City of Toronto

Audit Results – Year Ended December 31, 2008

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

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June 18, 2009

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 consolidated 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, 2008 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, 2008 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 Audit 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

Mark Barrett, Partner/ Kathi Lavoie, Senior Manager

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 the 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 consolidated financial statements. The consolidated financial statements are the responsibility of management. Our audit was designed in accordance with generally accepted auditing standards 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 25, 2009 upon approval of the financial statements by City of Toronto Council and the completion of the following outstanding procedure: • confirmation from the Audit Committee that there are no areas of concern that have not been addressed in this document; and • letter of management representation.
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 2008 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 and cash 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.

Required Communications (continued)

Area	Comments
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 consolidated 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 2008. We had no discussions with management regarding material alternative accounting treatments.
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 "Items of Audit Significance Discussed with Management" section.
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.

Required Communications (continued)

Area	Comments
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 consolidated financial statements.	Significant audit differences identified by us have been adjusted by management. Refer to "Items of Audit Significance Discussed with Management" section where these items are discussed within their respective sections.
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 consolidated financial statements taken as a whole.	We identified misclassifications in the consolidated statement of financial position that would decrease financial assets by $43.3 million and decrease financial liabilities by $43.3 million, which have not been adjusted in the consolidated financial statements. In addition, we identified that employee benefit liabilities and amounts to be recovered from future revenues are understated by $48.0 million, which has not been adjusted in the consolidated financial statements (see items of Audit Significance Discussed with 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 related to the consolidated statement of financial activities.
Disagreements with Management	None.
Serious Difficulties Encountered in Dealing with Management when Performing the Audit	None.
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, however, during our audit certain matters came to our attention where we feel management can either strengthen controls or improve efficiencies within its current processes. See "Letter of Recommendations" section.

Required Communications (continued)

Area	Comments
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 consolidated financial statements.	Our audit procedures include ongoing discussions with the Auditor General's Office on instances of fraud and our review of its 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) your views about the risks of fraud, and (2) your 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 you inform us of your 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 consolidated financial statements of the City. 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 with the audited consolidated financial statements.
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 Notes 4 and 5 to the consolidated financial statements.
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 include the City and all organizations that are accountable to Council for the administration of their financial affairs and resources and are controlled by the City, except for the government business enterprises that are accounted for using the modified equity basis of accounting (whereby operations are brought in under one line on the financial statements of the City and the accounting policies of the entity are not converted to that of the City's), and the Toronto Waterfront Revitalization Corporation ("TWRC"), which is jointly controlled by the City, Province of Ontario and Government of Canada and is line by line consolidated for the City's 1/3rd interest. Refer to Note 1 to the consolidated financial statements. All audit differences identified in our performance of the individual audits of the component entities of the City are discussed with management of that entity and we communicated to the Audit Committee or Board of Directors of that entity. Any audit differences identified in those 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 component entities of the City that could have a significant impact on the City's consolidated financial statements.
Auditors' Independence Canadian generally accepted auditing standards require that we communicate at least annually with you regarding all relationships between your organization and Ernst & Young LLP 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 2003 and our two-year contract extension. 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. We have also recently commenced work on the recording of the City's tangible capital assets and have separately negotiated our fees for these services. 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.

	2008 $	2007 $
Annual audit fees (City only)	$449,670	$319,000
Other audit related fees	TBD	$35,000
Special reports	$34,000	$34,000

The annual audit fees are in accordance with our two-year contract extension approved by City Council ending with the audit of the December 31, 2009 consolidated financial statements.

Annual audit and other audit related fees for the City's ABC's are disclosed in our audit results reporting packages to these respective entities.

In addition to the above, there are additional fees in the year with respect to special reports required for Ministry purposes. These reports were completed for the Homelessness Partnership Initiative Program ($11,500), Gas Tax Annual Expenditures and Compliance ($15,000) and Additional Rents Payable for Ricoh Coliseum ($7,500)

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
Restatement of 2007 Consolidated Financial Statements for Employee Benefit Liabilities	• Future employee benefit liabilities represent a significant unfunded liability of the City. Actuarial valuations of the liabilities are generally performed every three years with the last one completed as at December 31, 2006 and extrapolated for 2007 and 2008. • Management engaged an actuary in 2009 to perform certain calculations with respect to the City's sick leave plan. Through this process, an error was identified by management with respect to the interpretation by the actuary of the sick leave plan benefits resulting in an error in the December 31, 2006 actuarial valuation. In addition, the City historically extrapolated and recorded its sick leave liability using expected benefit payments. As actual payments were less than expected payments, employee benefit liabilities and employment benefit expense was understated. Management has restated the 2007 consolidated financial statements except for the matter described below and included disclosures in Note 2 to the consolidated financial statements. • Management estimated that the impact of using expected payments rather than actual payments overstated the unamortized actuarial loss and therefore understated employee benefit liabilities and also amounts to be recovered from future revenues by $44.3 million at December 31, 2006. As a result, management estimated that the amortization of actuarial losses is overstated by $3.1 million in each of 2007 and 2008, which resulted in employee benefit liabilities and amounts to be recovered from future revenues being understated by $41.2 million and $38.1 million at December 31, 2007 and 2008, respectively. These amounts have not been adjusted in the consolidated financial statements.	• As disclosed in our audit planning document, certain of our procedures involve reliance on the work of specialists. In this instance, we rely on the work of the actuary for their calculation of the employee benefit liabilities and we perform certain procedures concerning the reasonableness of the data and assumptions used by the actuary in accordance with generally accepted auditing standards. These tests do not include reperformance of the actuary's calculations. • We have performed audit procedures with respect to the revised valuation prepared by the actuary as at December 31, 2006 and the restatement of the 2007 comparative consolidated financial statements and we concur with the adjustments recorded by management and the disclosures in the consolidated financial statements. • We have performed audit procedures with respect to management's estimation of the understatement of employee benefit liabilities and amounts to be recovered from future revenues at December 31, 2006. We estimate the understatement to be $55.8 million as compared to management's estimate of $44.3 million. As a result, we estimate that the amortization of actuarial losses is overstated by $3.9 million in each of 2007 and 2008 (which has been recorded in the Summary of Audit Differences), as compared to management's estimate of $3.1million. Employee benefit liabilities and amounts to be recovered from future revenues are understated by $51.9 million and $48.0 million at December 31, 2007 and 2008, respectively.

Items of Audit Significance Discussed with Management (continued)

Item	Description	Audit Results and Comments
Significant Accounting Estimates - 2008 Employee Benefit Liabilities	• As noted under the previous section, the actuary reperformed the valuation of the City's employee benefit plans as at December 31, 2006 and extrapolated the valuation for each of 2007 and 2008. Based on the revised extrapolated results for 2008, the City's employee benefit obligation increased $165.0 million. • *(see comments that continue on following page)*	• As noted above, our audit procedures include reliance on the work of specialists. We performed procedures including: ○ comparing the membership data used to prepare the new report to the employee data previously tested in 2007. ○ testing that the assumptions related to various rates used within the actuarial calculations were reasonable. ○ 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. • *(see comments that continue on following page)*

Item	Description	Audit Results and Comments
Significant Accounting Estimates - 2008 Employee Benefit Liabilities (continued)	• *(see comments from preceding page)* • The accounting policies for employee benefit liabilities followed by the ABC's in the reporting of their financial results differ from the policies followed by the City. • Under the Public Sector Accounting ("PSA") Handbook, which is the guidance for the City, actuarial gains and losses are amortized over the expected average remaining service life ("EARSL") of employees and past service costs are recognized immediately. Under the CICA Handbook (guidance for the ABC's), actuarial gains and losses may be recognized immediately or amortized over EARSL and past service costs are amortized over EARSL. In addition, the discount rate under the PSA Handbook is the City's internal cost of borrowing, however, under the CICA Handbook; discount rates are required to be consistent with market rates of high quality debt instruments, with cash flows that match the expected benefit payments. • The City has recorded adjustments in their financial statements to align the policies of all of the ABC's with its own, except for Toronto Community Housing Corporation ("TCHC") and the Toronto Transit Commission ("TTC"). TCHC and TTC have independent actuarial valuations completed under their own accounting policies, and do not incorporate what the valuations would be under the PSA Handbook policies. The City arranges the actuarial valuation for all the other entities under the PSA Handbook and these results are incorporated by the City in the consolidated financial statements.	• *(see comments from preceding page)* • We analyzed the impact of aligning TCHC and TTC's accounting policies with the policies of the City. As a result of our procedures, we recorded an underaccrual of employee benefit liabilities of $16.4 million on the Summary of Audit Differences. This underaccrual was mainly the result of TCHC recognizing actuarial gains in 2008 of $13.9 million immediately in their statement of financial activities thereby reducing employee benefit liabilities, which would have been recorded to the statement of financial activities over EARSL under the PSA Handbook. • Except for the audit difference discussed above, we concur with the information presented in the consolidated financial statements.

Item	Description	Audit Results and Comments
Restatement of 2007 Financial Statements for Consolidation of Toronto Waterfront Revitalization Corporation	• The Government of Canada, Province of Ontario and the City each contribute to one third of the TWRC's priority projects. During 2008, management of the City became aware that the Government of Canada and the Province of Ontario each account for their non-controlling interests of TWRC in their respective financial statements, whereas the City has not. As a result of a change in the organizational structure of TWRC, TWRC changed from a provincially controlled entity to a corporation without share capital. Nothing was reported to management at the time of this change and the City had continued to account for their participation in the projects on an expenditure basis. • As a result of the information obtained in 2008, the City has restated the 2007 comparative consolidated financial statements to proportionately consolidate its one-third interest in TWRC as disclosed in Note 2. • TWRC's year-end is March 31, which does not substantially coincide with the City's December 31 year-end. As a result, management consolidated the results of TWRC using internally generated financial statements for the 12 month period ended December 31 provided by TWRC.	• We concur with management's decision to consolidate its share of the revenues and expenditures, assets and liabilities, and accumulated surplus of TWRC. • We have performed audit procedures on the proportionate consolidation of TWRC and the restatement of the 2007 comparative consolidated financial statements and concur with the adjustments recorded by management and the disclosures in the consolidated financial statements.

Item	Description	Audit Results and Comments
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 City of Toronto 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 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 principles applicable to the City. See the discussion below in "Elimination of Inter Entity Balances" for further details on the ABC eliminations. • We reviewed the accounting policies of the consolidated entities for differences in generally accepted accounting policies. Upon consolidation, ABC's that are consolidated are to conform to the accounting policies of the City. See discussion under 'Significant Accounting Estimates – 2008 Employee Benefit Liabilities' above, which discusses the impact of differences in policies between TCHC and TTC that have not been adjusted by the City. We have also recorded an item on the Summary of Audit Differences with respect to the recording of non-financial assets of $1.3 million by TEDCO, the accounting of which differs under the PSA Handbook and has not been adjusted in the City's consolidated financial statements. • In addition, through the consolidation process we review the audit results of the consolidated entities to recognize any amounts not adjusted through their statements that should be recorded on the City's 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 our update in the current year.

Items of Audit Significance Discussed with Management (continued)

Item	Description	Audit Results and Comments
Reconciliation and Elimination of Inter-Organizational Balances	• Part of the City's consolidation process is the elimination of inter-entity balances based on the results of the various local ABC's. 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.	• We audit the schedules and information provided to us by Accounting Services. Our review of the eliminations that should have occurred between the entities has shown that there are judgmental differences of $1.0 million (2007 - $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.

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 appeals process alone creates many estimates and judgments around the valuation of taxes receivables at the end of the year. • As at December 31, 2008, the City has made a provision against taxes in the amount of $10.8 million (2007 - $22.3 million). This provision consists mainly of provisions against interest charges and, to a lesser extent, contaminated properties. The provision also includes estimates of charitable rebates. • The City has collected payments from taxpayers for tax bills that are currently being appealed. As a result, amounts that are potentially repayable to taxpayers of $364.4 million (2007 - $336.7 million) have been reclassified to accounts payable and accrued liabilities. • The City has also collected payments from taxpayers that may have to be repaid once their vacancy rebates are processed. Amounts that are potentially repayable to taxpayers of $44.5 million (2007 - $37.2 million) have been reclassified to accounts payable and accrued liabilities. • With respect to appeals, in 2008 management calculated the average reduction to the current value assessment ("CVA") for all closed appeals by major property class. Management then determined its at-risk rate based on this average reduction of the CVA by including only those years where >80% of the appeals in that year have been closed. This was done in order to not distort the average loss rate in years where relatively few appeals have been closed. • Management applied these at-risk percentages to all major property classes, except for appeals on commercial properties, and recorded a provision based on this amount. • *(see comments that continue on following page)*	• Our audit procedures included a review of the City's process for estimating the impact of appeals on current receivables recorded by the City. In addition, we corresponded 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, which is within the guidelines determined by MPAC. However, based on MPAC's range, a provision anywhere between zero and $2.4 billion would fall within their range, which is not precise for our audit purposes. • For each property class other than commercial, we compared management's at-risk rate used to calculate the appeal provision to the average adjustment rate experienced since 1999 and found them to be comparable. • For the commercial property class, management used an at-risk rate of 7.5% as compared to the average adjustment rate of 5.45% experienced since 1999. Management used the higher at-risk rate as a greater number of open appeals pertained to properties with higher original assessment values. • *(see comments that continue on following page)*

Item	Description	Audit Results and Comments
Significant Accounting Estimates – Tax Provisions continued (not including Payments in Lieu of Taxes)	• *(see comments from preceding page)*	• *(see comments from preceding page)*
	• For commercial properties, the at-risk rate was analyzed in the same manner described above; however management chose a higher at-risk rate than the average reductions to the CVA for closed appeals because a large portion of the assessment balance is still open (approximately 52%) and management didn't believe the historical average rate was reflective of the actual taxes at risk.	• Based on the qualitative factors provided by management to support the at-risk rate, we compared their rate to the year that had the highest adjustment rate, which was 7.23%. The difference of using 7.23%, as compared to management's rate of 7.5%, results in an overaccrual of the commercial property appeals provision by $10.9 million, which we have recorded as a judgmental difference on the Summary of Audit Differences.
	• 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 2005, 2006 and 2007. Applications for vacancy rebates relating to 2008 were accepted until February 28, 2009. Since vacancy rebates are not processed on a timely basis, the City estimated the 2008 vacancy rebates based on the most recent completed year. As a result, the 2008 vacancy provision was based on processed 2004 applications.	• We have tested management's estimates for vacancy rebates to be issued and concur with the provision recorded against property taxes.
	• In addition to vacancy rebates, the City also has a Charitable Rebate Program and Heritage Property Rebate program. Under both programs, taxpayers are permitted to submit rebate applications for refunds of their property taxes or a portion thereof.	• We have tested management's estimates for charitable rebates, which is based on historical rebates issued, and concur with the provision recorded against property taxes. • We have tested management's estimates for heritage rebates to be issued and have concluded that the provision against property taxes for these rebates is overstated by $1.4 million when comparing the provision to the actual claims submitted and the rebate that would be eligible for repayment under the program. We have taken this amount to our Summary of Audit Differences as a judgmental difference.

Items of Audit Significance Discussed with Management (continued)

Item	Description	Audit Results and Comments
Significant Accounting Estimates – Tax Provisions on 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. • 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 clawbacks, and/or budgetary constraints. • As at December 31, 2008, the City has recorded a total provision against payments in lieu of taxes in the amount of $147.2 million (2007 - $131.9 million). Of this provision, $24.2 million (2007 - $32.2 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 testing of the assumptions used by management, historical experience with collection and subsequent receipts of receivables, we concur that the provision recorded against payments in lieu of taxes made by the City is reasonable.
Land and Vehicle Transfer Taxes	• During 2008, the City implemented the Municipal Land Transfer Tax and the Personal Vehicle Tax. • Revenue recognized under the Municipal Land Transfer Tax and Personal Vehicle Tax was $165.7 million and $15.0 million, respectively.	• Our audit procedures included gaining an understanding of these new processes and testing revenue recorded as a result of these new taxes. • We concur with the accounting and disclosures for these new sources of revenue in the 2008 consolidated financial statements.

Items of Audit Significance Discussed with Management (continued)

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 $3.6 million was eligible to be recorded in revenue in 2008 (2007 - $9 million of revenue).	• Our audit procedures tested that only amounts that satisfied the criteria of this process were transferred to revenue during the year. As a result of our procedures, we identified eligible balances totaling $3.6 million that were eligible for transfer to income; however, they remained in the tax repayment account. • Due to the increasing number of taxpayers claiming refunds in the current year, management decided not to bring amounts into revenue in the current year. • We have reviewed refunds processed during the year and found them to be minimal. We believe management should transfer these old balances to income from the tax repayment account in accordance with the policy established in 2006. As a result, we have taken $3.6 million to the Summary of Audit Differences as an underaccrual of revenue. See Summary of Audit Differences section. • In addition to the above, we also noted instances where balances had been transferred to the tax repayment account from the tax suspense account while refund discussions were still ongoing with the taxpayer. This is contrary to the City's policy. While this issue is immaterial to the consolidated financial statements, we recommend management review their process for making transfers into the tax repayment account.

Items of Audit Significance Discussed with Management (continued)

Item	Description	Audit Results and Comments
Significant Accounting Estimates – Water Receivable and Provision	• Water revenue is based on water production being charged to users at water rates approved by Council. The water accrual at December 31, 2008 captures revenue between the last billing dates to December 31 for each individual account and is based on consumption estimates produced by the City's water information system multiplied by a seasonal factor as determined by management. • The provision for non-collectible water accounts relates mainly to old accounts as the City adopted a policy in 2003 to allow for uncollected charges to be added to the ratepayers tax roll. In 2008, approximately $14 million was transferred to the tax roll (2007 - $10 million). • The provision for non-collectible accounts increased to $6.2M in 2008 from $4.5 million in 2007. The majority of the $1.7 million increase was the result of the City providing for inactive accounts that previously was not provided for as management believed they could be transferred to the tax rolls. In 2008, the City met with significant resistance when adding these water charges to the tax rolls of the current property owners as these arrears related to previous property owners. • 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. • Management believes 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.	• We analyzed water production data and approved water rates in order to determine an expectation of water revenue for the year. We also analyzed the change in production data and approved water rates over 2007 to set an expectation of fluctuation in water revenues year-over-year. We included certain assumptions over water loss and unbillable water revenue in setting our expectations. We compared our expectation with revenue recorded by the City and concluded that water revenue recorded by the City is within our range of reasonableness. • We tested assumptions used by management to estimate the year-end accrual, performed detailed testing of individual account balances included within the accrual and tested subsequent water billings and collections for water consumed in 2008. We conclude that the water revenue accrual recorded by the City is within our range of reasonableness. • Based on our review of the assumptions used by management, the City's collection strategy and historical experience with collection, we concluded that the provision for water receivables recorded by the City is within our range of reasonableness.

Item	Description	Audit Results and Comments
Significant Accounting Estimates – Parking Tags Receivable	• Included in accounts receivable is management's estimate of revenue expected to be collected from fines issued for parking infractions. Management's accrual estimates are based on historical collection experience for these fines.	• We analyzed historical collection information to set an expectation of what we would consider a reasonable year-end receivable for unpaid parking tags. • We tested management's assumptions and analysis and concluded that the year-end receivable was outside our range of reasonableness as collection history supported a higher year-end receivable than was recorded. We recorded an underaccrual of revenue of $4.9 million on our Summary of Audit Differences. This underaccrual was subsequently recorded by management. • We concur that the adjusted year-end receivable for unpaid parking tags is within our range of reasonableness at December 31.
Significant Accounting Estimates – Provincial Offences Revenue	• Included in accounts receivable is management's estimate of revenue expected to be collected from fines issued for provincial offences, other than parking fines mentioned above. Management's accrual estimates are based on historical collection experience for these fines and management's expectation of fines to be collected in the upcoming year.	• We analyzed historical collection information to set an expectation of what we would consider a reasonable year-end receivable for unpaid provincial offences. • We tested management's assumptions and analysis and concluded that the year-end receivable was outside our range of reasonableness as collection history supported a higher year-end receivable than was recorded. We recorded an underaccrual of revenue of $6.5 million on our Summary of Audit Differences.

Items of Audit Significance Discussed with Management (continued)

Item	Description	Audit Results and Comments
Investments	• TCHC's investments are recorded at fair value in their financial statements in accordance with the accounting policies they are required to follow. As a result, their pooled investments were reduced from an original cost of $180.1 million to a market value of $143.1 million at December 31, 2008. • Under the City's accounting policies, investments are recorded at amortized costs less any amounts written off to reflect permanent declines in value. During the consolidation process, the City recorded an adjustment of $37.0 million to reflect permanent declines in the fair value of TCHC's pooled investments and has adjusted these investments to below original cost in the City's consolidated financial statements.	• We concur with the accounting and disclosures in the consolidated financial statements.

Item	Description	Audit Results and Comments
Investments in Government Business Enterprises - Consolidation of Toronto Economic Development Corporation and incorporation of two new entities	• On October 6, 2008, the Executive Committee of Council resolved that two new corporations, Build Toronto and Invest Toronto, be established and that the City Manager, CFO, CCO, Deputy Mayor and the Chair of the Economic Development Committee become the new Board of Directors of TEDCO and replace the existing Board members. • Based on the above resolution, the new corporations were incorporated on November 14, 2008. On that date, TEDCO was deemed not to be able to meet the definition for accounting purposes of a government business enterprise ("GBE") as TEDCO no longer was considered to be able to maintain its operations outside of the government entity in the normal course of its activities. As a result, the City has accounted for TEDCO under the modified equity basis of accounting to November 13, 2008 and has line by line consolidated the accounts of TEDCO commencing November 14, 2008 to December 31, 2008. Build Toronto and Invest Toronto are also consolidated in the City; however, there was no activity in these companies in 2008. • Included in our 2008 planning package, we informed you of likely transactions between the City and TEDCO with respect to land transfers. Under the modified equity method, transactions and balances are not eliminated; however, gains and losses are eliminated on any purchase or sale transactions for any assets that will remain in the City's financial statements. Transactions after November 13, 2008 are fully eliminated in the consolidated accounts of the City.	• We concur with management's change in accounting for TEDCO to consolidate its operations, effective November 14, 2008 and the consolidation of the two new entities – Build Toronto and Invest Toronto. • We have reviewed the accounting for TEDCO under the modified equity basis of accounting to November 13, 2008 and the line by line consolidation of TEDCO's accounts thereafter to December 31, 2008 and, except for the item recorded on the Summary of Audit Differences with respect to the recording of non-financial assets of $1.3 million (see discussion under "Consolidation" above), we concur with the adjustments recorded by management and the disclosures in the consolidated financial statements.

Items of Audit Significance Discussed with Management (continued)

Item	Description	Audit Results and Comments
Investments in Government Business Enterprises – Toronto Hydro Corporation	• During the year, the Board of Directors of Toronto Hydro Corporation (“Hydro”) declared and paid dividends to the City, which included a $75 million special dividend in relation to Hydro’s sale of the shares of Toronto Hydro Telecom Inc. • The City accounts for its investment in Hydro using the modified equity basis of accounting. Dividends represent the conversion of this investment into cash and reduces the carrying value of the City’s investment.	• We have tested the dividend’s declared and paid to the City and concur with the accounting for these dividends and disclosure in the consolidated financial statements.
Investments in Government Business Enterprises – Toronto Parking Authority	• From time-to-time, the Toronto Parking Authority (“Authority”) will return to the City any excess funds above their capital funding requirements. During 2008, the Authority approved a one-time distribution of $20 million to the City, which was paid to the City in 2009.	• The City originally recorded the transaction in 2009 when the funds were received. As the approval by the Authority’s Board of Directors occurred in 2008, this transaction should have been recorded in 2008. We have taken this amount to our Summary of Audit Differences, which was subsequently adjusted by management.
Note Receivable – Toronto Hydro	• The City holds a note receivable from Toronto Hydro in the amount of $735.2 million (2007 - $735.2 million). In accordance with the repayment loan schedule, Toronto Hydro is scheduled to make its next payment to the City on the last business day before December 31, 2009 (December 2007 - $245.1 million). • This note receivable is accounted for as a financial asset in the consolidated statement of financial position and is disclosed in Note 4 in the consolidated financial statements.	• We concur with the disclosure in Note 4 to the consolidated financial statements.
Public Transit Funds	• The City receives funds for public transit expenditures under various funding agreements. The more significant programs are as follows: • Move Ontario 2020 Program: During 2008, approximately $452.5 million has been received from the Province under the Move Ontario 2020 program and is restricted for specific transit projects. Expenditures to date have been minimal and consist mainly of the Transit City Plan for $7.1 million and the balance has been recorded in the City’s obligatory reserve funds at year-end.	• We have reviewed the agreements related to the Move Ontario 2020 Program and concur with the accounting for these funds and disclosures in the consolidated financial statements.

Item	Description	Audit Results and Comments
Public Transit Funds (continued)	• Ontario Bus Replacement Program: The City entered into a Letter of Agreement with the Province under the Ontario Bus Replacement Program ("OBRP") for funding up to a maximum of $26.9 million, which is payable in equal instalments over a 12-year period beginning in 2008. The discontinuance of funding of this program is at the discretion of the Province. During the year, the City recognized $25.7 million of expenditures that are eligible for funding under this program. At December 31, 2008, only a portion (1/12th) of the funding related to these expenditures was recognized as revenue as the Province can, at its sole discretion, discontinue future funding for this program upon giving 30-days notice to the City. The remaining revenue (11/12th) has been accrued as accounts receivable and deferred revenue. The revenue will be recorded in income on an annual basis, which will reduce the accounts receivable and deferred revenue balances over time.	• We have reviewed the agreements related to the Ontario Bus Replacement Program and believe an allowance against accounts receivable should have been recorded instead of recording deferred revenue, which would align the collection risk of the agreement with accounts receivable. • Except for the above balance sheet misclassification, we concur with the accounting for these funds and disclosures in the consolidated financial statements.
	• Gas Tax Program: 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 $242.7 million in the current year (2007 - $226.3 million). No balances remain within the obligatory reserve funds as all funds were spent during the year.	• We have reviewed the agreements related to the Gas Tax Program and concur with the accounting for these funds and disclosures in the consolidated financial statements.

Item	Description	Audit Results and Comments
Public Transit Funds (continued)	• Canada Strategic Infrastructure Fund: 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 ("CSIF"). 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, a contribution 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. To December 31, 2008, revenue of $393.3 million has been recognized for eligible expenditures to date, $171.5 of which was incurred in 2008. 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 $1.050 billion, which is being funded equally by the City, Province and Federal government at $350 million each.	• We have reviewed the agreements related to CSIF and concur with the accounting for these funds and disclosures in the consolidated financial statements.

Item	Description	Audit Results and Comments
Public Transit Funds (continued)	• 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 $670 million to the Trust with a further contribution announced in January 2008 of $200 million. An agreement was reached with the Federal government to contribute $697 million to the Trust and the remaining costs (1/3 of $2.634 billion or $878 million) will be shared between the City and York Region at 59.96% by the City and 40.04% by York Region. Investment income of $189 million is expected to be earned on the Trust and represents the remaining funding to fully finance the project. 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 2008, the Trust approved a distribution to the City of $11.5 million, which represented the City's portion of interest income earned on the Trust's assets and was recorded as income in a discretionary fund in 2008. Only minimal expenditures have been incurred to date. As at December 31, 2008, the receipt of $11.5 million was outstanding and is recorded in accounts receivable at year-end.	• We have reviewed the Declaration of Trust. In 2007, the City received special approval to use the interest from the Fund for operating purposes. • 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, for 2008 and onwards, the City is no longer able to use the interest earned on the Trust for operating purposes and as such, no amount was included in the 2008 operating budget. Interest for 2008 and onwards is for capital purposes of the project only. • We believe the recording of interest of $11.5 million in a discretionary reserve fund in 2008 is not in accordance with the Declaration of Trust and that given the restrictions placed on the spending of the funds, they should be deferred until spent and not fully recognized as income. We have taken this balance to our Summary of Audit Differences.

Items of Audit Significance Discussed with Management (continued)

Item	Description	Audit Results and Comments
Deferred Contributions from the Investing in Ontario Act, 2008	• All municipalities receive infrastructure funding under the Investing in Ontario Act, 2008. Funding of $238.2 million has been allocated to the City. • Under the Act, the use of these funds is at the discretion of the City as long as it is capital in nature. • The City requested to use these funds to pay debt servicing costs incurred for capital debt financing for public transit, which was approved by the Province in 2009. • At December 31, 2008, no reserve fund had been established for these funds and the full balance was recorded as deferred revenue.	• We tested the receipt of these funds in 2008 and reviewed the approval from the Province to use these funds to pay debt servicing costs incurred for capital debt financing for public transit. • We concur with the accounting for these funds and disclosures in the consolidated financial statements.
Significant Accounting Estimates – Contingent Liabilities, including Property and Liability Claims	• The City is subject to various property and liability claims in the normal course of operations and is required to recognize liabilities (except for loan guarantees) when an event is likely to occur and can be reasonably estimated. • 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 has drawn 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. • Management engaged the services of an actuary to assist in performing management's assessment of insurance related claims.	• 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 noted that the actuary's initial valuation did not apply a discount rate in determining the liability or incorporate a margin for adverse deviations. An addendum to the original report was issued by the actuary, which incorporated our comments above and resulted in the understatement of property and liability claims by $10.0 million, which we have recorded on our Summary of Audit Differences. Management subsequently adjusted the liability for this understatement. • We concur with the reasonableness of the accruals made and the disclosures in the consolidated financial statements.

Items of Audit Significance Discussed with Management (continued)

Item	Description	Audit Results and Comments
Significant Accounting Estimates – Landfill Closure and Post-Closure Costs and Other 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 Green Lane Landfill (purchased in 2007) continues to be the only active landfill site held by the City of Toronto and provisions for closure and post-closure costs for this active site are included in this liability. • 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 and are recorded in other liabilities. Accruals beyond this point are not required to be recorded under the current accounting standards.	• Our audit procedures included testing the landfill capacity data for the City's active landfill site and testing estimated closure and post-closure costs. The reasonableness of estimated costs was compared to actual experience. Our procedures also included testing that management's assumptions over inflation and the discount rate used in the present value calculation were within a range of reasonableness and that the present valuation calculation was properly performed. • We concur with the accounting and disclosures in the consolidated financial statements.
Provincial Loan	• In 2004, the City restructured its loan with the Province of Ontario and 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 2008, the loan had not been formally forgiven by the Province.	• The loan balance outstanding is approximately $170 million as at December 31, 2008. 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. • As part of our audit procedures, we confirmed the loan balance with the Province and reviewed the accrued interest for reasonableness. No exceptions were noted. We concur with management's accounting treatment of the loan.

Items of Audit Significance Discussed with Management (continued)

Item	Description	Audit Results and Comments
Reserve Funds	During the course of our audit, we noted various observations with respect to the accounting for and administration of the reserve funds: • In our 2007 Audit Results Package we indicated that 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. • While performing procedures over new reserve and reserve funds created in 2008 we noted that some of these Council approved 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.	• In 2008 it was noted that inactive accounts with low dollar balances had been blocked in SAP, which disabled the ability to record amounts to these accounts. We concur with this treatment as there have been no activities in these accounts in 2008. • Although there is no significant impact on the consolidated financial statements, we encourage the City to review Chapter 227 of the Municipal Code and take the necessary actions to eliminate any discrepancies.
Unreconciled Cash Receipts	• During the course of performing our procedures over cash, we identified certain bank reconciliations for accounts related to the City's Visa, Mastercard and Debit card cash receipts that included unreconciled receipts dating back to 2007 due to insufficient information.	• While these accounts and the unreconciled cash receipts are immaterial to the consolidated financial statements, we recommend that unreconciled items are resolved in a timely manner.
Pre-amalgamation Inter-company Balances	• Through our audit procedures on accounts receivable, we have identified inter-company balances that were recorded on the City's accounts during amalgamation, which are long-term debts owing by former municipalities to the City. • As these balances will never be repaid to the City, management has 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)

Item	Description	Audit Results and Comments
Credit Crisis	• Included in our 2008 planning package, we informed you of possible impacts that the credit crisis may have on the City. • As a result of disruptions in the credit markets, certain of the ABC's reported declines below market in their investment portfolio. The City has considered these as permanent impairments and has written these investments down to market value at December 31, 2008. • Many indicators suggest continued credit, valuation and liquidity turmoil. As media focus remains high, organizations continue to evaluate actual and possible consequences, and investors further adjust their risk profile. In this environment, the City could face business disruption, liquidity constraints and other negative consequences. In addition, prolonged adverse economic conditions may increase the risk of fraud within the organization and we encourage the City to monitor the economic environment and the impact on fraud. • In addition to the valuation issue for investments, the credit crisis brings about more concerns with respect to the increased risk of attempts of fraud by individuals on the City.	• Given the nature of the City's operations and its accounting policies for cash, investments, accounts receivable, mortgages and long-term debt, we anticipated that the credit crisis would not have a significant impact on the City's consolidated financial statements, except for equity investments held by certain agencies of the City. • Throughout the course of our audit we have had ongoing discussions with management and the Auditor General on the risks of fraud and reported fraud instances. Beyond our discussions and heightened awareness of the risks in the current environment, there was no impact on our audit procedures.
Segmented Reporting	• The City has presented expanded segmented information in the consolidated financial statements this year; see Note 18 and Appendix 2-4, as a result of a new Public Sector Accounting Board ("PSAB") requirement.	• We have performed audit procedures on the new segmented disclosures and concur with management's presentation of the information.

Item	Description	Audit Results and Comments
Capital Asset Reporting	• Included in our 2008 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 significant time and resources for the City to implement. • The City has included Note 20 - Tangible Capital Assets in the notes to the City's 2008 consolidated financial statements, which describes the City's progress towards implementation of the new requirements.	• We are in the process of performing audit procedures over the City's implementation of tangible capital asset reporting, which will continue as this project progresses through its implementation phases in preparation for the 2009 reporting year. • We concur with the note disclosure presented by the City.
Personnel Changes in the Organization	• As indicated in our 2008 audit planning package, we were aware of personnel changes in the City's administrative structure, specifically in the City Manager, Deputy City Manager and Chief Financial Officer, Treasurer and Director of Accounting Services roles. We indicated to you that we would consider these changes in assessing the effectiveness of internal controls at the entity level and the impact, if any, on our audit strategy.	• Personnel changes occurring during the year did not have a significant impact on the effectiveness of the City's internal controls at the entity level or our audit strategy.

Changes to the 2008 Financial Statements	• The significant changes to the consolidated financial statements not addressed elsewhere in this section on items of audit significance discussed with management, are as follows:
	  • Note 3: Investments include the disclosure of cost, market value and carrying value for the components of other investments for 2008 and 2007.
	  • Note 7: New note added to disclose the more significant components of other liabilities.
	  • Note 19: Includes disclosure of new contracts awarded by the Toronto Transit Commission in 2008 and additional disclosures on the TEDCO environmental liabilities.
		• We concur with the changes to the financial statements.

Items of Audit Significance Discussed with Management (continued)

Item	Description	Audit Results and Comments
Accounting Changes in Canada	• In our audit planning package previously presented to the Audit Committee, under "New Developments in Accounting and Auditing Standards", we informed you of the strategic direction for financial reporting adopted by the Accounting Standards Board ("AcSB") in Canada. • For publicly accountable entities, Canadian GAAP (the CICA Handbook – Accounting) will be replaced by International Financial Reporting Standards ("IFRS") and cease to exist as a separate, distinct basis of financial reporting for publicly accountable enterprises. Adoption of IFRS is required for years beginning January 1, 2011 (including comparatives for 2010). • Some of the City's ABC's are currently directed by the PSAB to adhere to the standards in the CICA Handbook – Accounting. Given significant resistance to the change, PSAB and the AcSB are considering alternatives for reporting by these entities. • PSAB and the AcSB issued two Invitations to Comment ("ITC") that set out alternatives for Financial Reporting. Alternatives presented in the ITC's include applying IFRS, the PSA Handbook or the PSA Handbook supplemented by the 4400 series of sections currently in the CICA Handbook – Accounting.	• The results of the ITC will determine whether amendments to the existing Introduction to Public Sector Accounting Standards are required. Any amendments may change the appropriate source of generally accepted accounting principles used by the City's ABC's, which will impact the City's consolidation process in preparing the consolidated financial statements. • We will keep apprised of developments as they occur and discuss with management the impact of any decisions of PSAB.

Summary of Audit Differences

During the course of our audit, we accumulate differences between amounts recorded by the City 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 Excess of Expenditures over Revenue	
	2008	**2007**
	$ (000's)	$
Known Audit Differences – City:		
Underaccrual of employee benefit liabilities for differences in GAAP between ABC's and the City	(16,411)	(4,767)*
Overaccrual of revenue from Move Ontario Trust that should have been deferred	(11,510)	—
Underaccrual of transfer to revenue from the tax repayment account	3,596	—
Elimination of non-financial asset GAAP difference between ABC's and the City	(1,332)	—
Elimination of inter-organizational amounts with the ABC's and GBE's	1,002	1,101
Overaccrual of Vacation Pay	—	1,126
Underaccrual of grant revenue	—	1,435
Judgmental Audit Differences - City:		
Overaccrual of provision for commercial property tax appeals	10,890	—
Overstatement of amortization of actuarial losses	3,900	3,900*
Underaccrual of provincial offences revenue	6,500	—
Overaccrual of provision for heritage rebate program	1,373	—
Overaccrual of deferred revenues re: fence deposits	—	911
Known and Judgmental Audit Differences – ABC's:		
TEDCO – understatement of results of operations	—	4,631
TTC – total overstatement of net expenditures	—	3,521
Effect of Unadjusted Audit Differences on Excess of Expenditures over Revenue Before Turnaround Effect of Prior Year Differences	(1,992)	11,858
Turnaround Effect of Prior Year Differences on Excess of Expenditures over Revenue	(12,725)	
Total Unadjusted Audit Differences on Excess of Expenditures over Revenue After Turnaround Effect of Prior Year Differences	(14,717)	

* These differences do not turnaround in the current year.

Independence Letter

June 18, 2009

Members of 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, 2008.

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 City 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 June 10, 2008, 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 June 10, 2008, 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 City within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario as of June 18, 2009.

The total fees charged to the City are set out in "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

June 18, 2009

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

Dear Members of the Audit Committee:

Re: Recommendations to Management for the year ended December 31, 2008

In planning and performing our audit of the consolidated financial statements of the City of Toronto (the "City") for the year ended December 31, 2008, 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 where we believe further review by management is warranted. These points have been formalized in the attached letter, together with management's comments. Other observations made by us during the course of our audit that should be considered by management, are reflected within our discussion in this results package under "Items of Audit Significance Discussed with Management".

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 "2008 Audit Results Packages". These packages are forwarded to the City of Toronto Audit Committee at the same time that their respective audited financial statements are forwarded.

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:

- 2007 – Finance – Provision over Unpaid Parking Tags
- 2007 – Information Technology – SAP Change Management Process
- 2007 – Information Technology – Infrastructure Change Management Process
- 2006 – Information Technology – SAP Program Change Documentation
- 2006 – Toronto Police Services ("TPS") – Information Technology – Employee Terminations
- 2006 – TPS - Information Technology – Privileged Access to Time Recording Management System Application
- 2005 – Information Technology – TMACS/WMACS Password Settings
- 2004 – Former North York Fence Deposits
- 2001 – TPS – Information Technology – Information Security

This communication is intended solely for the information of management, the Audit Committee and ultimately Council, and is not intended to be and should not be used by anyone other than these specified parties. We disclaim any responsibility to any third party who may rely on this communication.

Very truly yours,

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

CARRYFORWARD OF PRIOR YEAR POINTS FROM AUDIT RESULTS

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.

2008 Update

We understand management is considering enabling additional password functionality and we support management in these efforts.

2008 Management Comments

SAP Competency Centre

The change in password complexity will require coordination with the overall I&T Security. When a new requirement is communicated through the SAP Governance model, the ERP Competency Centre will assess how to adopt the requirements using the new SAP password complexity parameters.

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

2008 Update
We understand that it is the responsibility of managers in each division to monitor the use of the SAP accounts for which they hold the licence. We appreciate the contribution made by the licence restructure project in 2007 towards ensuring that access for users was appropriate at the time the restructure was performed. However, although some divisions have put in place processes to review their users' security, we noted that periodic user access reviews are currently not being performed for SAP users to verify appropriateness of access to the system.

2008 Management Comments

Accounting Services
As SAP security is role-based, FASP will provide divisions with a listing of their existing roles and staffing for review and corrections on an annual basis.

Payroll
In 2008/09, PPEB Management completed a full review of PPEB security profiles and user access. Profiles and user access was reviewed based on current job functions and responsibilities. PPEB is currently in the process of implementing management recommendations.

HR
HR User administrators currently run the User Tracking report to identify when HR users undergo changes in their job duties. User access is locked until a new user access request is initiated from their new manager.

Facilities & Real Estate
SAP Competency Centre and FASP manage all security on behalf of F&RE. F&RE staff has no system access to add/delete/modify security roles or authorizations. SAP Competency Centre staff run monthly reports to determine staff movement, and take appropriate steps (in association with other divisional security groups) to manage the appropriate access.

Toronto Police Services
At TPS, there is a publication that is being used to identify employee transfers from one Unit to another. These are read daily. Authorization for users with SAP access are either adjusted to conform with their new Units, put on hold for further action by adjusting the validity date to the date of transfer, or deleted if their new positions do not warrant access to SAP.

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.

2008 Update
Procedures performed to evaluate the appropriateness of access to the data centre revealed that there were 37 people with access who did not require physical access to the data centre. We were informed by management that access for these card holders would be removed.

2008 Management Comments

Technology and Infrastructure Services
The access list provided to EY at the time of this audit did include some individuals whose access to the 3rd floor Data Centre was no longer required. The request to have access removed for these individuals was with security and in the process of being processed at the time. This process has since been complete and accesses to the Data Centre for these individuals have been removed.

As well, we have reviewed and updated our process and procedure documentation for Data Centre access to ensure that access to the Data Centre is limited to only those that truly need it.

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.

2008 Update
We still identified areas where the accounting treatment for agreements entered into between the City and ABC's is inconsistent

2008 Management Comments
For 2008, a number of transactions were addressed, which resulted in consistent treatment in both organizations' records. The remainder will be reviewed and addressed in 2009.

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.

2008 Update
The logs of changes to technical tables are being reviewed on an adhoc basis however the review is not formally documented. Additionally, we noted that direct changes to tables related to functional modules in production are not currently being logged and reviewed.

2008 Management Comments
While the ERP Competency Centre staff already log and validate all activity in the production system, we agree it is not in the form that relates back to the technical table logs. The ERP Competency Centre will develop new procedures to include the technical table logs as part of its existing logging procedures.

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.

2008 Update

The complexity of the consolidation process increased in 2008 as a result of the change in the accounting for Toronto Economic Development Corporation part way through the year and the proportionate consolidation of Toronto Waterfront Revitalization Corporation.

As in prior years, through the audit procedures we perform on consolidation, entries were identified that were subsequently adjusted by management. We believe there are opportunities for management to simplify the process, which will reduce the number of conversion entries required for ABC's to align their accounting policies with the Public Sector Accounting Handbook and reduce the number of recurring manual elimination and reclassification entries. We believe a more simplified process will also reduce the possibilities of error. We recommend that management continue to review and refine the consolidation process.

2008 Management Comments

Accounting Services will revise the 2009 consolidation process in order to make the process more intuitive, linear and simple.

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.

2008 Update
We noted that the bi-weekly termination review procedure was performed until July 2008 after which point the procedure was not rigorously followed and no evidence was retained for it. We learned that this is due to the fact that the SAP Competency Centre Administrator responsible for the control performs an alternative test of terminated users on a daily basis which is believed to be more effective in removing the accounts of terminated users in a timely manner. We confirmed with the SAP Competency Centre Administrator that this activity is not documented.

While performing our testing, we noted that access for four out of a sample of twenty-five employees was not removed until 21 days after termination. It was noted that access of these four employees was subsequently removed.

2008 Management Comments
We agree that the existing manual process is not effective. The ERP Competency Centre developed a custom program in Q1 2009 that is run by ERP Competency Centre staff to ensure terminated employees are removed as SAP users.

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.

2003 – INFORMATION TECHNOLOGY – SAP Information Security

2008 Update
We confirmed the existence of the emergency user accounts and noted that the review process exists to monitor their use. We also noted that some business users have access to powerful BASIS transaction codes and objects. We recommend that a review be performed of access to user administration and change management functionality which is ordinarily only available to BASIS to determine if access is appropriate.

2008 Management Comments

Accounting Services
As a Corporate function, select FASP staff has access to certain IT functions in order to perform their roles – e.g. user maintenance and updates to specific tables. There are various controls in place to mitigate risks associated with this access.

Payroll
PPEB is currently in the process of implementing changes to profiles and user access as recommended by PPEB management. In order to ensure accurate audit tracking, manage PPEB security administration and user assignment and execute pay run processes, a minimum number of staff will continue to have access to these transaction codes and objects.

HR
HR has reviewed the assignments and initiated changes to HR Production Support roles.

Facilities & Real Estate
F&RE has reviewed the allocation of the BASIS transaction code and authorization object to F&RE SAP systems support staff and has deemed that the access is appropriate and required to fulfill the job duties.

Toronto Police Services
No one at TPS has access to transaction codes SM30 and SE16 and therefore, there is no direct access to update or change tables. The users identified as having access to Authorization Object S_TABU_DIS, have one particular job role in common and there could be a t-code that touches the tables indirectly.

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.

2008 Update

We understand that a disaster recovery site now exists and that a comprehensive Disaster Recovery Plan for all applications is still in the process of being completed. Specifically as it relates to SAP, we understand that some disaster recovery testing of SAP has been performed but that work will continue into 2010 to develop the SAP disaster recovery plan to allow for a full recovery of the production system.

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

2008 Management Comments

We agree disaster recovery testing is required. Technical testing has been successfully completed. The next steps are to conduct a business process test. This test will require participants from various business units, including those from the SAP Competency Centre to assist in the planning, execution and validation of the end results of such a test. The Technology Infrastructure Services Branch of I&T will be developing and coordinating this activity in 2009. The Disaster Recovery project will be proposed through the Ap project governance model for prioritization so that appropriate resources across I&T and business divisions are assigned to complete the outstanding work packages in the Disaster Recovery project plan.

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.

2008 Update
We learned that payroll and HR applications, which include PeopleSoft and TRMS, have been classified as “Class B” systems. Presently the disaster recovery plan documentation which addresses these applications is in draft form as details within the document are dependent on details in the disaster recovery plan for the City which has not been finalized yet. Once the City plan is completed, the TPS plan for Class B and Class C applications will be validated.

We learned that budgetary constraints will likely result in the TPS only documenting the procedures to be followed to recover the Class B and Class C applications and no equipment will be purchased. In the event of a disaster, all payroll and HR processing will be manual until equipment can be purchased and the disaster recovery procedures performed.

2008 Management Comments
ITS will work with the City to review the final disaster recovery plan as well as the TPS business continuity plans. As soon as City’s plan is finalized, the ITS plan will be reviewed and aligned with the City plan. Any budgetary support related to the outcome of the review for Class A, B and C systems will be requesting through the appropriate funding channels.

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

This point has been updated 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.

2008 Update
We understand this matter is still being resolved.

2008 Management Comments
Due to staff turnover, this matter was not resolved in 2008 and was put on hold pending completion of the 2008 consolidated financial statements. City and TCHC staff will meet during the summer of 2009 to resolve this matter and any other financial issues between the two organizations.

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