonableness of accruals for water consumption made by City staff. • Based on our review of the assumptions used by management, the City's collection strategy and historical experience with collection, we concur with the reasonableness of provisions for water receivables made by City staff.

Items of Audit Significance Discussed with Management (continued)

Item	Description	Audit Results and Comments
Significant Accounting Estimates – Environmental Liabilities	• The provision for closure and post-closure costs for the City's landfill sites is one of the significant unfunded liabilities of the City. • The accounting rules are very specific as to the recording, presentation and disclosure of these amounts within the consolidated financial statements. • Other environmental liabilities that may exist within the City are accrued to the extent that there is a legal obligation to remediate the properties to a certain level. Accruals beyond this point are not required under the current accounting standards. • The purchase of the Green Lane Landfill in 2007 resulted in an additional provision for closure and post-closure costs for this active site.	• We tested the estimated cost and capacity data and tested that assumptions and rates used in the present value calculations were within a zone of reasonableness. • We have tested current year transactions and found no exceptions. We have concluded the accruals are reasonable and we concur with the disclosure within the consolidated financial statements.
New Landfill Site	• The City finalized an agreement to purchase the Green Lane Landfill in April 2007. • The purchase and the related closure and post-closure landfill liabilities have been recorded in the accounts of the City in 2007, as at the date that title and possession were transferred. • The City has disclosed the landfill closure and post-closure liabilities in Note 6 of the consolidated financial statements.	• We tested the estimated cost and capacity data and tested that assumptions and rates used in the present value calculations were within a zone of reasonableness. • We have reviewed the purchase agreement and we concur with the accounting and disclosure presented in Note 6 of the consolidated financial statements.
Significant Accounting Estimates – Other Provisions	• In addition to the significant provisions and estimates noted above, the City makes provisions against various other receivables outstanding at the end of the year. These receivables include amounts related to user charges, parking tags and various other miscellaneous receivables.	• Through our audit procedures, we review the significant receivable balances that exist at year end and review the support and work done by staff in developing estimates of uncollectible amounts. Since provisions entail a significant amount of judgment, our audit procedures are designed to test that the provisions are within a zone of reasonableness. Through our tests performed we did identify areas where estimates were outside of our zone of reasonableness and these have subsequently been adjusted for in the consolidated financial statements. We concur that the adjusted estimates of the provisions made against the significant balances as at December 31, 2007 are reasonable.

Items of Audit Significance Discussed with Management (continued)

Item	Description	Audit Results and Comments
Liabilities, Contingent Liabilities and Contractual Obligations	• The City is subject to various legal claims in the normal course of operations and is required to recognize contingent liabilities (except for loan guarantees) when an event is likely to occur and is reasonably estimable. • Management has assessed the likelihood of its contingent liabilities occurring, and in those instances where a liability is likely to occur, management has estimated its liability. • Management engaged the services of Oliver Wyman to assist in performing management's assessment of insurance related claims and drew upon the expertise of the City's internal Legal Services Department in assessing non-insurance related claims. Where necessary, the City also enquired of external legal counsel.	• Our audit procedures tested that all significant contingent liabilities of the City were included in management's assessment and that management's estimation process was reasonable. • During our testing of insurance liabilities, we identified a payment received by the City subsequent to year-end that related to recoveries of insurance claim payments in excess of deductible amounts for claims occurring prior to amalgamation. Similar payments have been received in the past and are expected in the future. We also identified an amount that was more in the nature of a commitment and not an obligation as at December 31, 2007. These amounts have been adjusted for in the consolidated financial statements. • We concur with the reasonableness of the accrual and the information presented within the consolidated financial statements, including the disclosures in Note 16 of the consolidated financial statements.
Note Receivable – Toronto Hydro	• The City holds a note receivable from Toronto Hydro in the amount of $735 million (2006 - $980 million). In accordance with the repayment loan schedule, Toronto Hydro made a payment to the City in the amount of $245 million on December 31, 2007. • This note is accounted for as a financial asset in the consolidated statement of financial activities and is disclosed in Note 3 in the consolidated financial statements.	• We concur with the disclosure in Note 3 to the consolidated financial statements.

Item	Description	Audit Results and Comments
Provincial Loan	• In 2004, the City restructured its loan with the Province of Ontario. In 2005, the City made one of two scheduled payments. The second payment to the Province was withheld and was supposed to be settled through the transfer of a property from the City to the Province. As a result of the dispute, payment has not been made on the outstanding debt since 2005. • The City continues to negotiate forgiveness of the outstanding loan with the Province. At the end of 2007, the loan had not been formally forgiven by the Province despite the Province allowing for the write off of this loan in its 2006 budget.	• The outstanding loan balance totaled approximately $170 million as at December 31, 2007. In the absence of formal forgiveness of the debt, the City continues to record both the principal and accrued interest on the loan in order to reflect the current amount owing to the Province. • We concur with management's accounting treatment of the loan.
Capital Funding Receivable from the Provincial and Federal Governments	• The City entered into a Memorandum of Understanding (MOU) on December 15, 2004 with the Provincial and Federal governments under the Canadian Strategic Infrastructure Fund (CFIS). This MOU relates to various programs of the Toronto Transit Commission (TTC) including the State of Good Repair, Ridership, Growth/Subway Expansion and Integrated Ticketing System. • On March 18, 2008, an agreement was signed between the three parties, which replaced the MOU. Under this agreement, the governments will not be required to make any payments until claims have been submitted and an annual report and external audit have been conducted. The City's accounts may also be audited by the Federal government. Once approval of these requirements is given, the City will receive its funding, which will be no later than sixty days from the receipt of the required annual report and audits. In addition to the financial audit, the Federal government will assess on an annual basis whether a compliance audit will have to be performed. • To date, the City has accrued revenues based on expenses incurred to date that meet the eligibility requirements under the MOU. At December 31, 2007, $115.5 million has been recorded as receivable from the governments for expenses incurred in 2004, 2005 and 2006. • Funding under the agreement will continue on an ongoing basis for expenses incurred until March 31, 2012. The City has until March 31, 2013 to submit all claims and there will be no obligation by the governments to fund any claims submitted after this deadline. Total funding is capped at $350 million.	• We concur with the accrual of the recovery of expenses incurred to date that will be funded under this agreement. • We encourage the City to take steps to ensure external audits of the claims are performed in a timely manner to prevent any unnecessary delays in its receipt of funding.

Items of Audit Significance Discussed with Management (continued)

Item	Description	Audit Results and Comments
Move Ontario Trust	• The Move Ontario Trust was established on March 24, 2006 to hold and invest contributions for the beneficiaries of the Trust. There are three trustees, one representing the City, York Region and the Province of Ontario, respectively. The beneficiaries of the Trust will receive fund distributions that are restricted for investment in new heavy rail inter-regional public transit infrastructure expansion referred to as the Spadina Subway Extension Project (the "Project"). • Total estimated costs of the project are $2.634 billion. The Provincial government has contributed 1/3 or $670 million to the Trust with another further contribution announced in January 2008 of $200 million. It is anticipated that there will be a Federal portion to cover another 1/3 of the project and the balance of the costs will be shared between the City and York Region at 56.96% by the City and 40.04% by York Region. • Fund assets available for distribution include contributions to the Trust and interest income earned thereon. Through discussions with management and our reading of the documents, the only restriction on the use of the interest was that the funds be used for transit purposes as per Section 3.2(8) of the Declaration of Trust document. • In 2007, the Trust approved a distribution to the City of $33.0 million, which represented the City's portion of interest income earned on the Trust's assets. The City used this distribution of interest to fund transit operating costs in 2007 as capital costs of the project had not commenced. At December 31, 2007, the receipt of $19.9 million was outstanding and is recorded in accounts receivable at year-end.	• We have reviewed the Declaration of Trust. We tested the operating revenue recorded in the year and concur with management's accounting treatment. • Through discussions with management, we understand that for 2008 onward, the City will no longer be able to use the interest on the Trust for operating purposes and as such no amount has been included in the 2008 operating budget. As part of the requirements for receiving federal funding for the project, the City had to submit a "Building Canada Fund" application to the Federal Treasury Board in May 2008. As part of this application, the City was required to demonstrate that the project is fully funded and in order to do that, the City needed to use the interest income to be earned in the funding calculation. As a result, interest for 2008 and onwards, will be used for capital purposes of the project only. • We will consider the impact of the change in the use of interest in our planning for the 2008 audit.
Gas Tax	• In October 2004, the Province introduced gas tax funding to municipalities for public transit and in June 2005, a joint announcement by the Federal, Provincial, and City of Toronto governments and the Association of Municipalities of Ontario was made in connection with the signing of two federal gas tax funding agreements. • Revenues related to funding have been recognized by the City in the amount of $226.3 million in the current year (2006 - $179.2 million).	• The City has directed the use of these funds to transit and since the amounts were spent in the year, all revenues were recognized in the year. No balances remain within the City's obligatory reserve funds, which are shown as deferred revenue on the consolidated statement of financial position as at December 31, 2007. • Based on our procedures, we concur with the accounting and disclosure relating to this funding.

Items of Audit Significance Discussed with Management (continued)

Item	Description	Audit Results and Comments
Capital Balances	• The City funds capital expenditures of certain ABC's. At any point in time, the City may show amounts payable to ABC's under this arrangement and the ABC's will show a corresponding amount receivable from the City. When discrepancies have arisen on consolidation, the City has used the ABC's reported balance and adjusted its accounts payable account accordingly. • The City would expect any differences to be cleared in the subsequent period(s); however, variances in the accounts still existed in 2007 as far back as 2000. As a result of increased reconciliations of inter-entity balances during the year, finance staff had identified $17.5 million of amounts within its accounts payable balances that are no longer owing to ABC's and have reversed these into income for the year ending December 31, 2007.	• We have reviewed management's analysis supporting this transaction and concur with the accounting treatment of these old balances in the current year.
Consolidation	• The City's budget and the day-to-day accounting within SAP are prepared on the cash basis. At year end, a process is followed by Accounting Services to ensure that the final numbers for the City's consolidated financial statements are prepared on the accrual basis in accordance with the Public Sector Accounting Board standards, which is the basis of accounting to be followed under the Ontario Municipal Act. This process involves consideration of information from the City's information system, other relevant support and information from various departments and the financial statements from each of the City's Agencies, Boards and Commissions (ABC's) that form a part of the consolidated entity. • Each of the ABC's have stand alone accounting systems and report based on the generally accepted accounting principles applicable to their organization, which may not be the same as the principles applied by the City. As a result, consolidation is a complex and manual process.	• Our audit procedures are designed to test that all entities are appropriately accounted for within the consolidated financial statements and that all required entries are made so that the City's financial information is consistent with generally accepted accounting standards applicable to the City. See the discussion below in "Elimination of Inter Entity Balances" for further details on the ABC eliminations. • In addition, through the consolidation process, we review the audit results of the consolidated entities and recognize any amounts not adjusted through their statements on the "Summary of Audit Differences" in this results package. • The complexity of the process increases the potential of errors and, as such, we had included a formal management letter point in 2005. Refer to the "Letter of Recommendations" section for further details and updates in the current year.

Items of Audit Significance Discussed with Management (continued)

Item	Description	Audit Results and Comments
Reconciliation and Elimination of Inter Entity Balances	• Part of the City's consolidation process is the elimination of inter-entity balances based on the results of the various local agencies, boards and commissions. These eliminations are performed based on the amounts reported within the various ABC's and may not agree in their entirety with the amounts recorded within the City's accounts. • As the City has continued to analyze its inter-entity accounts, and through the course of our audit, differences have been identified, some as a direct result of the complex manual adjustments referred to in the consolidation comment above.	• We audit the schedules and information provided to us by Accounting Services in detail. Our review of the eliminations that should have occurred between the entities has shown that there are judgmental differences of $1.1 million for amounts that have not been eliminated on the consolidated statements. This difference has been taken to the "Summary of Audit Differences". • While we have satisfied ourselves that there are no material differences in the consolidated financial statements, we have recommended to management that the City continue its efforts in reconciling its inter-entity balances on a regular basis, which will facilitate the elimination of account balances upon consolidation. Refer to the "Letter of Recommendations" section for further details and updates in the current year.
Pre-amalgamation Inter-company Balances	• Through our audit procedures on long-term debt, we have identified inter-company balances that were recorded on the City's accounts during amalgamation, which are long-term debts owing from the some of the former municipalities of the City. • As these balances will never be repaid to the City, management has appropriately eliminated these amounts from the consolidated financial statements of the City as part of its yearly consolidation process.	• We concur with management's elimination of these inter-company balances. We recommend that the City write off these loans as they will never be collected. As a result, the consolidation entry will be eliminated.

Items of Audit Significance Discussed with Management (continued)

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<tr><th>Item</th><th>Description</th><th>Audit Results and Comments</th></tr>
<tr><td>Financial Instruments</td><td>As noted under “New Developments in Accounting or Auditing Standards” in our planning document to the City and the various ABC’s, there were changes in the accounting for and disclosures related to financial instruments.
The new rules were effective for the City’s ABC’s fiscal 2007 year and were adopted in 2007.
The new rules required management to identify where all instruments impacted by these rules exist (e.g. hydro contracts, investments, debt/financing arrangements, etc.) and the impact of these on the 2007 financial reporting of the ABC’s.
Given the complexities of the new standard, City finance evaluated the contracts that are shared with the ABC’s (e.g. Hydro) in order to provide the appropriate accounting and disclosures to the applicable ABC’s.</td><td>We have separately audited the financial statements of the ABC’s impacted by the new rules and have separately reported thereon.
The impact of changes to the ABC’s financial statements as a result of the new financial instrument rules has been insignificant to the City’s consolidated statements; however in order to bring the ABC’s financial reporting in line with the Public Sector Accounting Principles for consolidation, these amounts have been reversed on consolidation at the City level.</td></tr>
<tr><td>Reserve Funds</td><td>During the course of our audit, we noted various observations with respect to the accounting for and administration of the reserve funds:</td><td></td></tr>
<tr><td></td><td>Throughout the year, Council will approve the establishment of various new reserve funds through Council direction or by virtue of an obligatory reserve. In many instances, there are no financial transactions upon this approval - just the approval of the fund so there is a mechanism for tracking funds once they are received. For 2007, we noted one obligatory fund approved by Council but had not been set up as at year end. There was no financial activity in this fund as at December 31, 2007 and through discussion with management, activity is not anticipated until 2009.</td><td>Although there is no significant impact on the consolidated financial statements for 2007, we do recommend that management set up reserve accounts at the time of Council direction regardless of the level of activity.</td></tr>
<tr><td></td><td>In 2007, the City established five new obligatory reserve funds relating to Transit. Council approval for the establishment of these reserve funds came after the receipt of contributions and as such the City recorded interest earned on these contributions up to the date of Council approval as operating income. Income earned on these obligatory funds should have been allocated to the appropriate fund since the date of receipt.</td><td>We have discussed the accounting treatment of this interest income with the City and management has adjusted this income to the appropriate obligatory reserve fund as at December 31, 2007.</td></tr>
</table>

Items of Audit Significance Discussed with Management (continued)

Item	Description	Audit Results and Comments
Reserve Funds (continued)	• While performing procedures over reserves and reserve funds in the year, we identified a number of accounts that remain open in SAP that have low dollar balances and have been inactive for several years. Some of these reserves and reserve funds are not included in Chapter 227 of the Municipal Code, which records the establishment and closing of all reserves and reserve funds, but have also not been included in the 2007 by-laws that close various reserves and reserve funds. • In addition, we identified errors in the classification of reserves in Chapter 227; however, Chapter 227 was amended in January 2008 to correct these misclassifications.	• Although there is no significant impact on the consolidated financial statements, we encourage the City to review SAP and Chapter 227 and take the necessary actions to eliminate any discrepancies. • These reserves have been properly classified in the 2007 financial statements.
New City of Toronto Act	• Bill 53 enacts revisions to the City of Toronto Act, 1997 (Nos. 1 and 2) and amends certain public acts in relation to municipal powers and repeals certain private acts relating to the City of Toronto. The bill received first reading on Dec 14, 2005, a second reading was debated on February 13, 2006 and the bill was passed on June 12, 2006. The new Act was effective as of January 1, 2007. • Some highlights of the revisions include the following: o the Act provides for a review after two years and then every five years thereafter. o Part II of the Act governs the City's general powers (currently this is under the Municipal Act). o provisions are made in certain sections that powers be interpreted broadly and specifically authorizes the City to provide any service that it considers necessary or desirable for the public.	• There were no new significant accounting processes implemented in the current year as a result of the new City of Toronto Act. As a result, no change in our audit strategy was required. • We will consider the impact of changes to the City processes, such as the new land transfer tax, in our 2008 audit plan. • We understand that the City will be seeking recommendation for amendments to the Act in 2008 and we will monitor this for the 2008 audit.
Cash	• During the course of our audit, we identified three bank accounts with respect to Parking Tags for which traditional bank reconciliations were not being performed. The schedules being prepared for these accounts were detailed transaction histories of activity and not a reconciliation of the ending balance per SAP to the cash balances in the bank.	• These accounts are immaterial to the consolidated financial statements. Although no significant differences were identified on these accounts, we do recommend that management follow up with the appropriate department that is responsible and have a process where these accounts will have a proper reconciliation performed and reviewed on a monthly basis.

Items of Audit Significance Discussed with Management (continued)

Item	Description	Audit Results and Comments
Capital Asset Reporting	• Included in our 2007 planning package and in previous year's reporting packages to you, we have informed you of upcoming changes to reporting developments that may have a significant impact on the City. Capital asset reporting is a significant upcoming change that will require a lot of time and resources for the City to implement. • The City has included Note 17 Tangible Capital Assets in the notes to the City's 2007 consolidated financial statements. • We understand that the City has been proactive with regards to this new standard and is very involved in projects currently underway related to the implementation of the new requirements.	• We recommend that City staff consider the impact of this new standard on the Agencies, Boards and Commissions and on their capital budget process. Specific focus should be given to capital purchases and financing that the City provides and accounts for within their own financial statements (In the ABC financial statements, many of them have a note disclosing the fact that the major capital assets are assets of the City and are not included in their financial statements). • As management addresses the required changes to implement this new standard, it is important that they maintain an adequate audit trail to permit us to verify existence, measurement and completeness of the assets. • We believe that the note disclosure presented by the City in 2007 provides adequate information on the project the City is undertaking to account for tangible capital assets and the impact that the new PSAB guideline has on the City consolidated financial statements.
International Financial Reporting Standards	• Our 2007 audit planning package presented to you new developments in accounting standards. At the time we prepared our planning package, PSAB was reviewing the introduction of the Handbook to clarify what Canadian Generally Accepted Accounting Principles (GAAP) should be applied to government organizations. Phase one of this project looked at government business enterprises and government business type organizations. In 2008, PSAB approved that these entities would apply GAAP for publicly accountable entities. • Within the City's ABC's, there will be some government business type organizations (such as the Board of Governors of Exhibition Place, TTC, Toronto Parking Authority and TEDCO) that these changes will apply to and these organizations will be required to prepare their financial statements in accordance with International Financial Reporting Standards (IFRS). This new reporting will be applicable to these entities for their 2011 financial reporting year, requiring restatement for 2010.	• We recommend management start understanding the new rules and the impacts they will have on the preparation of the financial statements of the affected ABC's and consider the impact to the City on consolidation of these organizations. • We recommend the City work with the ABC's to develop a working group that will consult and work on defining the impact on their organization of the new accounting rules.

Summary of Audit Differences

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 Expenditures	
	2007	**2006**
	$ (000's)	$
Known Audit Differences – City:		
Overaccrual of Vacation Pay	1,126	—
Overaccrual of WSIB liability	—	5,725
Underaccrual of Environmental Liability	—	(6,522)
Overstatement of general revenues related to tax overpayments	—	(1,827)
Understatement of government transfers revenue from York Region	—	3,060
Overstatement of accruals	—	1,899
Known and Likely Audit Differences – TTC and TCHC (as reported on to their respective Boards):		
TEDCO – understatement of results of operations	4,631	799
TTC - total overstatement of net expenditures	3,521	2,165
TCHC – total overstatement of net expenditures	—	2,039
Likely Audit Differences - City:		
Overaccrual of accounts payable – elimination of intercompany amounts with the ABC's	1,101	588
Overaccrual of deferred revenues re: fence deposits	911	912
Total Unadjusted Audit Differences in Net Expenditures Before Turnaround Effect of Prior Year Differences	11,290	8,838
Turnaround Effect of Prior Year Differences in Net Expenditures	(8,838)	
Total Unadjusted Audit Differences in Net Expenditures	2,452	

Independence Letter

June 10, 2008

To the Audit Committee of the Council of the City of Toronto

Dear Members of the Audit Committee:

We have been engaged to audit the consolidated financial statements of the City of Toronto (the "City") for the year ending December 31, 2007.

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 Corporation 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 May 2, 2007, the date of our last communication.

We are not aware of any relationships between Ernst & Young and the City that, in our professional judgment, may reasonably be thought to bear on our independence since May 2, 2007, the date of our last communication.

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 Corporation within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario as of May 15, 2008.

The total fees charged to the organization are set out in "Other Required Communications" in the Audit Results package.

This report is intended solely for the use of the Audit Committee, Council, management and others within the City and should not be used for any other purposes.

Yours truly,

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Letter of Recommendations

To the Audit Committee of the of the Council of the City of Toronto

Dear Members of the Audit Committee:

Re: Recommendations to Management for the year ended December 31, 2007

In planning and performing our audit of the consolidated financial statements of the City of Toronto (the "City") for the year ended December 31, 2007, in accordance with auditing standards generally accepted in Canada, we considered the City's internal control over financial reporting ("internal control") as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A weakness in internal control is a deficiency in the design or effective operation of internal control. A weakness in internal control is significant if, in the auditor's professional judgment, the deficiency is such that a material misstatement is not likely to be prevented or detected in the financial statements being audited.

During our audit, certain matters came to our attention where we feel management can either strengthen controls or improve efficiencies within its current processes. Our study and evaluation disclosed no condition that we believed to be a material weakness but did disclose certain areas for which we believe further review by management is warranted.

Recommendations to management for the individual Agencies, Boards and Commissions have been presented to their respective Audit Committees or Boards of Directors and are included within each of their "2007 Audit Results Packages" which are forwarded to the City of Toronto Audit Committee at the same time as their respective audited financial statements are forwarded. Other comments observed by us that should be considered by management, are reflected within our discussion in this results package under "Areas of Emphasis and Significant Items Discussed with Management".

We have removed the prior year point "2000 - Finance - Environmental Liabilities" from our letter as this standard has not been issued by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. We will revisit this point when the new standard becomes applicable for the City.

Points included in previous letters issued by us that we now consider complete have not been repeated in this letter. These points are as follows:

- 2006 - Finance - Preparation of Bank Reconciliations
- 2006 - Finance - General Ledger Accounts for New Bank Accounts Opened During the Year
- 2005 - Document Management System
- 2003 - Finance/WES - Deposits

Letter of Recommendations (continued)

This communication is intended solely for the information and use of management and the audit committee (ultimately Council) and is not intended to be and should not be used by anyone other than these specified parties. We accept no responsibility to a third party who uses this communication. This communication is made as at the date of our auditors report, May 15, 2008.

Very truly yours,

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

2007 – Finance – Provision over Unpaid Parking Tags

Observation

During our review of the adequacy of the allowance recorded against unpaid parking tags, we observed there was no formal process over the analysis of the adequacy of the provision for unpaid parking tags. The percentage of unpaid parking tags provided for in 2007 was consistent with overall unpaid parking tags, taking into consideration management's previous assumptions of collectibility dependent upon the age of the unpaid parking tags, however the provision was overstated as it had not been updated for current year collections.

Recommendation

We recommend management implement a formal process to reconsider and document its estimate of the provision against unpaid parking tags on an annual basis and make revisions to this estimate based on changes in the age of unpaid parking tags and historical collection patterns.

Management Comments

We agree. This recommendation will be implemented in 2008.

2007 – Information Technology - SAP Password Parameters

Observation
We reviewed the security settings for SAP and noted that password complexity requirements could be improved. Without enforcing strong and complex passwords, there is an increased risk of unauthorized or inappropriate access to the system.

Following the recent SAP upgrade project, a number of password complexity settings can now be enforced but have not been implemented by the City.

Recommendation
Management should review the available password complexity parameters and consider enforcing stronger password controls that would require password to contain a specific number of letters, numbers and special characters.

Management Comments
The SAP Competency Centre has considered the latest functionality available in password complexity settings and discovered there is a significant organizational impact that requires additional assessment. As well, the change in password complexity will require coordination with the overall I&T security function. This will be coordinated over the next 2 years within the context of the new IT Governance model and coordinated within the new SAP Governance model approved by the Business Advisory Board (BAP) in March 2008.

2007 – Information Technology - SAP Change Management Process

Observation

SAP application changes initiated by the Human Resources department are sometimes verbally authorized prior to being developed. We also noted one payroll-initiated application change that was authorized after the change was implemented in the production environment. In addition, we noted cases in which security role and profile changes were not formally approved prior to being processed in SAP.

The lack of a formal authorization process increases the risk that unauthorized changes could be implemented within SAP that could modify the SAP programs, controls and/or underlying data, which may result in a financial or operational impact.

Recommendation

We recommend that the various divisions and IT management work together to implement a common authorization process for all changes within SAP. Authorization should be formally documented and retained in a central repository.

Management Comments

We agree with this comment and have already acted on it. The SAP Competency Centre implemented an ITIL (Information Technology Infrastructure Library) -compliant Service Request Database (SRDB) in Q1 2008 to provide a repository for all changes with the corresponding business requirements documented in that same repository. ITIL is the best practices standard adopted by the City of Toronto to manage its IT infrastructure, development, and operations. The SRDB has a formal, electronic approval process in the repository with full tracking functionality. A change management function has been implemented in the SAP Competency Centre whereby all transport requests are reviewed before final approval is given.

2007 – Information Technology - Periodic User Access Review

Observation

It was noted that periodic user access reviews are currently not being performed for SAP users to verify appropriateness of access to the system. The lack of a periodic review of access assigned to users increases the risk that users obtain or retain access which is not required for their current job function or responsibilities.

Recommendation

Management should perform periodic user access reviews to ensure that system access has been granted to users appropriately based on current job functions and responsibilities.

Management Comments

We agree with this comment and have begun acting on it. Significant effort was spent in 2007 so that the SAP license restructure associated with the SAP upgrade adequately reflected system usage. However, system security management remains a shared function outside of IT division. Therefore the system access was neither analyzed nor changed during the license restructure.

Since the license restructure, all changes to user accounts (e.g. additions, changes and deletions) are monitored by the SAP Competency Centre. This ensures users have the security access specific to that position and do not take the same access to a new position.

Usage statistics reports continue to be generated monthly by the SAP Competency Centre and are available for management to make decisions about system access to job functions. As the IT Transformation project progresses and as the new SAP Governance model matures, the license management function and the system usage function will be established

2007 - Information Technology - Data Centre Access

Observation

Through our review of physical access to the data center and confirmation with data centre security reviewers, we noted several individuals with access to the data center that do not require this level of access. Failure to restrict access to the data center could result in loss of hardware or data integrity.

Recommendation

Management should perform a review of all individuals with access to the data center and ensure that access is required for the individual's job function. In addition, a periodic review of data center access should be performed to ensure that access is appropriate on an ongoing basis.

Management Comments

We agree that failure to restrict access to any data center could result in loss of hardware or data integrity. Access is controlled by employee cards and section managers authorize access for their staff. Individuals who do not have access using their ID cards are escorted while in the data center and occasionally access is granted on a temporary basis for limited duration. A formal data center Security Access process will be developed by Q4 2008 to ensure access is limited only to those individuals who need it on a regular and ongoing basis.

2007 – Information Technology - Infrastructure Change Management Process

Observation

Although testing is performed for infrastructure changes and approval to promote the change into production is documented, we noted that evidence of testing (e.g. test plans and results) is not retained. The lack of evidence of a formal testing process could result in changes being implemented into production that have not been adequately tested.

Recommendation

Test plans and results should be documented and retained for all infrastructure changes.

Management Comments

We agree with the recommendation. The Change Management Process will be modified by Q4 2008 to require the Change Requestor to provide evidence of testing as part of the documentation package.

Users will be required to retain their Test packages for audit purposes and cross reference them with the Change Order Number. For major infrastructure changes, access to the Test packages will be given to the Change Manager for post implementation review.

CARRYFORWARD OF PRIOR YEAR POINTS FROM AUDIT RESULTS

2006 – Finance - Reconciliations between the City and its Agencies, Boards and Commissions

Observation
In the City's business activities with its ABC's, we have identified instances where the accounting treatment for various transactions is not consistent between both parties and has resulted in differences in how the transactions are recorded.

Recommendation
We recommend that the appropriate accounting treatment for various transactions between the ABC's and the City be agreed upon at the time new agreements are entered into. A process that the City could look at to ensure any inconsistencies in accounting treatment are being identified in a timely manner would be the quarterly reconciliation of inter fund accounts.

2006 Management Comments
We agree with this recommendation. Accounting Services will work with the Deputy City Manager and Chief Financial Officer to develop a process in 2007 whereby the Treasurer and Accounting Services are informed of all of these agreements on timely basis. Accounting Services will work with the ABC's to bring in consistent accounting treatment for new agreements and will evaluate the timing for the reconciliation of the inter fund accounts.

2007 Update
The City has implemented a reconciliation of inter fund accounts on a quarterly basis, and in some instances, on a monthly basis, which has decreased the number of differences between the ABC's and City's intercompany accounts.

During our consolidation procedures, while minimal, we still identified areas where the accounting treatment for agreements entered into between the City and its ABC's is inconsistent and we encourage the City to continue to agree upon the appropriate accounting treatment for these agreements as they are entered into.

2007 Management Comments
For the 2007 year end, Accounting Services has worked with the ABC's with respect to quarterly intercompany reconciliations with the objective to identify outstanding issues earlier, timely resolution and ensure consistency with respect to accounting treatment for various transactions. This ongoing one-to-one communication has been undertaken to ensure the differences are eliminated and transactions are effectively recorded for the fully consolidated entity.

2006 – Information Technology – SAP Program Change Documentation

Observation
Through our review of the SAP change management process, we noted that a central change management repository is not in place. As a result, evidence supporting the change management process is retained in various locations and with various individuals involved in the process, which increases the risk of key supporting documentation being lost or misplaced. This also increases the audit effort and ability to efficiently review the operation of the change management process. This risk did not result in an audit issue since we were able to obtain evidence to support all changes selected for review.

Recommendation
We recommend that change management documentation be retained in a centralized repository. We understand that the SAP Competency Centre is reviewing different options to address this item.

2006 Management Comments
We agree with this recommendation. Implementation of SAP's change management tool, Solution Manager, began in Q4 2006. When fully implemented by the end of Q3 2007, Solution Manager will act as a centralized repository for all SAP change management documentation and approvals. The Solution Manager project will be coordinated with the City's information technology best practice initiative (Information Technology Infrastructure Library - ITIL) currently underway.

2007 Update
We understand this matter is still being addressed.

2007 Management Comments
We agree with this recommendation. The implementation of SAP's change management tool, Solution Manager, began in Q4 2006. However, the change management portion of the tool is based on extensive use of CRM (Customer Relationship Management) functionality and is therefore extremely complex to customize. A future mitigation includes replacing the CRM function with custom development to deliver the functionality needed by the City. In the meantime, a central Access database has been in place since Q1 2007 to capture all problems with their corresponding resolutions that require changes in the SAP system.

2006 – Information Technology - SAP Configuration – Review of Logs of Changes

Observation

Some SAP changes are required to be made directly in the production environment. Through our review of SAP configuration settings, we noted that SAP logging was enabled in September 2006 to log when this had occurred. At the time of review, a formal process to review and monitor these logs was not in place. Failure to monitor changes that have been made to sensitive configuration information increases the risk that unauthorized or inappropriate activity will not be detected or followed up.

Recommendation

A process to review changes to sensitive configuration tables should be implemented to ensure that changes are reviewed on a periodic basis for appropriateness.

2006 Management Comments

We agree with this recommendation. The SAP Competency Centre is working with the business stakeholders to define and implement a process for reviewing and reporting changes to these sensitive tables by Q2 2007. The frequency for reviewing changes to these tables will be defined and will be driven by the specific requirements of each table (e.g. daily, weekly, monthly, or quarterly).

2007 Update

We understand this matter is still being addressed.

2007 Management Comments

We agree with this recommendation. The SAP Competency Centre has developed a strategy for logging procedures to monitor the tables that are updated directly in the production system. The technical tables are already being monitored and logged. Due to the SAP upgrade project in 2007, the business stakeholders who update the remaining tables were not available to complete the monitoring and logging procedures unique to those tables. The SAP Competency Centre will continue to drive this process with the business owners in 2008.

2006 – Toronto Police Services ("TPS") - Information Technology - Employee Terminations

Observation

During our review we noted the following issues with the termination process of employees in the Peoplesoft application:

The monthly employee termination report sent by the Information Security group was not provided to the Enterprise Resources Management Systems Unit (ERMS) user administration group on a timely basis. For example, the listing of August 2006 employee terminations was not provided to the ERMS group until October 10, 2006. This is one of the key controls to ensure that user accounts are terminated in a timely fashion, and delays in removing terminated employees increases the risk of unauthorized or inappropriate access to the system. Changes to user accounts (including account deletions) in the Peoplesoft application are not being logged. In addition, no other records are maintained to provide evidence of the timeliness of access revocation. As a result, we could not obtain evidence that Peoplesoft user accounts are removed on a timely basis.

Recommendation

Monthly termination listings should be provided to the ERMS user administration group on a timely basis and documentation of the review should be retained to provide evidence of the timeliness of user termination processes for all user accounts removed from the system.

In addition, management should review the feasibility of logging user account changes in the Peoplesoft application to provide an audit trail of activities performed and to provide evidence of timely user administration processing.

2006 Management Comments

The ERMS Unit has made a request of the Unit Commander of the Professional Standards Unit to receive notification of terminations on a timely basis. Once the information is received, the proper action is promptly initiated by the ERMS Unit and records are kept within the unit that pertains to security changes.

The ERMS Unit does manually log the security changes and has noted the recommendation to change the PeopleSoft application to maintain a log of those changes. That request for a change to the application will be reviewed and assessed for possible implementation in the future.

2007 Update

We did not review this application as part of our audit procedures in 2007. As part of our 2008 audit strategy we will validate managements' response and provide updated comments.

2007 Management Comments

The Enterprise Resource Management Systems (ERMS) unit now receives a report detailing status changes for Service employees. This listing is produced by Communications and System Operations Services on a daily basis. ERMS unit application specialists review the listing and make changes to user accounts, in particular account deletions when appropriate. The Service considers this recommendation to be fully addressed.

2006 – TPS - Information Technology - Privileged Access to Time Recording Management System Application

Observation
During our review of users with privileged access to the Time Recording Management System ["TRMS"] application, we noted one user with "system administration" access to the TRMS application that was not required for his job function.

Recommendation
We recommend that this level of access be revoked from this user. In addition, we recommend that privileged access to the TRMS application be reviewed on a periodic basis to ensure that access of a privileged nature is restricted to authorized individuals in line with their job function.

2006 Management Comments
The Information System Services Project Leader did not realize the level of access that was in place. The level of access has been reduced to the appropriate and required level, Admin Level and process will be put in place so this doesn't happen again.

2007 Update
We understand this matter is still being addressed.

2007 Management Comments
Requests for access to the Time and Resource Management System (TRMS) application must be submitted by the member's unit commander with a description of the need for the level being requested. These requests are reviewed by ERMS unit application specialists before being actioned. As well, the Service is in the process of upgrading the TRMS system. The security module is being reviewed as part of this process. This application will be upgraded in second quarter of 2008, at which time, the recommendation will be considered fully addressed.

2005 – Consolidation Process

Observation
The City's process for consolidating all of its agencies, boards and commissions ["ABC's"] within the City's financial statements is a very complex and manual process. The complexity is created by the nature and volume of these adjustments, which significantly increases the risk of error.

As part of this process, the City consolidates and eliminates accounts with its ABC's based on the audited financial statements of each of these entities. As the City has continued to analyze its inter company accounts, errors have been identified, some as a direct result of the complex manual adjustments referred to above.

Recommendation
We recommend that management revisit the consolidation process to find ways to increase the efficiency of this process and, where possible, remove recurring manual entries that could be recorded directly in SAP.

2005 Management Comment
The consolidation process will be reviewed during 2006 and improvements will be implemented, where possible, to increase the efficiency of this process.

2006 Update
While staff have made improvements to increase the efficiency of the process, there are still a number of recurring manual entries and additional reclassification procedures performed. We recommend that staff continue to review and refine the process in order to minimize the number of recurring manual entries and reclassifications.

2006 Management Comments
The consolidation process is highly complicated due to the conversion required to translate ABC's statements to Public Sector Accounting Board (PSAB) statements. Accounting staff will continue to work with ABC's to ensure quality information is received on timely basis. In addition, accounting staff will continue reviewing the process in order to make additional improvements to streamline the consolidation process.

2007 Update
We did identify improvements to this process in 2007 as a number of recurring manual entries were recorded in SAP and eliminated from the manual entries. However, through the audit procedures we perform upon consolidation, there are still entries identified that were subsequently adjusted by management.

2007 Management Comments
Accounting Services will continue to review and make adjustments to streamline the consolidation process.

2005 – Information Technology – SAP User Termination Process

Observation
Notifications to remove terminated employees from SAP are not consistently communicated from the departments of the terminated user to the relevant SAP administrators on a timely basis. In order to compensate for this, a review of the bi-weekly HR termination report and the monthly inactive user report in SAP is carried out by the SAP user administration group. However, this review was not performed consistently throughout the year.

As a result of these two issues, we noted thirty-one cases in which a user account in SAP was not removed within thirty days of the employee's termination date. These cases include high risk terminations such as layoffs and dismissals, and included one user who was not removed until over six months after departure.

Untimely removal of user access increases the risk of inappropriate access to financial transactions and data.

Recommendation
We recommend that the City formalize the termination notification process by making it a requirement within the termination process that the IT department is notified for all employee terminations.

In addition, the requirement for the bi-weekly and monthly reviews for terminated users should be documented to ensure that the review process does occur on a regular basis.

2005 Management Comments
We agree with the recommendation. The SAP Competency Centre will work with Accounting Services, Human Resources, and Payroll, Pensions and Benefits to develop and implement formal processes for termination notification, regular reviews, and inactive/terminated user account removal by end of August 2006.

2006 Management Comments
The SAP Competency Centre now regularly receives the HR bi-weekly termination reports. As of Q4 2006, the SAP Competency Centre removes SAP access of terminated employees upon receiving the HR bi-weekly termination reports. The deletions are reported back to the business stakeholders for verification and confirmation. This procedure is being reviewed with the business stakeholders in Human Resources and Payroll and is expected to be formalized in Q1 2007.

The HR bi-weekly termination reports and monthly inactive user reports are also used for license management purposes. As a part of an overall SAP license management strategy, the SAP Competency Centre has recently conducted a review of all existing SAP named user licenses and implemented a regular monthly review of all new and deleted users.

2005 – Information Technology – SAP User Termination Process (continued)

2007 Update
Our procedures performed support management's assertion that the SAP Competency Centre has been checking the terminated employee reports bi-weekly since Q4 2006 and removes SAP users on a bi-weekly basis. However, the City of Toronto does not have a documented employee termination process for managers and supervisors to follow.

2007 Management Comments
The SAP Competency Centre has been checking the terminated employee reports daily since Q4 2006 and removes SAP users on a daily basis. The City of Toronto does not have a documented employee termination process for managers and supervisors to follow. The SAP Competency Centre has requested the business owners of the employee termination process (HR) to develop an employee termination procedure for managers and supervisors to follow.

2005 – Information Technology – TMACS/WMACS Password Settings

Observation
We reviewed the password configuration settings for the TMACS and WMACS applications and identified the following weaknesses:

- The minimum password length for a TMACS or WMACS user account is four characters and does not enforce use of characters other then letters (i.e. numbers or capitals)
- Accounts are not disabled or locked after a user attempts to log-on with an incorrect password
- Users are not prevented from re-using previous passwords when changing their user account passwords.

These issues contribute to an increased risk of unauthorized or inappropriate access to the TMACS / WMACS applications.

Recommendation
We recommend that consideration be given to improving information security by improving password security at the TMACS and WMACS application level. This would involve:

- Enforcing a minimum password length of at least 6 characters;
- Enforcing an account lockout policy to disable or lock user accounts after repeated invalid access attempts; and,
- Enforcing a password history to prevent the re-use of the previous few (i.e. five) passwords.

2005 Management Response
We agree with the recommendation. Enhanced password configuration settings will be implemented for TMACS and WMACS in the third-quarter of 2006.

2006 Management Comments
The recommendations have been implemented and completed at the end of October 2006. The following specific enhancements to the password setting function in the system were implemented:

- A user must enter a password of between 6 - 8 characters in length. At least one number and alphabet character must be used in the password in any sequence.
- The applications will lock out an user after three unsuccessful log-in attempts using incorrect passwords. Once locked out, the user must contact the System and Innovation unit to have the account un-locked.
- Users are now prevented from re-using previously used passwords when changing their user account passwords. A table of previously used passwords is maintained in the application.

2005 – Information Technology – TMACS/WMACS Password Settings (continued)

2007 Update
We did not review this application as part of our audit procedures in 2007. As part of our 2008 audit strategy we will validate managements' response and provide updated comments.

2007 Management Comments
Changes are in place, and they are functioning without issue.

2004 – Former North York Fence Deposits

Observation
This account within SAP accumulates deposits required to set up fences on the property surrounding construction sites. We understand this by-law was discontinued in 2000 and the balance in the account represents money for which refunds have yet to be requested. The balance in this account has remained consistent with prior years given few appear to be aware that these amounts are refundable to them.

Recommendation
We recommended that management establish a policy of taking these deposits into income in a predetermined and consistent manner once efforts to identify to whom these amounts are refundable have been exhausted.

2005 Management Comments
With the discontinuation of the bylaw in 2000, fence deposits are no longer required. A review of Building Division records was completed in 2005 and a process for owners to claim their deposits is being developed. Refunds to depositors will be initiated in 2006 where required.

2006 Update
As part of testing preformed it was noted that an insignificant amount of refunds had been issued to depositors during 2006 and a process for claiming deposits had yet to be developed.

2006 Management Comments
Building Services staff will submit a report in 2007 to Council with recommendations on clearing the deposits and a refund procedure. If recommendations are approved, notification will be sent to homeowners and the refund process will be initiated.

2007 Update
Similar to 2006, an insignificant amount of refunds had been issued to depositors in 2007.

2007 Management Comments
Toronto Building did not report to Council in 2007 as the Treasurer was requested by the Audit Committee, when considering the 2006 financial statements management letter points, to prepare a report on the inventory of major deposits. This report is being prepared for the July 2008 Audit Committee meeting. In the interim, Toronto Building has initiated a process to post a notice in a major newspaper and on the City website to inform the public of the existence of these unclaimed deposits. Thereafter, within 90 days after the posting of the public notice, refunds will be made to depositors who can provide evidence of a legitimate claim. Unclaimed deposits will be forfeited and transferred to an appropriate revenue account.

2003 – INFORMATION TECHNOLOGY – SAP Information Security

Our 2003 point was updated in 2005 to reflect those areas we still consider to be open. The point related to the logging, has been reissued as a separate point in 2005.

Observation

We reviewed the security within the SAP application and noted that a number of individuals outside of the SAP Competency Centre are able to modify either the SAP system or the access privileges of users within SAP. Although these users may require certain high level access, not all of them require this level of access.

As a general principle, there should be a clear separation of duties between the Information & Technology division and the Finance function. Specifically, IT users should not be granted access to application functionality and business users should not be granted access to IT functions.

As a result of these issues, there is an increased risk of security violations within the SAP system and the potential for unauthorized changes and those changes not being detected.

Recommendation

We acknowledge that there are ongoing changes being made to the IT organization as the SAP Competency Centre continues to formalize processes and take on additional responsibilities in support of the SAP environment. We recommend the security settings in SAP be reviewed and revised as appropriate for these ongoing changes and to enforce a separation of duties between the Information & Technology division and business users. In addition, the access for high level users (those that are not in the SAP Competency Centre) should be reviewed in consultation with the process owners so that users have access only to those functions required to perform their job.

2005 Management Comments

High level access is needed to manage / resolve issues arising from daily operational support. A formalized process has been in place for high level access transactions since Q3 of 2005. All high level access transactions identified in previous audits have been removed from all standard production system security profiles. When a high level access function is required to manage a production issue, an emergency profile with the high-level access is provided on a temporary basis by the business process owner to an individual user. The activity performed by the user using this emergency profile is logged and reviewed. The emergency profile is removed once the production issue is resolved.

An “Information Technology Governance and Organizational Design Review” is underway in 2006. This exercise will include a review of the accountability, roles and responsibilities for the SAP Competency Centre and the key business stakeholders and process owners in the operation and support of the SAP installation. Recommendations will be made and an implementation plan will be developed by the fourth-quarter of 2006 that will address the separation of duties between the business users and the technical staff in the Information & Technology Division.

2003 – INFORMATION TECHNOLOGY – SAP Information Security (continued)

2006 Management Comments

We agree that access to IT functions should be segregated from business functions and that a number of business users outside of the SAP Competency Centre currently do have high level access to the SAP production system. The use of IT functions by these individuals is limited to the functions allowed in the so-called "emergency" profiles. When a business user requires high level access to IT functions in SAP due to an operational support need, the emergency profile is assigned to the user and the activities performed are logged. Once the issue is resolved, the emergency profile for the user is revoked.

The SAP Competency Centre monitors all usage of these emergency profiles and compares them to the activity log. All discrepancies are reported and investigated. We continue to monitor security profiles that are developed by business users to ensure IT functions are not added to already-established business user profiles. The need for high level access by business users will continue to be reviewed with the process owners.

2007 Update

We have noted that roles and responsibilities between the IT group and various divisions with respect to SAP security have not been changed at the time of our review. Access to sensitive IT functions, IT administration and basis functions such as user administration and sensitive maintenance continues to be assigned to various business users outside of the SAP Competency Centre.

2007 Management Comments

We agree that access to IT functions should be segregated from business functions and that a number of business users outside of the SAP Competency Centre currently do have high level access to the SAP production system. There is a shared responsibility for SAP security support that spans beyond the Information and Technology division. The SAP Competency Centre makes every attempt to ensure security best practices are being followed in the other divisions. But without overall ownership, it cannot guarantee separation of IT functions from business functions is consistently followed.

The use of IT functions by business users is limited to the functions allowed in the so-called "emergency" user id's. When a business user requires high level access to IT functions in SAP due to an operational support need, the emergency user id is used and the activities performed are logged. Once the issue is resolved, the emergency user id password is reset.

The SAP Competency Centre monitors all usage of emergency user id's and compares them to the activity log. All discrepancies are reported and investigated. We continue to monitor security profiles that are developed by business users to ensure IT functions are not added to already-established business user profiles. The need for high level access by business users will continue to be reviewed with the process owners.

2001 – Information Technology - Disaster Recovery Planning

Observation

The City's reliance on information technology continues to increase. We noted, however, that the City has not yet developed a formal, organization-wide, recovery plan for critical systems in the event of a computer-related disaster. In the event of a disaster, the City would have to carry out ad hoc recovery procedures thereby increasing the risk of a significant disruption to the City's operations.

We recognize that the City is about to commence a Business Impact Analysis (BIA), which will assist in determining minimum recovery timeframes for critical business systems. The next phase in this process will be to develop the plan to meet the requirements determined by the BIA.

Recommendation

We support the City's initiatives in this area and suggest that a full Disaster Recovery Plan (DRP) be put in place as soon as possible.

2005 Management Comments

Phase 1 of the Disaster Recovery Plan - Business Impact Assessment, was completed in 2005. This report recommended as a top priority that a Disaster Recovery Site be established that would provide capability for redundancy to reduce systems risk.

A Disaster Recovery Centre is currently being constructed in conjunction with Toronto Water. We will be moving equipment into this facility commencing in the 2nd quarter of 2006.

A detailed 5 year plan and budget will be developed over the course of 2006. This plan will identify the priorities for acquiring backup infrastructure for the Disaster Recovery site and other investments required to reduce or mitigate the risks from disasters. This plan will provide progressively greater disaster recovery capabilities for the City's critical business systems.

2006 Update

We recognize that the City obtained a completed Business Impact Analysis (BIA), which will assist in determining minimum recovery timeframes for critical business systems. The next phase in this process will be to develop the plan to meet the requirements determined by the BIA. We support the City’s initiatives in this area and suggest that a full Disaster Recovery Plan be put in place.

2001 – Information Technology - Disaster Recovery Planning (continued)

2006 Management Comments
Currently the Technology Disaster Recovery Plan project is underway and is achieving key milestones. In 2006, a project charter was developed and approved by Senior Management. The charter addresses the findings in the BIA and provides a roadmap for achieving these requirements. Secondly, construction of an alternate Data Centre for disaster recovery is underway and will be completed in the third quarter of 2007. Critical infrastructure needed for doing restores at this site has been purchased and will be in place by fourth quarter of 2007. This initiative is in-line with the City's current disaster recovery strategy of restoring data from backup tapes. Third, an RFP for Professional Services has been created and will be released early in 2007. These services will assist the DR team in the creation of a formalized I&T disaster recovery plan, as well as providing architectural expertise for disaster recovery solutions. In summary, the Technology Disaster Recovery Plan project is underway and is meeting milestones.

A brief summary of planned deliverables for key financial systems is summarized below:

- Mainframe – 2007 – secondary network connection to EDS to be installed at the DR site.
- SAP – 2007 – the DR team will meet with the application owners to understand their needs and create an integration plan.
- SAP – 2008 – necessary infrastructure and application recovery plan in place.
- Tax and Water – 2008 – necessary infrastructure and application recovery plan in place.
- Telecomm Management System (TMS) – 2008 - necessary infrastructure and application recovery plan in place
- Class – 2008 – necessary infrastructure and application recovery plan in place.
- Parking Tags – 2009 - necessary infrastructure and application recovery plan in place.
- Municipal Licensing – 2010 - necessary infrastructure and application recovery plan in place.
- Children Services Budgeting System - 2010 - necessary infrastructure and application recovery plan in place.
- Capital Budgeting System - 2010 - necessary infrastructure and application recovery plan in place.

As with SAP, the DR team will meet with each application owners the year before the set deliverable date in order to create an application integration plan.

The DR team believes the above initiatives can be met within the specified timelines. However, deliverables are subject to annual budget cash flow approval and may be changed when required. By achieving the above deliverables, the City will mitigate against disruption of City operations in the event of a computer-related disaster at the City's main data centre.

2007 Update
We support the City's initiatives in this area and suggest that a full Disaster Recovery Plan (DRP) be put in place as soon as possible.

2001 – Information Technology - Disaster Recovery Planning (continued)

2007 Management Comments

The Disaster Recovery Project is currently underway. The alternative data centre has been instructed and core infrastructure and equipment has/is being installed. Full network connectivity was enabled effective November, 2007.

A professional services contract has been awarded through a competitive RFP to SunGard Availability Services to commence preparation of detailed project plans using an established disaster recovery framework. The SunGard services include providing architectural expertise to ensure each business application. High availability disaster recovery solutions will be comprehensively designed and implemented.

The target expected project deliverables for key financial systems have been updated and is summarized below:

- Mainframe: 2007 - secondary network connection to EDS to be installed at the DR site.
- SAP: 2008 - the DR team will meet with the application owners to understand their needs and create an integration plan. All necessary infrastructures and an application recovery plan will be in place early 2009
- Tax and Water: 2009. Necessary infrastructure and application recovery plan in place.
- Telecomm Expense Management system (TEMS): 2009- Necessary infrastructure and application recovery plan in place.
- CLASS: 2009-Necessary infrastructure and application recovery plan in place.
- Parking Tags: 2009 - Necessary infrastructure and application recovery plan in place.
- Municipal Licensing: 2010 - Necessary infrastructure and application recovery plan in place.
- Children Services Budgeting system: 2010- Necessary infrastructure and application recovery plan in place.
- Capital Budgeting System: 2010-Necessary infrastructure and application recovery plan in place.

The DR team will meet with application stakeholders and infrastructure support units in advance to plan, architect and plan for DR solution implementation.

2001 – TPS - Information Technology – Disaster Recovery Planning

Observation
TPS's reliance on information technology continues to increase. We noted, however, that Police Services has not yet developed a formal, organization-wide, recovery plan for business support systems in the event of a computer-related disaster. In the event of a disaster, the Service would have to carry out ad hoc recovery procedures, thereby increasing the risk of a significant disruption to the Service's operations.

We understand that the critical services, including Dispatch and '911', have recovery and continuity plans in place.

Recommendation
TPS should consider developing continuity and recovery plans for business support systems. This process should begin with a "business impact analysis" as a basis for determining the timeframe within which critical business processes need to be restored. Disaster recovery plans should then be developed to allow TPS to restore its information technology on a timely basis and to ensure minimum basic functions are carried out in the interim.

2005 Management Comments
Data is currently maintained offsite on backup tapes which are periodically rotated. The TPS has an approved three year plan to populate its systems at a Disaster Recovery Centre and have classified all current systems as to their importance and impact to the organization. All new systems which are deemed to be Class "A" (critical) will be targeted to run simultaneously at both the Disaster Recovery Centre and the normal Operations Centre. Hardware is currently being installed at the Disaster Recovery Centre and the operation of the architecture and Class 'A' systems at both sites is scheduled to proceed to mid 2006. Class 'B' and 'C' systems are currently being evaluated and a decision on the best method of providing recovery facilities is expected to be implemented in 2006.

2006 Update
We understand that a disaster recovery project is currently underway and will concentrate on those applications and supporting infrastructure deemed 'Class A' systems. We support this initiative and encourage management to ensure that plans for the 'Class B' systems (including the financial systems) are developed to allow Toronto Police Services to restore its information technology on a timely basis in the event of a disruption of service.

2006 Management Comments
The Business Units associated with the Class B applications have reviewed the Disaster Recovery plans. Class B systems would be returned to full service over the course of one to four weeks. The Business Units have confirmed that during the period, transactions would be processed manually and any backlog can be managed.

2001 – TPS - Information Technology – Disaster Recovery Planning (continued)

2007 Update
We understand this matter is still being addressed.

2007 Management Comments
The Disaster Recovery plan is the same as that referenced in the Ernst & Young December 2006 report. Additional feasible options are dependent on the Disaster Recovery budget.

Currently, TPS is working on class "A" applications and the activity to establish a disaster recovery environment with City at 703 Don Mills. Once Class "A" applications are completed, the project will review the Class "B" applications should there be any funds remaining. No further plan is in place until additional funding is available.

2001 – TPS - Information Technology – Information Security

Observation

TPS recognizes the importance of maintaining a high level of security over its administrative computer systems. We noted, however, that the password controls around TPS's computer environment might not adequately restrict unauthorized access to the systems and data. We have provided management with our technical comments by computer system. Also, we noted that there is no review of the Windows NT security logs for detection of invalid access attempts or other unusual activity.

We acknowledge the difficulties in standardizing and enforcing strict password controls for such a large and disparate computing environment, and we understand the need to balance preventative security measures with the operational necessities of swift access to computerized information faced by law enforcement officers. We understand that the IT department has been investigating methods of improving computer access security, such as biometric single sign-on.

Recommendation

We recommend that consideration be given to improving information security across all of TPS's administrative computer systems by improving password security at the network, operating system and application level. This would involve enforcing a minimum password length for all applications, a lockout after repeated invalid access attempts, and regular password ageing. We also recommend that NT Security logs be reviewed in order to detect potential invalid access attempts, or other unusual activity.

2005 Management Comments

All logs for the login system are captured centrally and used for investigation and audit purposes. The migration from the current NT environment to an XP environment will be completed by March 2006 and will enable system and application authorization and user authentication processes to be facilitated with Active Directory, a component of the XP operating system. Strong authentication requirements will be implemented late in the year with the development of a password policy which will specify the minimum length of password, password aging period and a limited period to login in order to prevent unauthorized access. This will be completed by the end of 2006.

2006 Update

This matter was unresolved as of the completion of our audit field work date.

2006 Management Comments

2 Factor Authentication has now been implemented and meets all of the recommended requirements regarding length of password, password history, password aging and establishing an account lockout policy.

2007 Update
Except for SAP, we did not review this application as part of our audit procedures in 2007. As part of our 2008 audit strategy we will validate managements' response and provide updated comments.

2007 Management Comments
As reported in the Ernst &Young 2006 report, the Strong Authentication project has been completed and the recommended requirements regarding length of password, password history, password aging and establishing an account lockout policy have been implemented. The Service considers this recommendation to be fully addressed.

2000 – FINANCE – Accounting for contributions for ABC's to the City's employee benefit reserve funds

This point has been changed to reflect the current status of the observation and recommendation as of our audit report date for 2005. With the exception of the Toronto Community Housing Corporation ["TCHC"] portion as noted below, we agree that the point has been addressed.

Observation
In 2000, with a change in accounting rules for the recognition of employee future benefit costs, we commented on ABC's who had made deposits into the City's employee benefit reserve fund for funding of these costs as they became due. With the change in rules, these entities set up a receivable from the City equal to the amount of the liability recognized. With the exception of TCHC, the City is funding costs related to the ABC's on a cash flow basis. In addition, a report was tabled with Council in May 2005 on the degree of underfunding for these liabilities for the ABC's and a funding strategy to be considered in the 2006 budget process.

TCHC is a consolidated entity within the City with its own shareholder direction. Currently, we understand that there is no resolution on the funding status of the amounts booked as a receivable in TCHC and a payable in the City.

Recommendation
We recommend that the City work with TCHC on resolving this matter in 2006.

2005 Management Comments
Discussions with TCHC staff will be arranged in an effort to resolve this matter in 2006.

2006 Update
We understand this matter is still being resolved.

2006 Management Comments
This is one of two significant issues regarding Employee Benefits that was to be resolved by the City and TCHC. A report was approved by Council September 25, 26, 27 regarding the release of Statutory Entitlement Funds for Former Metropolitan Toronto Housing Authority Employees to Toronto Community Housing Corporation resulting in $14 million transfer of funds from City to TCHC. Now that this matter has been resolved, both the City and TCHC have agreed to focus their efforts in 2007 on resolving the issue surrounding the funding strategy for the long term future employee benefit liability associated with the former Metro Housing employees and TCHC employees.

TCHC is currently preparing information to be shared with the City and will form the basis of the discussion.

2000 – FINANCE – Accounting for contributions for ABC's to the City's employee benefit reserve funds - (continued)

2007 Update
We understand this matter is still being resolved.

2007 Management Comments
Accounting worked with staff from Payroll and Benefits and TCHC to review records and provided information to Mercer to update actuarial valuation report to calculate the current amount of this financial obligation.. With the amount now updated, the City and TCHC will work together in 2008 to confirm the City's position regarding this financial obligation and develop a long-term funding strategy to flow this money to TCHC.

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