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Ms. Heather Taylor
Chief Financial Officer and Treasurer
City of Toronto
100 Queen St W,
Toronto, ON M5H 2N2

December 15, 2021

Dear Ms. Taylor,

In planning and performing our audit of the consolidated financial statements of The City of Toronto ("the Entity") for the period ended December 31, 2020, we obtained an understanding of internal control over financial reporting (ICFR) relevant to the Entity's preparation and fair presentation of the financial statements. This understanding was obtained to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on ICFR. Accordingly, we do not express an opinion on the effectiveness of the Entity's ICFR. We reported the results of our audit of the consolidated financial statements of the Entity to the Audit Committee on July 7, 2021.

Our understanding of ICFR was for the limited purpose described above and was not designed to identify all control deficiencies that might be significant deficiencies and therefore, there can be no assurance that all significant deficiencies or other control deficiencies have been identified.  As a result, any matters reported below are limited to those deficiencies in ICFR that we identified during the audit.  Our awareness of control deficiencies varies with each audit and is influenced by the nature, timing, and extent of audit procedures performed, as well as other factors.

Refer to the Appendices for the definitions of various control deficiencies.

## Significant Deficiencies

As reported in our Audit Findings Report presented to the Audit Committee on July 7, 2021, we did not identify any control deficiencies that we determined to be significant deficiencies in ICFR.

## Other control deficiencies

As we performed our audit, we identified control deficiencies that we determined to be other control deficiencies in ICFR that, in our professional judgment, are of sufficient importance to merit management's attention. See Appendix I for a listing of our audit observations relating to the control deficiencies.

### *Management's responses*

Management's responses have not been subjected to the audit procedures applied in the audit, and accordingly, we express no opinion on them.

### *Use of letter*

This letter is issued annually (as applicable) for use by management in carrying out and discharging their responsibilities. This letter should not be used for any other purpose or by anyone other than management.

KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this letter has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Yours very truly,
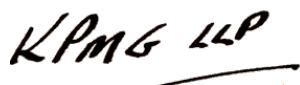
*KPMG LLP*

Licensed Public Accountants
cc: Auditor General

**Appendix I – Control Deficiencies**

## 1. City's books and records

*Observation:*

There is a lack of understanding regarding the roles and responsibilities related to financial reporting activities at the City. The quality and timeliness of the information received by the Accounting Services Division is often erroneous, incomplete and/or untimely.

During the year-end process, the Accounting Services Division continued to extend the system closing date to accommodate the posting of manual adjustments in the general ledger. The City's general ledger was formally closed for 2020 transactions in April 2021. These additional adjustments were submitted past the year-end close deadline and often required the Accounting Services Division to have a significant number of discussions with City divisions to ensure that the transactions were accurate and complete.

*Impact:*

Lack of cooperation, including understanding of and adherence to the City's year-end process and associated deadlines, from operational divisions results in an overall negative impact on Accounting Services Division's ability to build and maintain accurate and complete set of financial records for the City. The current lack of support from the operational divisions also does not support the goal for accelerated financial reporting by the City.

During the current year audit, we noted that the Accounting Services Division was not always consulted for transactions recorded in the general ledger as revenue. This resulted in a number of adjustments to correct the errors in revenue and/or deferred revenue. For tangible capital assets, the Accounting Services Division did not receive sufficient and/or timely responses for the completion date of the capital projects which resulted in inaccuracies in what is reported as assets under construction vs. in service tangible capital assets. There was a considerable amount of push back from various divisional teams when information was requested by the Accounting Services Division to complete the financial reporting assessment. Various Agencies & Corporations (A&Cs) transactions took place without consultation with the Accounting Services Division resulting in these transactions being recorded incorrectly by the operational divisions.

*Recommendation:*

The City should invest in creating awareness about the roles and responsibilities of the Accounting Services Division across the Organization.

The Accounting Services Division plays a vital role in ensuring accuracy and completeness of financial and operational records for the City. The same records are used by the various levels of the City for budgeting, cash flow management, and financial reporting. In the absence of complete and accurate records, the decisions made by the different levels of management and governance could be based on data

that is inaccurate or incomplete. In order to ensure the accuracy and completeness of these records, the operational divisions should be providing all necessary information to the Accounting Services Division in a timely and appropriate manner.

*Management's response:*

Management acknowledges and agrees with this recommendation and an assessment of the roles and responsibilities for the City's Accounting Services Division was already underway through the City of Toronto's (the City) Financial Systems Transformation Project (FSTP).

The City's FSTP project is a significant undertaking which aims to modernize the organization's underlying financial systems infrastructure and standardize processes with the aim of driving more consistent access to timely financial information in a more efficient and effective system. This Transformative project is expected to be fully implemented by the end of 2023.

Through FSTP, current business processes are being re-engineered and the City's Target Business Operating Model is being transformed to enable an automated and robust financial system. Designed to be a fully centralized financial system, it is expected that the City's FSTP project will play a key role in enhancing internal controls and process improvements for over 50% of the applicable action plans required to address the 55 recommendations that have been identified in this report.

Management will continue to enhance awareness about roles and responsibilities of the Accounting Services Division across the Organization through the following changes:

1) Explore changes to the overall mandate and services of the Accounting Services Division (ASD).

2) Ensure future roles and responsibilities are identified as part of ongoing design of the Target Operating Model for FSTP.

3) Establish ASD as the City's centre of excellence for accounting advice and financial reporting.

4) Review and amend ASD employees' job descriptions to align with the Division's service offerings.

5) Communicate changes in ASD service offerings to all City Divisions and relevant stakeholders and;

6) Train and recruit for desired skill sets and areas of expertise.


## 2. City's financial and treasury function – Technical Expertise

*Observation:*

We noted that quite a few situations where the individuals working in different accounting (Public Sector Accounting Standards PSAS) and finance capacities did not

have the appropriate level of accounting and finance knowledge and understanding to be able to perform their job appropriately. There were certain situations where the individuals working on specific tasks were deficient in the knowledge and expertise necessary for their role.

*Impact:*

Lack of an appropriate level of competence results in a team composition that is not the right fit for the job and can only result in sub-optimal performance. This also increases the risk of errors and emissions in the financial records of the Organization.

The lack of appropriate level of competence at staff level would also make it very difficult and impracticable for the finance and treasury function to support the goal of accelerating financial reporting at the City.

Lack of appropriate level of understanding of relevant controls in place results in a high risk of errors and misappropriation.

Lack of an appropriate level of knowledge and skill can result in errors and omissions in the financial and operational records of the City. Gap in understanding of necessary knowledge increases the risk of inefficiencies, redundancies, rework which results in unnecessary additional cost for the organization.

See other slides for issues noted.

*Recommendation:*

The City should enhance the technical expertise of the staff within the finance and treasury function via continuous learning opportunities and other methods. This will assist in ensuring:

(a) more accurate and timely in year financial reporting;

(b) the future goals for acceleration of financial reporting at the City;

(c) the ability to accurately adopt new accounting standards on a timely basis - there are 6 new accounting standards that will be required to be implemented by the City in the next 2 to 4 years (see note 1 for Future Accounting Pronouncements.); and,

(d) digital transformation planned for the City's reporting.

The City should evaluate the credentials of the individuals performing complex tasks and assess if they are right fit for the role.

The City should identify and maintain a complete inventory of roles required in each area of the organization depending on historical and current need. Each of these roles should have a minimum qualification requirement based on what the job entails.

Performance evaluation performed at the end of the year should be transparent and inclusive of overall knowledge and skill level.

*Management's response:*

Management acknowledges and agrees with the recommendation to strengthen the professional development of City employees and is in the process of addressing this recommendation through the following steps:

1) An assessment of City employees' financial acumen and technical expertise across the City's finance and treasury function will be conducted and Individualized training plans to align with changes will be developed.

2) Training materials for Public Sector Accounting Standards (PSAS) and accounting policies will be developed for the organization and consolidated entities and;

3) The City has also recently been accepted by the CPA for their pre- approved program which will further help to build employee financial acumen and technical expertise. A resource plan and strategy to prepare for the City's launch of the CPA training office is being developed. The City is targeting to hire an inaugural cohort of CPA associates this year.

## 3. Accounting Services Division – Consolidation Process

*Observation:*

The process to consolidate the books and records of the City and related A&Cs is entirely manual and involves approximately 80 workbooks that are linked to each other. While the Accounting Services Division has a reasonable process in place based upon manual oversight to ensure the completeness and accuracy of the consolidated information, the current process is highly prone to both human and technical errors. In some cases the links were broken resulting in differences that required adjustments. None of these adjustments were material.

This process is highly time consuming. Currently this process is only completed once a year due to the amount of effort involved. The enterprise resource planning system in place does not support any aspect of the consolidation. Consequently, the City is really only able to produce an accurate balance sheet reflective of the consolidated activities of the City once a year using a manual reconciliation process.

Due to the growth in the City over the past 2 decades, the current consolidation process has become outdated and will not support the future reporting needs of the City.

For instance, in preparing for the 2020 financial reporting process, there were 88 post-closing entries booked after the general ledger was closed on March 1, 2021, of which 64 belong to the City itself (i.e. not consolidating entries). Out of these 88 post-closing entries only 3 entries pertain to PSAB year-end adjustments, and only 2 related to consolidation adjustments, the remainder represented late entries and corrections. This is a significantly high number for post-closing entries which causes further delay in the financial close process. There were 26 opening balance entries from prior year's post-closing entries that were not posted in SAP. There was a $3M elimination adjustment related to one of the A&Cs that was missed during consolidation due to the manual

nature of the process (this error was not material to the financial statements). The understanding of the consolidation process is limited to one or two people and there is lack of documentation of the process otherwise or cross training.

*Impact:*

The manual nature of this process results in a significant amount of inefficiencies, redundancies, and rework. The current process increases the risk of error in the consolidation process which could go undetected due to the high volume of transactions and entities that are involved. While we did not note any material errors in the current period, the risk of a material error still exists. The current process makes it difficult for management to assess the completeness of the information being accumulated for consolidated City.

The manual nature of this consolidation process results in a significant delay in the financial close process where the Accounting Services Division spends months after the end of the year to accumulate all the necessary details from the various divisions and the A&Cs, which makes the goal of accelerating financial reporting more difficult to achieve.

*Recommendation:*

The City should reassess the current consolidation process and look into a technology based solution to support the consolidation process partially if not entirely. This technological solution could be incorporated into the financial transformation plan at the City for the next 2 to 5 years. It is critical to ensure that the technological solution is applied consistently at the City divisions to ensure the set-up of the financial information is aligned to facilitate financial reporting acceleration in the future. If practical, this transformation should also be implemented at the A&C level to align the financial reporting requirements. In absence of a full digital transformation, the City should continue to expand its use of a reporting tool template with the City divisions and A&Cs to ensure that the Accounting Services Division can start to develop and implement acceleration opportunities.

*Management's response:*

Management acknowledges and agrees with the recommendation and has already taken steps to reassess the organization's consolidation process through the City's FSTP project. More specifically, as part of transformative changes to the Business Target Operating Model for FSTP, the development of a common and consistent corporate process for consolidation with various business process streams is currently underway.

Once the process design for consolidation has been finalized, a consolidation policy that incorporates consolidation requirements, guidelines for effective governance and outlines appropriate implementation time frames to ensure accelerated reporting will be developed and implemented.

In addition, a consolidated entity organization that builds relationships with consolidated entities and networks on accounting policies and issues will be established.

## 4. Revenue Recognition

*Observation:*

The recording of many transactions involving revenue are decentralized and spread amongst the numerous divisions at the City. We noted multiple cases of certain divisions not understanding the reporting requirements related to the different funding sources/revenue streams. In some of these cases, the information is not readily available for the Accounting Services Division to assess whether revenue recognition is in accordance with the accounting standards. In most cases the process to obtain and analyse this information by Accounting Services Division was found to be significantly manual.

*Impact:*

Lack of access to appropriate information increases the risk of inappropriate revenue recognition by the City divisions.

During the current year audit testing, we found the following errors related to revenue recognition:

(a) $88 million of obligatory reserve funds (i.e. deferred revenue) was reported as Advance payments and contributions. The audit team proposed an adjustment for this and a correction was made by management. While overall deferred revenue total is correct, the amount reported in the two categories i.e. 'deferred revenue' (where deferral of revenue recognition is due to a stipulation from the funder such as provincial or federal government) and 'Advance payments and contributions' (where the citizens or developers have made a payment before service has been provided) was incorrect.

(b) $17 million for revenue accounts, $8 million for receivable accounts, and $23 million for various liability accounts, were incorrectly reported in deferred revenue and needed to be adjusted. The various divisions at the City are not consistently using the deferred revenue account to report cash receipts that should not be recognized as revenue during the current year. Instead, the divisions are using other accounts including revenue accounts, receivable accounts, and liability accounts to record these transactions. Accounting Services Division has made a correction at the end of the year to correct this for the current year.

(c) Another $14 million was incorrectly recorded as a debit balance in a deferred revenue account to set up a receivable in the post-closing period. This was done as the A/R sub-ledger had been closed. Accounting Services Division was not consulted on this matter.

*Recommendation:*

The City should seek to strengthen the financial reporting acumen and technical expertise within the divisions.

The Accounting Services Division should accelerate its implementation of the revenue recognition policy to guide City divisions' accounting treatment decisions. Further training should also be provided by the Accounting Services Division to ensure that all

City divisions are aware of the formal accounting requirements under the Public Sector Accounting Standards.

***Management's response:***

Management acknowledges and agrees with the stated recommendation to strengthen the financial reporting acumen and technical expertise across the City's divisions. The City is finalising the revenue recognition policy and developing associated training materials that can be used by City staff across the organization and its consolidated entities. In addition, the City will develop various communication materials to inform and advise Divisions and consolidated entities of significant revenue recognition decisions and overall implementation of the new standard.

5. **Indirect Tax**

   ***Observation:***

   There is no formal process in place to validate and update indirect tax coding that is applied to the revenue streams.

   ***Impact:***

   Lack of a formal process in place to validate and update the tax coding for revenue streams can result in misstatement of the indirect tax charged and reported by the City, which could lead to negative financial consequences should a CRA audit be conducted.

   ***Recommendation:***

   The City should establish roles and responsibilities related to the validation and review of tax coding on an annual basis. If these competencies are unavailable in-house, an external party should be engaged to review and advise on deficiencies in the current process.

   ***Management's response:***

   Management acknowledges and agrees with this recommendation. Through ongoing process design work for FSTP, roles and responsibilities relating to the validation and review of tax coding on an annual basis is being explored as part of the design phase of the Business Target Operating Model.

   In addition, the process design phase is also looking into updating internal processes used to maintain the City's indirect tax coding information and will address the lack of a formal process to validate and update the tax coding for revenue streams through the development of a revenue module for the Implementation of new Chart of Accounts for indirect tax codes. The City will also consult with external tax experts in the event further guidance is required to support changes in our processes.

## 6. Forecasting – Use of Consistent Assumptions

*Observation:*

A key component of an effective budgeting and forecasting process is the use of internally consistent assumptions about future economic events. Such assumptions would include items like inflation, future rates of return on investments, future borrowing rates, rates of salary increases, and etc. We reviewed several long term City documents including the Long Range Financial Plan, as well as other long term agreements such as Employee Benefit Plans and other calculations of long term obligations such as for Landfill Post Closure Costs and Property and Liability Claims. We noted that many of the assumptions used were not internally consistent.

*Impact:*

This inconsistency impairs the usefulness of the information as a predictive tool and also raises questions about the accuracy of recorded long term obligations related to Employee Benefits, Property and Liability Claims and Landfill Post Closure. Expectations about future events, although subject to judgement, should be consistent throughout all City operations.

*Recommendation:*

The City should establish a methodology to identify and apply assumptions about future events consistently throughout the City. Further, the City should review all significant existing budgets and forecasts as well as recorded long term obligations to ensure that the assumptions used have been consistently applied.

*Management's response:*

Management understands the consequences of inconsistent application of assumptions about future economic events and will address this by introducing monthly updates on core inflation rate, borrowing rates and expected return on investment for divisions and agencies to access on the City's internal website. In addition, the City's Capital Markets Division will be available to address inquiries from Divisions across the organization and all relevant agencies.

Upon request, as part of the overall annual budget process, Management will also continue to collaborate with the Financial Planning Division (FPD) on various borrowing rates and investment return assumptions to ensure consistency across all City operations.

## 7. Agencies and Corporations – Reporting

*Observation:*

Some of the City's A&Cs complete their financial reporting under different accounting frameworks. There is a lack of a formalized process at the City for harmonizing the financial information reported under different accounting standards for the purposes of financial reporting.

*Impact:*

Lack of a formal process for consolidating the accounting information reported under different accounting standards can result in a misstatement for financial reporting purposes due to the sheer volume of entities that are consolidated into the City books.

*Recommendation:*

The City should review its current consolidation process to identify key areas where difference in accounting frameworks requires further adjustments. Due to the complexity of these tasks the City should ensure that individuals with the right level of competence are assigned to this task.

The City should set up a formal standardized governance policy for all the A&Cs whereby it clearly outlines the roles and responsibilities of the City and the A&Cs personnel as it pertains to processes, financial reporting, asset management, governance and funding.

*Management's response:*

Management acknowledges and agrees with this recommendation. Process design work underway for the City's FSTP project will inform the development of a formal standardized governance policy to clearly identify the roles and responsibilities of the City and the A&Cs personnel as it pertains to processes, financial reporting, asset management, governance and funding. More specifically, the difference in accounting frameworks being used for financial reporting between the A&C'S and the City will be addressed through the following steps:

1) Through ongoing process design work for FSTP, a formal document will be developed for A&C's outlining the specific requirements for financial reporting processes, asset management and funding by which A&C governance instruments would be adjusted to ensure their accountability, compliance and use of consistent accounting practices.

2) The City will also consider adding A&C's to the City's Financial Control By-law, as they are currently excluded and;

3) The City will facilitate amendments to Relationship Frameworks, Shareholder Directions and Agency and Corporation Toronto Municipal Code chapters, where required, in accordance with the specific requirements set out by the Accounting Services Division and Controller.

## 8. Agencies and Corporations – Land Management Strategy

*Observation:*

There are various agencies of the City that are responsible for some aspect of City owned land. A Land Strategy Policy has not been finalized and approved. Some A&Cs are reporting land on their books and others are not.

*Impact:*

There is an overall lack of accountability with respect to City owned land compounded by incongruent goals by the City compared the A&Cs. This may result in sub-optimal decisions being made with respect to the utilization of the City land resources. There is a risk that not all Land related to the City as a whole are reflected in the consolidated financial statements.

*Recommendation:*

A formal Land Strategy Policy (Policy) should be drafted to address all aspects of City owned land and presented to Council for its approval. Such issues include the City's role and responsibility with respect to rental properties, tax forfeitures and transfers among divisions. Furthermore, clear and defined roles and responsibilities should be included in this Policy that also addresses how these various areas work together toward a common goal. A comprehensive listing of all Land asset should be compiled.

The City should set up a formal standardized governance policy for all the A&Cs whereby it clearly outlines the roles and responsibilities of the City and the A&Cs personnel as it pertains to processes, financial reporting, asset management, governance and funding.

*Management's response:*

Management acknowledges and agrees with the recommendation and recognizes that significant work has been done to centralize oversight of land management from an operational perspective. Ongoing process design work for FSTP will inform the development of a formal standardized governance policy to clearly identify the roles and responsibilities of the City and the A&Cs personnel as it pertains to processes and how funding and assets are recorded and reported through financial statements.

With respect to governance, operational use of and transactions related to land, this is managed through existing policies and frameworks established, or in the process of being established such as the City-wide Real Estate Service Delivery model adopted by City Council in May 2017 and the City's Real Estate Portfolio Strategy Adopted in October 2019 which form the City's strategic policy framework to govern land management across the organization including A&C's. With respect to real estate transactions, in September 2017, City Council consolidated all authorities to undertake these transactions (acquisition, disposition, leasing) under the City-wide Real Estate Model and all transactions are funneled through the Model governance and executed by Corporate Real Estate Management.

As part of the City-wide Real Estate Model, the City has also established a governance structure with interconnected formal staff committees to oversee and manage strategic real estate and land management decisions, including change in uses and/or operational jurisdiction. Membership includes City Building, Strategic Program Management, Operational Program Management and Technical Review Committee.

Management also notes that the Treatment of properties, including transfer of operational jurisdiction between Divisions Agencies and Corporations (DAC) is governed by the "Policy Governing Land Transactions Among City Agencies, Boards, Commissions and Departments and Proceeds from Sale of Surplus City-Owned Real

Property" (Clause 1 of Report 9 of the Policy and Finance Committee, as adopted by City Council on June 18, 19 and 20, June 2002).

The City will also address inconsistencies with its land management practices as it relates to Financial Reporting through the following changes:

1) The City will ensure that:
- An inventory of agencies responsible for managing the City's buildings and lands and their current land holdings is maintained.
- Policies specifying requirements for reporting on land use are established and consistently applied.
- Service level agreements/leases between the City and relevant agencies are appropriately recorded and reported through financial statements.

2) Through ongoing process design work for FSTP, the City will develop specific land management requirements by which applicable agencies governance instruments would be adjusted to ensure their accountability, compliance and consistent land management practices.

3) The FSTP process design work will also enable the City to set out guidelines and standards by which applicable agencies would report land assets on their books and;

4) The City will facilitate any further amendments to Relationship Frameworks, Shareholder Directions and Agency Toronto Municipal Code chapters, where required.

9. **Agencies and Corporations – Tangible Capital Assets & Non-Monetary Transactions**

*Observation:*

It was noted in certain instances that the buildings being used by the A&Cs were owned by the City without a formal lease agreement in place. In these situations, it was not always clear, if the City was charging rent for use of these buildings to the A&Cs. There is also inconsistency in how A&Cs report their non-monetary transactions with the City.

*Impact:*

Lack of appropriate and accurate reporting related to TCA and non-monetary transactions at A&C level result in the risk of errors and omissions by these A&Cs and by the consolidated City.

*Recommendation:*

The City should review its process of reviewing its right of use agreements for tangible capital assets (TCA) and non-monetary transactions with A&Cs. The City should set up a standardized process related to the identification, measurement and reporting of leased TCA and non-monetary transactions with its A&Cs. This process should include

roles and responsibilities at both A&C level for execution of this policy and at the City for monitoring the implementation of and adherence to this policy.

The City should set up a formal standardized policy and agreement for all the A&Cs whereby it clearly outlines the roles and responsibilities of the City and the A&Cs personnel as it pertains to processes, financial reporting, asset management, governance and funding.

*Management's response:*

Management acknowledges and agrees with this recommendation, and recognizes that significant work has been done to centralize oversight of land management from an operational perspective. Ongoing Process design work under FSTP will inform the development of a formal standardized governance policy to clearly identify the roles and responsibilities of the City and the A&Cs personnel as it pertains to processes, and how leases and use of City buildings are recorded and reported through financial statements.  More specifically, the City will implement the following changes to address inaccurate reporting related to tangible capital assets and non-monetary transactions from A&Cs:

1) The City will ensure right of use agreements/leases with A&C's who use City buildings are available, and where these rights or agreements are unclear, will seek to establish the appropriate agreements to clarity terms regarding use, ownership, rent payment, operations and service level agreements between the City and the relevant agencies.

2) Through FSTP's ongoing process design work, the City will develop the specific right of use requirements by which applicable agency and corporation governance instruments would be adjusted to ensure their accountability, compliance and consistent right of use practices.

3) The FSTP Process design work will also enable the City to set out guidelines and standards by which applicable agencies who use City buildings report leased TCAs on their books, where applicable and;

4) The City will facilitate the amendments to Relationship Frameworks, Shareholder Directions and Agency Toronto Municipal Code chapters, in support of or in addition to item 1 above, where required.

## 10. Agencies and Corporations – Processes

*Observation:*

We noted a lack of consistency in the processes and procedures for procurement, payroll, and governance at the different A&Cs. There is a lack of clear directive from the City on these items. There is also a lack of accountability by the City on the appropriateness of the process and procedures in place at the various A&Cs. There is a lack of upstream reporting on key financial matters.

*Impact:*

Lack of inconsistencies in the processes and procedures at the various A&Cs has resulted in a situation where there are too many different variations of these processes and procedures. Such inconsistency makes it sub-optimal and inefficient for the City to fulfill its governance responsibilities.

*Recommendation:*

The City should review its current policies and processes for providing governance over the A&Cs and streamlining their processes.

The City should set up a formal standardized governance policy for all the A&Cs whereby it clearly outlines the roles and responsibilities of the City and the A&Cs personnel as it pertains to processes, financial reporting, asset management, governance and funding.

*Management's response:*

Management acknowledges and agrees with the stated recommendation. Ongoing process design work   for FSTP will inform the development of a formal standardized governance policy to clearly identify the roles and responsibilities of the City and the A&Cs personnel as it pertains to processes, financial reporting, asset management, governance and funding. More specifically, the following changes will be implemented:

1) Through FSTP's ongoing process design work, the City will provide standardized financial reporting standards, tools, instructions, information and specific reporting requirements to ensure consistent, accurate reporting on financial matters for consolidation of the City's financial statements.

2) The City will consider adding Agencies and Corporations to the City's Financial Control By-law, as they are currently excluded and;

3) The City will Facilitate the required amendments to Relationship Frameworks, Shareholder Directions and Agency and Corporation Toronto Municipal Code chapters, where required, in accordance with the specific requirements set out by the Accounting Services Division.

## 11. Agencies and Corporations – Related Party Balances

*Observation:*

There was a significant amount of confusion and in some cases, contention, over the related party balances at the various A&Cs that we audited. In some situations the A&C assumed funding would be provided due to lack of clarity from the City personnel. It some cases, the funding was agreed upon by one City division but not communicated to the Accounting Services Division. In another case, there are perpetual disputed differences that are being carried forward every year. Some of these differences are significant. There does not seems to be one central authority at the City that takes

ownership of the approval and communication of the funding that is provided to the A&Cs which has resulted in multiple contentious situations.

It took several months to obtain a related party confirmation from the City's Accounting Services Division where we still noted many differences between City balances and A&Cs balances. There were situations where Accounting Services Division was unaware of funding arrangements that were provided to the A&Cs which caused further concern over the completeness and accuracy of this information, as well as others where the A&Cs did not notify the Accounting Services regarding accounting corrections that were made as a result of their respective year-end audits. While these balances eliminate upon consolidation for the City's consolidated financial statements, these balances are reported by all the A&Cs and also used for funding allocation decisions made by the City.

### Impact:

Lack of appropriate reconciliation of the related party balances increases the risk of inaccurate financial information reported by the A&Cs. Such inaccurate information increases the risk of sub-optimal funding decisions being made by the City. Such sub-optimal decisions in turn impact the overall ability of the City to appropriately allocate / manage public funds.

### Recommendation:

The City should identify one central department that holds the overall responsibility of the assessing and monitoring the funding needs of the A&Cs. This central body should also be responsible of reconciling the City records with those of the A&Cs. At all times, the Accounting Services Division should be consulted so that the central information system of the City (SAP) can be updated for these transactions.

The City should set up a formal standardized governance policy or a service level agreement for all the A&Cs whereby it clearly outlines the roles and responsibilities of the City and the A&Cs personnel as it pertains to processes, financial reporting, asset management, governance and funding.

### Management's response:

Management acknowledges and agrees with this recommendation. Ongoing process design work for FSTP will identify a centralized function to maintain oversight of the funding needs for A&C's and will also inform the development of a formal standardized governance policy to clearly identify the roles and responsibilities of the City and the A&Cs personnel as it pertains to processes, financial reporting, asset management, governance and funding. More specifically, the City will implement the following changes to address emerging issues related to third party balances:

1) Through ongoing process design work for FSTP, the City will develop a protocol and standard/shared documents, information and tools to provide consistent, accurate and current information on related party balances pertaining to City Agencies and Corporations.

2) The FSTP process design work will also enable the City to set out guidelines and standards by which applicable agencies would report transactions on their books and;

3) The City will facilitate the required amendments to Relationship Frameworks, Shareholder Directions and Agency and Corporation Toronto Municipal Code chapters where required in accordance with the specific requirements set out by the Financial Planning Division and the Accounting Services Division.

## 12. Agencies and Corporations – Financial Reporting

### Observation:

The financial statements including note disclosures has a considerable amount of inconsistency in how the financial information is reported and the level of detail that is disclosed. This is the case even for the A&Cs that are reporting under the same accounting framework. The related party transactions disclosed in the A&Cs vary significantly unnecessarily.

### Impact:

The lack of inconsistency in financial reporting by the City's A&Cs results in the risk of errors in financial reporting due to over/under disclosure. The users of these financial statements are the citizens of the City and may be misled by this inconsistency. It also creates redundancies and inefficiencies in financial reporting and accountability and oversight associated with it.

### Recommendation:

The City should review the current financial statement presentation and disclosure made by the City A&Cs in light of the requirements of the respective accounting standards. This review should identify deficiencies as well as extraneous information included in the financial statements. The City could alleviate this issue by standardizing the financial statement presentation and related disclosures, except for unique situations. The City should certainly review the related party disclosures being made by the A&Cs and standardize what should be included in this note.

The City should set up a formal standardized governance policy for all the A&Cs whereby it clearly outlines the roles and responsibilities of the City and the A&Cs personnel as it pertains to processes, financial reporting, asset management, governance and funding.

### Management's response:

Management acknowledges and agrees with this recommendation. Ongoing process design work for FSTP will inform the development of a formal standardized governance policy to clearly identify the roles and responsibilities of the City and the Agencies and Corporations personnel as it pertains to processes, financial reporting, asset management, governance and funding.

In addition, the City will establish a team that focuses on management of relationships with the City's A&C's. This team will be responsible for liaising with A&C's to understand their accounting policy and accounting treatment decisions and for harmonizing the accounting policies between the City and its consolidated entities including the development of training materials for Boards and Management to understand their roles and responsibilities in the financial reporting process.

### 13. Purchasing Process Control Observations – Inconsistency

*Observation:*

There is a significant level of inconsistency in the procurement process being followed at the City. There are currently upwards of 27,000 (approximately) variations of the standard procurement process being followed by the various different divisions at the City. The current procurement policy does not address all the variations and there is no formal documentation in place for a complete list of variations.

*Impact:*

Lack of consistency in the procurement process increases the risk of errors and misappropriation.

Unnecessary process variations result in duplication of effort, redundancies, and rework by the staff personnel involved. This further increases the overall cost to the City.

Lack of complete documentation of the process variations and the required controls for each variation makes it difficult to practice the necessary accountability by the individuals involved.

*Recommendation:*

The City should provide training and awareness in the organization to ensure the appropriate protocols in the procurement process are followed by everyone in the organization.

The City should undertake an in-depth assessment of the current procurement process in order to identify the areas of improvement. While there may be some instances, where a process variation may be required, the City should attempt to minimize these variations in order to avoid redundancies and errors and minimize the misappropriation risk.

The City should assess if its procurement policy is up to date and complete based on the current processes in place. The procurement policy should be considered as the governing document for all procurement related activities.

*Management's response:*

Management acknowledges this recommendation and is currently working with KPMG to conduct a deeper data analysis to ascertain the root causes of inconsistent procure

to payment practices (P2P) at the City. A detailed report of findings will be provided upon completion of the analysis and will be used to streamline procure to payment practices through ongoing process design work for FSTP.

Once streamlining of the procure to payment process has been completed, the FSTP project will then implement the approved design in SAP Ariba Buy & Invoice and SAP S4/Hana.  This design and implementation will standardize the process for how invoices are paid across the organization.

14. **Procurement Process – Delay in Processing**

*Observation:*

For approximately 120,000 instances, it took approximately 183.3 days (on average) to complete the full procurement cycle. These invoices were processed via 27,000 (approximately) different process variations.

*Impact:*

Delay in processing procurement related matters results in an inefficient use of the City's resources increasing redundancies and rework.

*Recommendation:*

The City should provide training and awareness in the organization to ensure the appropriate protocols in the procurement process are followed by everyone in the organization.

The City should undertake an in-depth assessment of the current procurement process in order to identify the areas of improvement. While there may be some instances, where it might take longer to complete the full procurement cycle, the City should attempt to minimize these instances in order to avoid redundancies, and rework.

The City should assess if its procurement policy is up to date and complete based on the current processes in place. The procurement policy should be considered as the governing document for all procurement related activities.

*Management's response:*

Management acknowledges and agrees with this recommendation. The City is currently working with KPMG to conduct a deeper data analysis to ascertain the root causes of inconsistent procure to payment practices (P2P) at the City.  Reasons for lengthy procurement cycles and variations in invoice processing across divsions are being investigated as part of deeper data analysis. A detailed report of findings will be provided upon completion of the analysis and will be used to implement process improvements to the City's procurement process through FSTP's ongoing process design work.

Once streamlining of the procure to payment process has been completed, the FSTP project will then implement the approved design in SAP Ariba Buy & Invoice and SAP

S4/Hana.  This design and implementation will standardize the process for how invoices are paid across the organization.

To ensure continuous improvements to the overall procurement process, the City has also submitted a business case for the 2022 budget process for resources to sustain the City's implementation of the SAP Ariba Sourcing, Contract Management, Spend Analysis and Supplier Lifecycle as Performance module as well as find additional efficiencies in the Sourcing process.

15. **Procurement Process – Lack of Supplier Invoice**

*Observation:*

We noted approximately 11,500 instances where the payment was made before the supplier invoice was entered into the system so it is unclear if the invoice was issued by the supplier and/or received by the City.

*Impact:*

Lack of supplier invoice increases the risk of error and misappropriation in the procurement process. It also results in rework and redundancies in case of changes made by the supplier which are not known until the invoice is received. From a control and governance perspective, it is critical to receive the invoice before a payment is issued.

*Recommendation:*

The City should provide training and awareness in the organization to ensure the appropriate protocols in the procurement process are followed by everyone in the organization.

The City should undertake an in-depth assessment of the current procurement process in order to identify the areas of improvement. While there may be some instances, where it might take longer to complete the full procurement cycle, the City should attempt to minimize these instances in order to avoid redundancies, and rework.

The City should assess if its procurement policy is up to date and complete based on the current processes in place. The procurement policy should be considered as the governing document for all procurement related activities.

*Management's response:*

Management acknowledges and agrees with this recommendation. The City is currently working with KPMG to conduct a deeper data analysis to ascertain the root causes of inconsistent procure to payment practices (P2P) at the City.  Reasons for inconsistencies with supplier invoicing are being investigated as part of the deeper data analysis. A detailed report with findings will be provided upon completion of the analysis and will be used to implement process improvements to the City's procure to payment process through ongoing process design work under FSTP.

Once streamlining of the procure to payment process has been completed, the FSTP project will then implement the approved design in SAP Ariba Buy & Invoice and SAP S4/Hana. This design and implementation will standardize the process for how invoices are paid across the organization.

## 16. Procurement Process – Rework

### Observation:

We noted a significant amount of rework in the procurement process where there is a considerable amount of personnel time being spent on adjusting the different attributes of the purchase order. We noted approximately 40,000 instances where there was a change in Purchase Order (PO) quantity, approximately 25,000 where there was a cancellation of the order, approximately 22,000 instances where there was a change in purchase requisition item, approximately 12,500 instances where there was a change in PO price, and others.

### Impact:

Significant amount of rework results in a higher overall personnel cost to the City and reduces any potential cost savings. Significant amount of rework is also an indication of a lack of appropriate level of controls in place to minimize the need for these changes and corrections.

### Recommendation:

The City should provide training and awareness in the organization to ensure the appropriate protocols in the procurement process are followed by everyone in the organization.

The City should undertake an in-depth assessment of the current procurement process in order to identify the areas of improvement. While there may be some instances, where it might require rework, the City should attempt to minimize these instances in order to derive efficiencies.

The City should assess if its procurement policy is up to date and complete based on the current processes in place. The procurement policy should be considered as the governing document for all procurement related activities.

The City should also investigate the suppliers where rework has historically been high and assess if there is a need to discuss any potential procurement process related issues with that supplier.

### Management's response:

Management acknowledges and agrees with this recommendation. The City is currently working with KPMG to conduct a deeper data analysis to ascertain the root causes of inconsistent procure to payment practices (P2P) at the City. Reasons for significant amounts of rework occurring in the procurement process including the types of procurements and divisions within which rework is concentrated is being investigated

as part of the deeper data analysis. A detailed report with findings will be provided upon completion of the analysis and will be used to implement process improvements to the City's procure to payment process through ongoing process design work for FSTP.

Once streamlining of the procure to payment process has been completed, the FSTP project will then implement the approved design in SAP Ariba Buy & Invoice and SAP S4/Hana. This design and implementation will standardize the process for how invoices are paid across the organization and minimize the levels of rework occurring in the City's procurement process.

17. **Human Resource Management – Employee Cross Training**

*Observation:*

We experienced difficulties in obtaining information and assistance in certain areas. In most instances this appeared to be a result of the knowledge being held by relatively few employees or lack of clarity on responsibilities. Often we found situations where no one was able to answer questions as the appropriate individuals were away or the City was unclear which employees would be best suited to respond to our audit inquiries. Although we did note instances where an attempt was made to ensure that appropriate 'cross training' of employees was occurring, this did not appear to be the general policy.

*Impact:*

By having knowledge of various jobs held by relatively few individuals, the City is exposed to loss of that knowledge through periods of employee vacation or when employees retire or resign. Further, having employees performing the same jobs for long periods of time may result in declining job satisfaction. Lack of clarity on responsibilities and accountabilities can result in important items not being addressed in a timely manner or at all. These deficiencies result in a decline in the quality of records maintained by the City.

*Recommendation:*

The City should consider developing a formal process whereby all significant job positions have been cross trained (to ensure that there are always resources available to handle a given job even if an individual employee is not there). The City should engage in an exercise to identify the responsibilities and accountabilities of each job description to ensure there is clear record of job responsibilities. Further, the City could consider establishing a program where employees are able to rotate within similar jobs at the City. This could allow for knowledge gained in one area of the City to be effectively shared with other areas. Also, it could result in increased job satisfaction for individual employees as they are able to take on new challenges without the City losing its valuable employee resources.

*Management's response:*

Management acknowledges and agrees with the recommendation to incorporate cross training and opportunities for job rotations as part of strengthening professional development for City employees. To address this recommendation the City will conduct

an assessment of financial acumen and technical expertise across the organization and based on findings, develop a formal process for cross training and job rotation opportunities for employees across the organization.The City has also been recently accepted by the CPA for their pre- approved program which will further help to build employee financial acumen and technical expertise. A resource plan and strategy to prepare for the City's launch of the CPA training office is being developed and will include components on cross training and job rotation opportunities for City employees. The City is targeting to hire an inaugural cohort of CPA associates this year.

## 18. Human Resource Management – Employee Skill Inventory

### *Observation:*

A key to an organization being able to obtain the most value out of its employees is developing a very good understanding of their special skills, attributes and experience. Currently, the City does not directly monitor and track the skills of its workforce to ensure that all employees are deployed in roles that add the most value to the City.

### *Impact:*

It is possible that the existing talent within the City workforce is not being utilized in the most effective and efficient way.

### *Recommendation:*

We recommend that the City develop a process whereby its employee skills, attributes and experience are tracked and monitored to ensure all employees are deployed in roles that add the most value to the City.  This could be implemented utilizing the current capabilities of the Enterprise Resource Planning system.

### *Management's response:*

Management acknowledges and agrees with the recommendation to develop a process for ensuring employees are assigned to work tasks in accordance with their skills and strengths to maximize value to the City. To address this recommendation, an assessment of financial acumen and technical expertise will be conducted to ensure City staff are being deployed in roles which are strongly aligned to their skills, attributes and experience. In addition, the City will also ensure that employees are hired based on required skill sets and areas of expertise.

The City has also been recently accepted by the CPA for their pre- approved program which will further help to build employee financial acumen and technical expertise. A resource plan and strategy to prepare for the City's launch of the CPA training office is being developed and will ensure all employees are deployed in roles that add the most value to the City. The City is targeting to hire an inaugural cohort of CPA associates this year.

### 19. Employee Benefit Obligations – Amortization Schedules

*Observation:*

We noted that the employee future benefits liability calculation is based on calculations performed by the City's actuary. The actuary provides the annual gains and losses to the City for all A&Cs, as well as on a standalone basis for the City. The City then creates and maintains amortization schedules for each A&C and the standalone City results separately. Adjustments for annual amortization are recognized based on these amortization schedules maintained by the City.

*Impact:*

This process of tracking the amortization schedules separately by the City increases the risk of error and omission, especially in the case of special events where the proper application of past service costs need to be considered and applied.

*Recommendation:*

The City should share its preferred amortization practices and principles with the actuary for them to implement as part of the overall actuarial assessment and report. In our experience, the actuaries are capable of and have expertise to provide full information for financial reporting purposes including amortization amounts and benefits expense. This will ensure that amortization amount booked each year is accurate and in line with actuarial calculations.

*Management's response:*

Management acknowledges and understands this recommendation and will discuss the City's preferred amortization practices and principles with the City's actuary.

Upon review of this recommendation, Management also notes the City has historically tracked gains and losses for expense purposes based on actuarial gain and loss amortization amounts as presented in the City's annual reports (resulting from either changes in discount rate in an extrapolation year, or assumption/data/claim changes resulting from new valuations performed every 3 years). A significant amount of work would be required to set up amortization schedules on a go-forward basis, and though this may be helpful in the short term for financial reporting, ultimately the upcoming changes to PSAB would make these amortization schedules unnecessary starting in 2026.

As a result, Management sought clarification from KPMG, who acknowledged the future change and also noted that historic rates currently tracked by the City for restated services received are sub-optimal in comparison to market. Management will assess the feasibility of implementing this recommendation.

## 20. Employee Benefit Obligations – Discount Rate

***Observation:***

We noted that the actuary does not apply different discount rates based on each A&C's risk profile and nature of future benefits.

***Impact:***

Lack of entity specific discount rates could result in misstatement of different elements of the employee future benefits liability for the A&Cs that are included in the City's actuarial report. Our actuarial specialists estimated the adjustments related to the overstatement of Accrued benefit obligation and related actuarial gain/loss for two A&Cs this year.

***Recommendation:***

The City should require the actuary to prepare the estimates related to employee future benefits for the different A&Cs based on discount rates that are specific to these entities.

***Management's response:***

Management acknowledges and agrees with this recommendation and will discuss the appropriate discount rates to be used across different A&C's with the City's Actuary.

## 21. Payroll Records – e-Time

***Observation:***

An e-time module was implemented in the City's enterprise resource planning system (i.e. SAP) a few years ago as a means for employees to enter their time into the system. While this is most relevant for individuals that are paid on an hourly basis, the use of this module is available for use to everyone. We noted that this module is not being used properly, where Success Factors automatically updates e-time based on the job code for the standard number of hours for each week. Any hours above the standard hours, including leave of absence, overtime, and vacation, are dealt with separately.

***Impact:***

Inconsistency in the use of the e-time module results in inconsistency in how time entry is completed and reported across the organization. This also results in sub-optimal use of the e-time module and thus results in inconsistency in financial and payroll reporting for the City. This inconsistency results in an increase in the risk of error and also makes it difficult to analyze data for insights and future planning.

*Recommendation:*

The City should standardize the time entry system for all employees across the organization regardless of which group or division they are related to.

All time entries should be submitted through e-time or another time recording application that is integrated with the payroll system.

*Management's response:*

Management acknowledges and agrees with this recommendation and a roadmap has already been developed to onboard existing staff with an active directory account to the City's e-time solution SAP ESS/MSS. In addition, the City will be implementing Microsoft Office 365 platform in 2022 to on-board casual staff who do not have an email address providing them with the ability to access ESS remotely and securely.

Implementation of the Microsoft 365 platform will ensure an equitable and inclusive employee experience by providing remote access to approximately 10,000 casual workers, who currently do not have City issued email addresses and will enable them to access self-service services options related to payroll, pension & employee benefits services.

## 22. IT Governance – System Architecture

*Observation:*

The City has a number of areas with diverse systems architecture.  Although Information Technology (IT) is now a centralized function, the architecture reflects the historical decentralization of the IT function. There is lack of integration of all information systems with the main Enterprise Resource Planning (ERP) system for the organization.

There are currently approximately 70 or more systems in use by the various City divisions. In a lot of cases, these divisional systems are not reconciled to the main ERP (i.e. SAP) which houses the City's complete set of records from an operational and reporting perspective. It is unclear if there is a formal requirement by the divisions to reconcile the divisional systems to the central system.

*Impact:*

The diversity in architecture makes it difficult to implement enterprise wide solutions and increases costs of systems development and maintenance. The lack of integration results in increased cost in inefficiencies related to the information gathering, processing and reporting whether it is for planning and budgeting or financial reporting purposes.

There is a high risk that the information being reported through the main ERP is not complete and accurate due to lack of appropriate and timely reconciliations. Conversely, there is a risk that the City divisions are using incorrect or obsolete information from their divisional systems that increase the risk of sub-optimal decisions

from a cost and budget allocation perspective and also from financial reporting perspective.

*Recommendation:*

A key focus of the City's IT strategy should be standardization of architecture. The current architecture would not support planned ERP initiatives and integration of information across the divisions for budgeting, planning and financial reporting purposes.

The City should take a complete inventory of all the various systems in use, and assess these systems for accuracy, completeness and reconciliation with the central system.

The City should update the IT policy to identify and define responsibilities specific to the divisional systems including timely reconciliation to the central system.

*Management's response:*

Management acknowledges and agrees with this recommendation and is planning expansions to the Technological Services Division's Intake Process which manages incoming technology work requests from all clients and supports the standardization of architecture. In addition, Management has also launched an Enterprise Architecture Review Board (EARB) which is a governing body with Office of the CISO members to evaluate the architecture for new and existing IT platforms including any integration to City Corporate technology environment from a strategic and operational perspective. The EARB's mandate includes providing oversight on enterprise architecture and enabling alignment between the Technical Services Division's Strategic Plans and Business Area Plans. EARB membership currently comprises of Technology Division leadership and as part of governance centralization, will include senior management from other City Divisions when the governance model is rolled out Citywide in early 2022.

Management also notes that the FSTP project has as a key objective the integration and standardization of all divisional financial systems with the City's ERP.  Upon completion of the FSTP project all of the financial systems of the City will be integrated with the SAP S4/HANA system.

## 23. IT Governance – IT Strategy

*Observation:*

There appears to be a disconnect between the high-level IT strategy for the City and detailed plans developed by individual business areas/owners. Levels of authorization required to implement strategic decisions have not been clearly defined.

*Impact:*

Enforcement of IT strategy is undermined.

*Recommendation:*

All business area plans should be reviewed centrally by those responsible for setting the IT strategy to ensure a closer alignment between IT Strategic Plans and Business Area Plans.

*Management's response:*

Management acknowledges and agrees with this recommendation. The City's Technology Services Division (TSD) already has an Intake process to manage incoming technology work requests from all clients. This Intake process evaluates client business requests and determines if they align to business area plans including whether functional requirements can be met by the City's existing or planned IT platforms. The Intake process also helps manage the reduction of technology sprawl and the over lapping of various technology applications by limiting duplication of solutions.

In addition, the City has also launched an Enterprise Architecture Review Board (EARB) which is a governing body with Office of the CISO members. The EARB's mandate includes providing oversight on enterprise architecture and enabling alignment between TSD Strategic Plans and Business Area Plans. EARB evaluates the architecture for new and existing IT platforms which also includes any integration to City Corporate technology environment from a strategic and operational perspective. EARB membership currently comprises of Technology Division leadership and as part of governance centralization, will include senior management from other City Divisions when the governance model is rolled out Citywide in early 2022.

Furthermore, the Centralization of Divisional IT is planned to start in 2022. As part of the centralization process, TSD will be partnering with other City Divisions to ensure that their Division IT business plans align with the City's overall technology strategy, plans and goals through a formally established client relationship management practice within TSD.

## 24. IT Governance – Internal Audit

*Observation:*

Internal Audit involvement in IT projects is limited to post-implementation reviews. There is no involvement during planning or implementation or governance to ensure appropriate controls are in place.

*Impact:*

Failure to address control issues at the planning and design stages of a project can result in costly rework post-implementation.

*Recommendation:*

For maximum efficiency the Internal Audit Division should be involved in all phases of key IT projects. This involvement should continue after the implementation has been

completed to ensure appropriate controls are designed and implemented in the processes and they operate effectively throughout the year.

The City should also consider involvement from Accounting Services Division to ensure that accounting policy requirements are properly embedded at the data entry and processing level. This would reduce adjustments at year-end.

***Management's response:***

Management acknowledges and agrees with this recommendation. Technology Services has a project gating process which ensures controls are applied at all stages of the IT projects. Management will include Internal Audit in the IT Project Gating Governance for key IT projects, which will be selected based on an agreed criterion. The City will also incorporate a review of sample IT projects based on pre-determined criteria and develop risk-based audit plans.

## 25. IT Security – Terminated Employees

***Observation:***

For 25 selected terminated users/leavers it was noted that:

10 out of 25 terminated user IDs were not removed at the Active Directory (Network) Level on a timely basis, using two calendar weeks as a threshold (delay of 15 to 176 calendar days);

2 out of 25 terminated user IDs were not removed at the SAP level on a timely basis, using two calendar weeks as a threshold (delay of 21 to 62 calendar days).

***Impact:***

Users have access outside of which is necessary to complete their job role and responsibilities; and this may lead to excessive access or segregation of duties conflict.

KPMG compared the Pension, Payroll, and Employee Benefit Division's employee termination list (100%) from January 1, 2020 to December 31, 2020 with the SAP user listing and the user list of active directory. KPMG noted that no terminated employees accessed SAP ECC after the employees' termination date.

***Recommendation:***

The City's People and Equity Division should ensure timely removal of access rights for terminated employees. This may include effective communication on the timeliness requirements in access revocation process to all employees. TSD should consider implementing an automated process where a termination in the payroll records is integrated with the trigger for revoking the access to IT applications and resources.

***Management's response:***

Management agrees with this recommendation and is aware that currently, the de-activation of employee SAP and network accounts is dependent on the termination business process related to employee status changes when an employee leaves the organization. The City will determine if there are options to refine the business requirements and timing of when accounts can be deactivated as well as assess the feasibility of improving the City's existing automated process for employee termination.

## 26. IT Security – User Access

***Observation:***

We noted that management did not perform a periodic user re-certification of the SAP ECC application and the supporting infrastructure, i.e., Hana Database and UNIX Operating System for the audit period.

***Impact:***

Users have access outside of which is necessary to carry out their job role and responsibility; and this may lead to excessive access or segregation of duties conflict.

***Recommendation:***

TSD should perform a periodic user certification of the SAP ECC application and the supporting infrastructure on a periodic basis, such as quarterly basis, to ensure that all access is commensurate with job responsibilities.

***Management's response:***

Management acknowledges and agrees with this recommendation and the City will all address the requirement for periodic user re-certification of the SAP ECC application and the supporting infrastructure through the following steps:

1) Conduct a review of the current state of SAP ECC user certification and supporting infrastructure

2) Work with relevant stakeholders to develop procedures in support of existing policies including the review of Access Control Standards to ensure user access is correct

3) Communicate Procedures to Divisions across the organization and;

4) Implement a formal process with stakeholders to review and update user access on a periodic basis.

### 27. IT Security – Super User Access

*Observation:*

HANA (SAP's database): The passwords to all generic privileged (super user) accounts are shared by 6 IT users; this can lead to lack of accountability on the use of generic accounts. All of the 6 IT users are from the SAP Basis team.

Solman (SAP Solution Manager tool (ticketing system) for access administration, change management and incident management for SAP ECC only): The password to all generic privileged accounts is shared by 6 members from IT; this can lead to lack of accountability on the use of generic accounts. All of the 6 IT users are from the SAP Basis team.

There is no monitoring performed over the usage of shared generic accounts.

*Impact:*

Users have access outside of which is necessary to carry out their job role and responsibility; and this may lead to excessive access or segregation of duties conflict.

Misuse of privileged (super user) accounts can result in unlimited level of risk exposure for the organization.

The accounts noted for the deficiency for HANA database and Solman are being managed through the password vault. We inspected the users with access to the password vault being used by the SAP admin team at City and that noted upon assessment of the job responsibilities that access was appropriate and restricted to IT personnel. In all cases the password is shared between a limited number of authorized IT users.

We independently assessed the appropriateness of the privileged users at application, database, operating system and domain admin level to address the risk. We noted there is a lack of segregation of duties in development and deployment to SAP application.

*Recommendation:*

TSD should determine if everyone who currently has access to these privileged (super user) accounts, actually needs this. TSD should review whether there is a more secure method of providing necessary privileged access rather than sharing generic accounts and passwords. Especially in today's high risk environment related to cybersecurity, we would recommend TSD to prioritize this audit observation as a key one. In cases, where password sharing is deemed inevitable by management then there should be adequate documented monitoring controls in place over the use of shared access to ensure that only authorized personnel are accessing such accounts for appropriate reasons only.

*Management's response:*

Management acknowledges and agrees with this recommendation and is aware that shared access to generic accounts is required for some of the administration activities

related to SAP solutions. These accounts are normally inactive and the City has a change approval process in place to ensure that use is required and appropriately managed before the account is activated. In addition, Management will develop a process for implementing regularly scheduled log reviews as an additional measure to improve monitoring.

## 28. IT Security – Program Changes

### *Observation:*

We noted no segregation between the development and deployment functions within the SAP application, as we identified an account that can both develop and migrate changes to production.

Furthermore, our inspection of the SAP Transport Log noted that 32 changes were developed and migrated to the production environment by the same account.

### *Impact:*

Unauthorized changes are made to in-scope systems or programs that have relevant automated controls.

KPMG inspected 100% of the changes in the transport system and noted that there were 32 changes which had been developed and promoted to production by the same person. KPMG provided the list of these 32 changes to management for their review. The management reviewed the list of all 32 transports within the period that have the same developer and promoter and confirmed there were no inappropriate activities to production.

We noted no issues from testing of direct changes (i.e. monitoring the locking and unlocking of client) to SAP in 2020.

### *Recommendation:*

TSD should ensure appropriate level of segregation of duties between development and deployment functions within the SAP application. Program changes should not be developed and migrated by the same account. If the recommended segregation of duties cannot be implemented then we recommend that management enforce monitoring controls over changes where the same account was used in the development and promotion to ensure that they went through the change management process.

### *Management's response:*

Management acknowledges and agrees with this recommendation. Presently, development and deployment functions are segregated between two teams with access controls in place. There are patch deployments that require system administrators to apply the patch in the development environment and then perform the production migration. A process is being implemented to further segregate patch deployment processes to ensure that the team member that implemented the patch in

development is not the same team member to initiate the automated deployment process to production.

In addition, The City will also design and implement a cyber security framework, with an anticipated start date of Oct 2022 and will work with System Integrator to ensure that the design changes take place in a secure environment.

### 29. IT Support – Incident Resolution

***Observation:***

Management does not have a policy requirement for service level agreement (SLA) related to incident response or incident resolution for service requests raised on Solman (SAP Solution Manager tool (ticketing system) for access administration, change management and incident management for SAP ECC only). As a result there is significant delay in incident resolution for 4 out of 15 selected service requests on Solman where the incident resolution delay is between 20 to 90 days.

***Impact:***

Unresolved incidents may create inaccurate or incomplete processing of data on production systems/programs.

The 4 incidents per our sample were resolved eventually even though there were delays.

Incidents that are of higher priority or have a major impact on the business operations will involve more follow up from the users and may also involve escalations, as required. Therefore, any important incident will inherently be tracked towards a resolution depending on the nature of the incident.

None of the 4 incidents noted impacted our audit. 2 of the 4 incidents were medium priority incidents which were for SAP products not in scope for the audit. 1 of the 4 incidents was a medium priority ticket in response to predecessor auditor's information request for audit purposes for 2019 which is outside the scope of audit for KPMG i.e. FY 2020. 1 of the 4 incidents had a high priority, however, it was about file archival settings on SAP and therefore didn't impact financial reporting process directly.

***Recommendation:***

TSD should ensure timely resolution of all IT incidents. TSD should have a suggested response time goal for IT incidents based on their nature and different divisions that are involved. The actual response time should be compared against these set targets for evaluation and assessment purposes. These goals should be adjusted based on the actual effort required. The City should also anlayse the variances and understand the cause of these variances in effort to alleviate some of the stressors.

*Management's response:*

Management agrees with this recommendation and will implement a process to review SLA performance measures that is managed on a regular basis with business stakeholders. Management also notes that the City's Service Level Agreement (SLA) is operationalized and reported in the HPSM tool as our IT Service Management solution not in Solman and that SLA adoption for SAP Service Requests and Incidents was accepted by the Auditor General as part of the Closure of the AU19.11.5 Council report.

## 30. Corporate Reporting – Accounting Policy Communication Process

*Observation:*

The City does not have a formal means to communicate accounting policies and procedures to various departments including City accounting policy decisions and changes to overall public sector accounting and reporting standards (PSAS).

*Impact:*

It is possible that changes in City accounting policy and external accounting and reporting standards may not be communicated to various City divisions and that information provided by those City divisions may be inconsistent with overall City reporting.

*Recommendation:*

A formal communication process should be established for all corporate reporting policies and procedures to ensure that City divisions are aware of the overall accounting policy directions of the City. A suggested approach would be to implement a formal Corporate Reporting Accounting Manual that includes all current City accounting and reporting policies related to treasury. This could be supplemented by a regular reporting of all updates/changes to those standards through a combination of email and formal training (both internal and external). The City should have a treasury function, working collaboratively with Accounting Services, that should oversee this process.

*Management's response:*

Management acknowledges and agrees with this recommendation. Through ongoing process design work for FSTP, improvements to corporate reporting are underway and a Treasury function including the identification of its roles and responsibilities will be developed to support the Accounting Services Division.

In addition, the City will continue to establish and launch various accounting policies and related documents based on PSAS and communicate these resources to divisional staff, through the City's intranet as well as provide training through the City's Enterprise Learning Initiative (ELI) platform. The City will also develop a plan to engage finance-related counterparts and consolidated entities regarding changes to the City's accounting policies and PSAS.

### 31. Treasury Function and Related Accountability

*Observation:*

The City does not have clear distinction in what constitutes the treasury function. There are individuals across the organization fulfilling different aspects of treasury without a clear understanding of roles and responsibilities.

*Impact:*

In absence of a clearly defined Treasury department, it is not possible to optimize the decisions related to the cash and debt management process. Absence of clearly defined roles and responsibilities related to treasury features can also result in errors and omissions in the financial reporting related to financial assets and financial liabilities.

*Recommendation:*

We recommended that the City undertake a project to set a mandate for the treasury function, and identify and define specific roles and responsibilities related to the Treasury function across the organization.

*Management's response:*

Management acknowledges and agrees with this recommendation. Through ongoing process design work for FSTP, the City will develop a Treasury function including the identification of its roles and responsibilities across the organization.

### 32. Bank Reconciliations

*Observation:*

Monthly reconciliations are not completed until 4 months after year-end for most bank accounts including the main operating accounts. In some case there is no bank reconciliation prepared due to management's assessment that the related risk is low.

*Impact:*

Lack of timely completion of bank reconciliations can result in the risk of misappropriation of assets and errors and omissions in the financial records of the organization. The purpose of preparing a bank reconciliation is to detect any discrepancies between the accounting records of the entity and the bank. In absence of this process being completed, it would not be possible for an organization to detect potential errors of this nature. In absence of the timely completion of a bank reconciliation, it would be hard for an organization to account for the underlying transaction in a complete and accurate manner.

*Recommendation:*

We recommend that the City should institute a policy where all bank reconciliations are prepared within a predefined period. The best practice is to complete bank reconciliations within the month-end timelines. The City should include review and approval checks for bank reconciliations as part of the month-end close process. The City should have a treasury function that oversees this process.

*Management's response:*

Management agrees with this recommendation and considers this to be a critical observation. As a result, the City has engaged KPMG to conduct a review of bank accounts and petty cash across the organization. A draft report has been issued to the CFO and findings from this review will be used to make interim improvements to the City's cash management processes. Thereafter, through ongoing process design work for FSTP, the City will develop a Treasury function in S/4HANA from start to finish to ensure control processes are put in place to effectively manage the interim improvements and streamline the whole process to enable timely reporting of the City's monthly reconciliations.

## 33. Bank Reconciliations – Threshold

*Observation:*

We were advised that bank reconciliations are not prepared for accounts below a certain $ threshold, however the $ threshold was not applied consistently.

*Impact:*

Lack of appropriate implementation of $ thresholds can result in error and omissions. It results in a lack of appropriate level of controls in place.

*Recommendation:*

We recommend that the City should revisit the policy of having a $ threshold for a requirement to prepare bank reconciliations. Since City deals with public funds, it would be our recommendation to prepare bank reconciliations for all bank accounts regardless of $ value. The City should have a treasury function that oversees this process.

*Management's response:*

Management agrees with this recommendation and considers this to be a critical observation. As a result, the City has engaged KPMG to conduct a review of bank accounts and petty cash across the organization. A draft report has been issued to the CFO and findings from this review will be used to make interim improvements to the City's cash management processes including revisions to the dollar value threshold for bank reconciliations. Thereafter, ongoing process design work for FSTP will develop a Treasury function in S/4HANA from start to finish to ensure control processes are put in

place to manage the interim improvements and streamline the whole process to enable timely reporting of the City's monthly reconciliations.

## 34. Bank Reconciliations – Review Process

### *Observation:*

Bank reconciliations are missing preparer and reviewer sign offs and in some cases it was not clear who was responsible for preparing or reviewing the bank reconciliations. In some cases differences between bank and general ledgers noted unreconciled differences.

### *Impact:*

Lack of timely review of bank reconciliations can result in errors and omissions going undetected.

### *Recommendation:*

We recommend that the City should institute a mandatory review and approval process for all bank accounts that are completed within the allowable timelines as part of the month-end process. The City should have a treasury function that oversees this process.

### *Management's response:*

Management agrees with this recommendation and considers this to be a critical observation. As a result, the City has engaged KPMG to conduct a review of bank accounts and petty cash across the organization. A draft report has been issued to the CFO and findings from this review will be used to make interim improvements to the City's cash management processes and ensure appropriate review and approval procedures are in place. Thereafter, ongoing process design work for FSTP will develop a Treasury function in S/4HANA from start to finish to ensure control processes are put in place to manage the interim improvements and streamline the whole process to enable timely reporting of the City's monthly reconciliations.

## 35. Inventory of Bank Accounts

### *Observation:*

During the audit, it took us 3 weeks to get a complete list of all bank accounts that are currently active and operating under the City's legal name. There seemed to be a lack of clarity around the custodian for the petty cash accounts. There is no one function that keeps an inventory of all bank accounts or monitors the activity, reporting and controls related to the bank accounts.

*Impact:*

There is a risk related to the misappropriation of assets in absence of complete list of all bank accounts that are being managed by the City. There is also a risk related to errors and omissions related to financial reporting.

*Recommendation:*

We recommend that the City should take a full inventory of all of its bank accounts and assign responsibility related to each of these bank accounts. Normally this responsibility is assigned to a central Treasury function - The City should have a treasury function that oversees this process.

*Management's response:*

Management agrees with this recommendation and considers this to be a critical observation. As a result, the City has engaged KPMG to conduct a review of bank accounts and petty cash transactions across the organization. A draft report was issued to the CFO and findings from this review will be used to make interim improvements to the City's cash management processes. Thereafter, ongoing process design work for FSTP will develop a Treasury function in S/4HANA from start to finish to ensure control processes are put in place to manage the interim improvements and streamline the whole process for managing the City's bank accounts including the development of a full inventory of the City's bank accounts.

## 36. Extraneous Bank Accounts

*Observation:*

The City currently has 122 bank accounts not including petty cash and agency accounts. In a lot of cases it was not clear why a separate account was needed.

*Impact:*

The high volume of accounts results in an increase in unnecessary administrative tasks related to managing all of these accounts. There is a risk of error and omission due to the unnecessarily high number of bank accounts.

*Recommendation:*

We recommend that the City assess whether all current bank accounts are necessary. Wherever possible, the City should try to consolidate its bank accounts to save costs and improve reporting related to these additional bank accounts. The City should have a treasury function that oversees this process.

*Management's response:*

Management agrees with this recommendation and considers this to be a critical observation. As a result, the City has engaged KPMG to conduct a review of bank accounts and petty cash transactions across the organization. A draft report has been

issued to the CFO and findings from this review will be used to make interim improvements to the City's cash management processes which will include the closing of any unnecessary bank accounts. Thereafter, ongoing process design work for FSTP will develop a Treasury function in S/4HANA from start to finish to ensure control processes are put in place to manage the interim improvements and streamline the whole process for managing the City's bank accounts.

## 37. Petty Cash Accounts

### Observation:

The City currently has approximately 267 petty cash accounts with 193 accounts that have custodians assigned to them. The remaining 74 accounts have not been used over the last year but they are still open. While reconciliations are prepared for these 193 accounts, there is a significant delay in completing the reconciliations in a lot of cases. The total balance is not expected to be significant. Leading practices in many organizations includes reducing reliance on petty cash as the advent of P-cards and electronic funds transfer capabilities have reduced the need to maintain petty cash balances which add an inherent risk.

### Impact:

Lack of appropriate oversight over the petty cash accounts increases the risk of misappropriation. There is also a risk of error and omission in accounting and financial reporting related to these balances.

### Recommendation:

The City should minimize the use of petty cash accounts due to the risks associated with them. Most organizations have replaced petty cash with P-cards where transactions can be tracked and reported in a more efficient manner. The City should have a treasury function that oversees this process.

### Management's response:

Management agrees with this recommendation and considers this to be a critical observation. As a result, the City has engaged KPMG to conduct a review of bank accounts and petty cash transactions across the organization. A draft report has been issued to the CFO and findings from this review will be used to make interim improvements to the City's cash management processes which will include a consolidation of petty cash accounts, amendments to the City's use of P-Cards and an introduction of a policy restricting the use of petty cash which will require the advance approval of the Controller. Thereafter, ongoing process design work for FSTP will develop a Treasury function in S/4HANA from start to finish to ensure control processes are put in place to manage the interim improvements and streamline the whole process for managing the City's petty cash accounts.

### 38. Bank Confirmation

*Observation:*

It took 5 attempts to obtain a complete listing of all bank accounts from the bank. There was confusion around the legal entity name for the City at the bank likely due to different individuals reaching out for set-up of banks accounts. There is no single body within the City that has oversight over the several bank accounts currently in use.

*Impact:*

Not having accurate and up to date records with the bank can result in errors and omissions for the accounting and financial reporting related to the City's cash and cash equivalents.

*Recommendation:*

The City should have a treasury function that keeps a complete record of all bank accounts and ensures that all information with the different banks is kept up to date.

*Management's response:*

Management agrees with this recommendation and considers this to be a critical observation. As a result, the City has engaged KPMG to conduct a review of bank accounts and petty cash transactions across the organization. A draft report has been issued to the CFO and findings from this review will be used to make interim improvements to the City's cash management processes. Thereafter, ongoing process design work for FSTP will develop a Treasury function in S/4HANA from start to finish to ensure control processes are put in place to manage the interim improvements and streamline the whole process for managing the City's bank accounts including ensuring bank account information is kept up to date with the different banks.

### 39. Petty Cash Accounts – Policy

*Observation:*

The petty cash policy provided to the audit team is dated 2007. This policy seems outdated based on our review of the process noted in this policy compared to the current process. We noted situations where there is a lack of awareness about the petty cash policy. There was a situation where the custodian had retired but the records were not updated for this retirement. In one case, the account balance was $150K which seems too high for petty cash and may warrant different controls and oversight.

*Impact:*

Lack of an updated policy results in an increase in redundancies in the process as the old process may no longer be fit under the new circumstances. Such redundancies may in turn result in inconsistencies and inefficiencies. Such departures from policy also increase the risk of misappropriation of assets.

*Recommendation:*

The City should update its petty cash policy such that it is in line with the current environment and where possible leverages technology and e-commerce to avoid use of actual cash.

*Management's response:*

Management acknowledges and agrees with this recommendation. The City's petty cash policy will be updated and communicated across the organization in 2022.

## 40. Trust Bank Reconciliation

*Observation:*

A bank reconciliation for one of the City's trust accounts was done incorrectly where it did not include cash equivalents and had to be sent back for correction. There was a lack of clear understanding on who is responsible for preparing the trust reconciliations. There is also a concern over the level of competence of individuals who complete these reconciliations.

*Impact:*

Lack of appropriate training, knowledge and skill set of individuals completing accounting and financial reporting tasks can result in errors and omissions. Lack of clearly defined roles and responsibilities can result in inaccuracies in the accounting and financial reporting by the City.

*Recommendation:*

The City should assess the technical expertise of the individuals completing financial and accounting responsibilities. Wherever necessary, appropriate level of training should be provided on an ongoing basis to ensure the relevant employees are fit for their roles. The City should have a treasury function that oversees this process for treasury staff.

*Management's response:*

Management acknowledges and agrees with the recommendation. Ongoing process design work for FSTP will implement a Treasury function in S/4HANA which will help streamline the Treasury process including trust bank reconciliations. In addition, to further improve the technical expertise of City Staff involved with completing financial and accounting responsibilities, the City will:

1) Conduct an assessment of City employees' financial acumen.

2)  Develop individualized training plans to align with changes to mandate and service offerings.

3) Develop training materials for PSAS and accounting policies for the organization and  consolidated entities and;

4) Design a resource plan and strategy to prepare for the City's launch of the CPA pre-approved program.


41. **Cash Flow Forecasting – Short Term vs. Long Term Investments**

*Observation:*

The City's cash flow forecasting processes require improvement. The City does a relatively good job forecasting operating expenditures, but neither capital expenditures nor revenue inflows. This issue is also related to problems with the capital budgeting process where often the forecasting is based on the life of the project rather than the annual forecast for the City.

*Impact:*

Given the significant dollars involved, forecasting of cash needs effectively leads to better utilization of the City's resources including decisions about the length of time funds should be invested (thereby impacting overall investment returns). Weaknesses in cash flow forecasts leads to suboptimal decisions.

*Recommendation:*

The City should review its process of monitoring annual cash flows to ensure that all City resources are invested to obtain the optimal level of returns. The City should have a treasury function that oversees this process.

*Management's response:*

Management acknowledges and agrees with this recommendation. Through FSTP, process design improvements for capital expenditure and revenue forecasts including the development of related process documents are underway. While Management recognizes that the City's Capital Markets Division currently maintains oversight of cash flow forecasts and ensures that the cash is properly invested in alignment to the prioritized objectives (liquidity and return) outlined in the City's Council approved investment policy, ongoing process design work for FSTP, will develop a Treasury function to support the oversight of the City's cash flow forecasting process.


42. **Investments – Accountability**

*Observation:*

It is unclear as to who is responsible for monitoring the accounting and reporting related to investments. There is some support received from Accounting Services Division to compile details for the purpose of financial reporting at year-end only,

however the Accounting Services Division noted that they stopped supporting this are a couple of years ago.

*Impact:*

Lack of designated resources to manage the accounting and reporting of investments in line with the public sector accounting standards can result in errors and omissions in accounting and financial reporting at year-end. It also creates an unnecessary bottleneck at year-end to reconcile all investment related matters at year-end only.

*Recommendation:*

The City should allocate specific resources for managing the accounting and reporting of investments. This record keeping should be performed in the information system to reduce the use of manual spreadsheets to maintain records. The City should have a treasury function that should oversee this process.

*Management's response:*

Management acknowledges and agrees with this recommendation. Through ongoing process design work for FSTP, the roles & responsibilities for the reporting and recording activities related to investments will be redefined and excel patchwork will be eliminated.

Management also notes that while the City's Capital Markets Division is currently responsible for ensuring all information required for accounting and financial reporting of investments is fully satisfied including reporting investments balance, activities and performances as required by the City's Investment Policy to the Toronto Investment Board and City Council, this roles and responsibility will be clarified during the process through FSTP.


## 43. Investments – Reconciliation Between Custodian and Investment Manager

*Observation:*

There are unreconciled differences in the investment cost base reported by the Custodian and Investment Managers. There is limited understanding by City staff at the Accounting Services Division of the nature of these differences and whether the investments reporting is in accordance with the public sector accounting standards.

There was lack of understanding in the Capital Markets team in terms of the nature of these differences as no one had reconciled the two prior to the audit request. A better understanding was obtained as a result of the audit requests.

We noted that these differences were not material for the purpose of our audit however we notified the Capital Markets team about the differences we had noted.

*Impact:*

Leaving unreconciled differences without further investigation can result in errors and omissions for accounting and financial reporting purposes.

*Recommendation:*

The City should match individuals with the right skill set to the investment accounting and reporting who understand the requirements of the accounting framework and also have a reasonable understanding of investments. Investment balances should be reconciled between Custodian and Investment Managers on a monthly basis. The City should have a treasury function that oversees this process.

*Management's response:*

Management acknowledges and agrees with this recommendation. Through ongoing process design work for FSTP, the roles & responsibilities for investment activities will be redefined and process controls for the reconciliation of investment statements will be incorporated.

In addition, Management will ensure financial reporting is changed to Market Value based. As advised by Accounting and Internal Audit in the past, reconciliations on market value and principal are required periodically but not on a cost basis.  The City will continue to do cost value reconciliation on an annual basis to satisfy KPMG's needs until financial reporting is changed to market value based.

## 44. Property and Liability Claims – Systems

*Observation:*

Our actuarial specialists noted that the Claims database is currently not reconciled with the City's primary information system (SAP). In a lot of cases, there was inconsistency between information reported by the Claims database compared to the SAP.

There is a Claims Review Committee in place but the focus for this committee is on legality of the claims and not on the data integrity.

*Impact:*

Lack of reconciliation of the Claims database and SAP has resulted in inaccuracies in information related to Property and Liability Claims which increases the risk of errors and omissions for budgeting, operations and financial reporting purposes.

*Recommendation:*

The records of the Claims database should be reconciled on a regular basis and at a minimum on a monthly (if not weekly) basis with the central information system (SAP) to ensure accuracy and consistency of records. This recommendation is consistent with the recommendation made by the City's Actuary.

Information used for budget, cash flow management, and financial reporting should be based on the information from the SAP after it has been reconciled to the Claims database.

The City should identify and define responsibilities related to Property and Liability Claims such that there is appropriate governance in place and data integrity is conserved.

*Management's response:*

Management acknowledges and agrees with this recommendation and will address issues related to the Claims database not reconciling with SAP though the following changes:

1) The City will implement a new RMIS in Q3 2022 which is a cloud based solution that has the potential to interface with SAP.

2) The City will create a business process document and reconcile financial-related data between Stars and iAdjust, upon receipt of funds request from adjuster prior to approving replenishment and;

3) The City will develop an interface with SAP to input financial data directly to SAP and develop processes/reports to ensure the claims database and SAP reconcile.

## 45. Property and Liability Claims – Data Reliability and Accuracy

*Observation:*

There were a number of cases where the data per the Claim's database was incorrect, or obsolete. There were also multiple incidents where the errors corrected in the current year pertained to prior years going as far back as 15 years. Errors of up to $10M from prior year were reported in the current year. There is a Claims Review Committee in place but the focus for this committee is on legality of the claims and not on the data accuracy.

There is a concern over the accuracy and reliability of data being provided to Claims Pro and Oliver Wyman. Both Claims Pro and Oliver Wyman rely on the information from the Claims database, not SAP.

For the current year, our actuarial specialists noted a discrepancies of approximately $3.5M in 'incurred claims' and $9.8M in 'paid claims' recorded in 2019 that actually spread over numerous years.

*Impact:*

This is of concern as the Claims database is used for processing claims by Claims Pro which results in cash outflow from the City. In accurate information in the Claims data base results in errors and omissions in claim processing. Errors in the Claims database result in misrepresenting the cash flow requirements each year for budgets and operations.

Using inaccurate data by the City's actuary increases the risk of inaccuracies in the legal liability that is recorded for budget and financial reporting purposes.

*Recommendation:*

The records of the Claims database should be reconciled on a regular basis and at a minimum on a monthly (if not weekly) basis with the central information system (SAP) to ensure accuracy and consistency of records. This recommendation is consistent with the recommendation made by the City's Actuary.

Information used for budget, cash flow management, and financial reporting should be based on the information from the SAP after it has been reconciled to the Claims database.

The City should identify and define responsibilities related to Property and Liability Claims such that there is appropriate governance in place and data integrity is conserved.

*Management's response:*

Management acknowledges and agrees with this recommendation and will address issues related to the lack of claims data reliability and accuracy though the following steps:

1) The City will proactively implement measures to reconcile financial related data, working with TPA to enhance data quality and prevent/reduce the cleanup work on historical data. These measures will include a review of closed files/settlements/PD payments to ensure financial data is accurate and monthly reports will be sent to TPA identifying discrepancies between Stars and iAdjust.

2) The City will create new metrics by end of Q2 2022 in the TPA customer service scorecard to measure error rate and how quickly corrections are completed and;

3) The City will create and recruit a new position as part of 2023 budget process to manage data quality for the Claims database.

## 46. Property and Liability Claims – COVID-19

*Observation:*

The City's Actuary has not incorporated additional legal costs associated with the legal cases that may arise due to COVID-19. There is negligible costs included in the estimated liability for Property and Liability Claims which may not even be sufficient to cover the administrative costs associated with the COVID-19 related legal matters.

Currently, the City has been named in two class action lawsuits related to COVID-19, a) the Omnibus Class Action Lawsuit against Ontario Long-term Care Residences, and b) Seven Oak Long-term Care Home.

The Legislative assembly of Ontario received Royal Assent to enact Bill 218 on November 20, 2020.

Our actuarial specialist noted that they did not come across another organization this year where this risk has not been incorporated in the determination of their liability associated with Property and Liability Claims.

*Impact:*

Failure to incorporate the right risks in determination of the legal liability associated with the Property and Liability Claims results in understatement of the legal liability.

Failure to update the risks based on the current risk environment results in understatement of the cash flow requirements for the future years and results in sub-optimal decision making for budget and operational resource planning.

*Recommendation:*

The City should implement a process in place to ensure that the risks incorporated in estimating Property and Liability Claims liability are comprehensive and reflective of the current environment.

The City should identify and define responsibilities associated with the review and approval of the assumptions included in the City's Actuary's estimated liability calculations.

*Management's response:*

Management agrees with this recommendation and will continue to monitor Covid-related class actions and adjust reserves as required. In addition, through ongoing program design work for FSTP, a process will be developed for the review and approval of estimated liability claim calculations including ensuring that the risks incorporated in estimating Property and Liability Claims are comprehensive and reflective of the current environment. Management will also discuss the use of appropriate estimated liability calculations and related assumptions with the City's Actuary.

Management acknowledges that as of Q4 2021, it is premature to enter a reserve amount for the two class actions, however a reserve amount has specifically been set aside for defense costs.

## 47. Property and Liability Claims – Discount Rate

*Observation:*

The discount rate used by the City's Actuary is inconsistent with the industry as well as the rate used by City for other liabilities. There does not seem to be any oversight over the assumptions used by the Actuary in determination of the liability.

The City's Actuary used a discount rate of 4.1% less 100 bps (3.1%) for the determination of the liability for Property and Liability Claims.

This discount rate is outside the range being used by the industry in general i.e. 0.5% to 1.75%.

This discount rate is also significantly different from a rate of 2.0% (or lower) used for liability calculations related to Employee Future Benefits.

The estimated understatement per KPMG actuarial specialist is approximately $13M using a discount factor of 1.75%.

### Impact:

Lack of oversight for the assumptions used by the Actuary can result in unreasonable assumptions being used by the Actuary that may not be reflective of the City's financial and economic outlook.

Use of a higher discount rate results in lower liability thus a discount rate that is inappropriately high results in understatement of the overall liability. This understatement of liability results in understatement of future cash flows required to fund these liabilities in the budget and operational planning.

Lack of inconsistency in the discount rate used to estimate future liabilities increases the risk of misstatement and inaccuracies related to future cash outflow estimates.

### Recommendation:

The City should implement a process in place to ensure that the discount rate used in estimating Property and Liability Claims liability is reflective of the current economic environment and is in line with the overall borrowing rate of the City.

The City should identify and define responsibilities associated with the review and approval of the assumptions included in the City's Actuary's estimated liability calculations.

### Management's response:

Management acknowledges this recommendation and upon review noted that the discount rate is the City's rate of return estimate for long term funds. Management has already discussed the use of this discount rate with KPMG and has received confirmation from KPMG that the discount rate used by the City's actuary is appropriate in determining any insurance liability. As such, no further action is required to address this recommendation.

## 48. Property and Liability Claims – Funded Liability

*Observation:*

The City's insurance reserve fund is extremely lacking in comparison to the actual estimated liability for Property and Liability Claims. Currently, the City's reserve fund is less than 10% of the overall estimated liability. This is a significant gap between the funds set aside versus the actual expected future cash outflow.

*Impact:*

Lack of appropriate oversight and planning related to future funding needs can result in additional legal implications.

This significant deficiency in funded liability can have an adverse impact on the City's strategic and financial planning for the future years.

*Recommendation:*

The City should implement a 3 to 5 year funding plan to set aside the funds for this future liability. This funding plan should be integrated into the overall strategic and financial budgeting for the City.

The City should identify and define responsibilities associated with the review and approval of the funding plan for Property and Liability Claims. Annual review of this funding plan should be performed and updates should be made as deemed appropriate in light of changing circumstances.

*Management's response:*

Management acknowledges and agrees with this recommendation and work is already underway to improve the status of the City's Insurance Reserve Fund through the following steps:

1) The City's Insurance and Risk Management Division has recommended a 5-year plan to reach a target Insurance Reserve Fund balance equal to the projected ultimate losses/expenditure obligations for the current policy period determined annually by the City's actuary (approx. $76.7M).

2) A full cost allocation of the insurance program cost has also been implemented for the 2022 budget (true-up in costs contributed by rate programs) as well, the recommended 3% annual increase in base contributions has been implemented.

3) The Insurance Reserve Fund received a $15.9M surplus contribution in 2021 and;

4) Through ongoing process design work under FSTP, the City will identify and define responsibilities associated with the review and approval of the funding plan for Property and Liability Claims.

## 49. Tangible Capital Assets – Accounting Policy

*Observation:*

The current accounting policy for Tangible Capital Assets (TCA) is dated 2010. This accounting policy is noted to be outdated as it does not incorporate the changes in the accounting in more recent years.

*Impact:*

Lack of an updated TCA accounting policy has resulted in inconsistencies related to the accounting treatment for various aspects of TCA throughout the organization. See observations below for some of these inconsistencies.

*Recommendation:*

The City should have a current and up to date TCA policy that is reflective of actual accounting practices. The TCA policy should be comprehensive and should include all necessary details related to the TCA process both from the perspective of financial reporting as well as divisional/operational reporting. The TCA policy should be in line with the public sector accounting standards to ensure there are no misstatements from financial reporting perspective.

*Management's response:*

Management acknowledges and agrees with this recommendation and the City will work to update the TCA policy through the following steps:

1) The City will develop a TCA policy update and implementation plan in consultation with the Controller's office and engage all relevant divisional staff for policy input and decisions

2) The City will prepare changes to the TCA policy based on corporate reporting requirements, divisional input and consultations with the City's external auditors and;

3) The City will ensure that once the TCA policy has been finalized, annual reviews take place to determine whether further updates are required.

## 50. Tangible Capital Assets – Assets Under Construction

*Observation:*

Currently there is no process in place to determine the completion of capital projects and when these completed projected should be moved out of assets under construction (AUC) and into completed TCA.

ASD is currently only monitoring capital projects with PO amount above $10M to assess if these items should be transferred out of AUC. This determination is made based on the following indicators:

1) Review of project cost report to see if there are additional costs incurred in the current year. If there are no additional costs incurred in the current year, ASD considers the project to be completed.

2) Review the holdback on the project to see if it has been released. If the holdback has been released then it indicates that the project has been completed.

Our review of the AUC listing indicated that the majority (approximately 85%) is made up of capital projects that have a PO amount of less than $10M. Thus the balance at risk is the majority of AUC.

The Accounting Services Division (ASD) does not receive any indication from the project leads (City divisions) on the status of the project and when each capital project should be transferred out of AUC and into completed TCA.

Since ASD is far removed from the actual progress of these projects, it is challenging for the ASD staff to reasonably determine the correct timing of these transfers.

*Impact:*

Lack of an appropriate process for the determination of completion of AUC items results in overstatement of AUC and understatement of completed TCA. Total TCA balance is not impacted. Understatement of AUC transfers over to completed TCA also results in an understatement of Amortization expense reported on the statement of operations and accumulated surplus.

In absence of timely and appropriate information from the divisions on the status of capital projects sitting in AUC, ASD staff is unable to ensure the completeness of items that are transferred out of AUC every year for the purpose of financial reporting. This results in a misstatement of AUC balance, completed TCA categories and amortization balance.

*Recommendation:*

The City should have a process in place to determine the status of all capital projects so transfer from AUC to completed TCA can be done in the correct fiscal year. Such a process would require collaboration across the CIty units.

The completion of the capital projects should be communicated through the City's information systems and should be integrated with the accounting and financial reporting module.

For each capital project a completion certificate should be issued (when available) and uploaded to the City's information system. This completion certificate should be reviewed and approved by the project manager for each respective capital project. In cases where a completion certificate is not available, the City should upload alternate supporting documents, such as the shipment receiving records.

The City should have a standardized policy for this process that should be applied consistently across the organization.

*Management's response:*

Management acknowledges and agrees with this recommendation and the City will ensure completed capital projects are transferred in the correct fiscal year from assets under construction (AUC) to completed Tangible Capital Assets (TCA) through the following measures:

1) Accounting Services Division will develop and deliver to Divisional Finance staff the appropriate training module to identify and record TCA during the 2021 year-end audit process.

2) Through the FSTP project, a process design will be developed for the Acquire to Retire process stream. This is expected to incorporate the process for determining the status of projects and transfer of AUC to TCA.

3) Ongoing process design work for FSTP will also inform the development of a policy which outlines general information requirements and considerations for costs which should be reported as an AUC.

4) The Fixed Asset module in SAP will be integrated to the accounting and financial reporting module.

5) The City will also develop a TCA policy update and implementation plan in consultation with the Controller's office and engage all relevant divisional staff for policy input and decisions.

6) The City will prepare changes to the policy based on corporate reporting requirements, divisional input, and consultations with the City's external auditors and;

7) The City will ensure that once the TCA policy has been finalized, annual reviews take place to determine whether further updates are required.

## 51. Tangible Capital Assets – Amortization

*Observation:*

We noted that the useful lives used by the City are not within the range that is noted in the TCA accounting policy. The useful lives are determined by the divisional staff who do not have a good understanding of the TCA accounting policy.

There is a lack of consistency in the determination of useful lives by the various City divisions. For example two separate divisions are using a significantly different useful life for the same or similar assets.

The useful lives noted in the accounting policy note in the financial statements issued by the City are not consistent with the TCA policy or the actual useful lives being used.

*Impact:*

Due to the lack of understanding by divisional staff related to the TCA policy, the useful lives being used for amortization may not be consistent with the TCA policy.

This results in inconsistency in how the TCA policy and useful lives are applied to the TCA held by the City. This also results in inaccuracies and increases the risk of misstatement in the amortization expense reported for financial reporting purposes.

Inconsistency in the useful lives per accounting policy in the financial statements compared to the TCA policy results in a disclosure misstatement where the accounting policy noted in the financial statements does not reflect the actual useful lives in use.

*Recommendation:*

The City should have a current and up to date TCA policy that is reflective of actual useful lives in use. The TCA policy should be comprehensive and should include all necessary details related to the TCA process both from the perspective of financial reporting as well as divisional/operational reporting.

The City should have a process in place where the divisional staff that are responsible for determining the useful lives are knowledgeable about the City's TCA policy.

The City should set a clear expectation that the TCA policy, including determination of useful lives, should be consistently applied across the organization.

Useful lives per the TCA policy and the accounting policy in the financial statements should be consistent to minimize the risk of error. Any changes in the useful lives should be updated in both the TCA policy and the accounting policy note on an annual basis.

*Management's response:*

Management acknowledges and agrees with this recommendation and will address the inaccurate use of useful lives for the City's amortization calculations through the following steps:

1) Through the FSTP project, a process design for fixed asset module that allows a functionality for selecting built-in useful lives for assets and enhanced standardization will be developed.

2) The City will also develop a TCA policy update and implementation plan in consultation with the Controller's office and engage all relevant divisional staff for policy input and decisions.

3) The City will prepare changes to the TCA policy based on corporate reporting requirements, divisional input, and consultations with the City's external auditors. As part of the policy review, the relevance and reasonability of the City's useful life estimates for each of the major asset categories will also be assessed.

4) The City will ensure that once the TCA policy has been finalized, annual reviews take place to determine whether further updates are required and;

5) The City will review its financial statement disclosures on an annual basis and update its amortization information based on any changes that are made to the TCA policy and/or Accounting Policies.

## 52. Tangible Capital Assets – Completeness of Tangible Capital Assets

*Observation:*

Some TCA items are not included in the SAP system and are manually added on to the excel TCA continuity schedule. For the current year we noted about $28M in TCA that was not in SAP system.

*Impact:*

Lack of having a complete listing of all TCA items in SAP results in an increase in the risk of errors and omissions from an asset management perspective. This also results in a risk of misstatement of the TCA balance reported on the financial statements.

*Recommendation:*

The City should book all known assets into the SAP system to have one central database for all of their assets. TCA reported in the financial statements should be reconciled to the asset management system on a quarterly basis.

TCA processes should include appropriate roles and responsibilities to ensure that they are executed across the organization, in collaboration with ASD.

*Management's response:*

Management acknowledges and agrees with this recommendation and has made the necessary changes to ensure TCA adjustments are booked into the City's SAP ECC financial system.

## 53. Tangible Capital Assets – Gain and Loss

*Observation:*

Actual gain and loss on TCAs that are disposed during the year are not captured in the TCA manual listing as these transactions are recorded by the City divisions in their respective reserve funds. For the purpose of financial reporting, an estimate is included in the TCA working papers. This issue stems from the lack of understanding around the sale of TCA compared to other items. Currently the sale of TCA is recognized as revenue at each divisional level at the time of sale in the different funds. TCA records are not integrated with the SAP records due to the differences in how TCA reports assets and how the divisions capture the assets in the divisional reserve funds. For the purposes of financial reporting at year-end, a manual adjustment is made out of these reserve funds to capital fund based on estimated gain and loss for the year.

*Impact:*

This lack of integration results in risk of error related to the gain and loss on TCA for financial reporting purposes.

*Recommendation:*

The City should look into a system solution where the TCA related transactions from the divisions are integrated with the TCA reporting done for the annual financial reporting purposes.

The City should book all known assets into the SAP system to have one central database for all of their assets. TCA reported in the financial statements should be reconciled to the asset management system on a quarterly basis.

*Management's response:*

Management acknowledges and agrees with this recommendation and the City will address issues relating to the financial reporting of gains and losses for TCA's through the following changes;

1) Through ongoing process design work for FSTP, a process for ensuring a centralized database is maintained for all Tangible Capital Assets in the SAP system will be developed and roles and responsibilities will be identified to ensure TCA processes are effectively executed across the organization.

2) The City will also develop a TCA policy update and implementation plan in consultation with the Controller's office and engage all relevant divisional staff for policy input and decisions.

3) The City will prepare changes to the TCA policy based on corporate reporting requirements, divisional input, and consultations with the City's external auditors.

4) The City will ensure that once the TCA policy has been finalized, annual reviews take place to determine whether further updates are required; and

5) The City will support divisional staff's accounting treatment decisions regarding the recognition of gains and losses associated with TCA disposals and impairment.

### 54. Commitments – Operating Leases

*Observation:*

The commitment schedule received from the City was not complete. Through our review of the council meeting minutes, we identified new operating leases that the City entered into during the year. When we looked for these new leases in the commitment schedule provided by the City, we noted that they had not been included. Upon inquiry, we were informed by the City that these new operating leases were missed and not included in the operating lease commitment schedule.

*Impact:*

Lack of a complete listing of all operating leases can result in inaccuracies in fund allocation and cash flow management by the City for current and future years.

Lack of a complete listing of all operating leases increases the risk of material misstatements in the financial statements.

*Recommendation:*

The City should have a central repository of all operating leases whereby one division should have the responsibility to ensure a complete record of these future commitments. This listing should be updated on an ongoing basis.

The City should set up a standard process whereby all divisions in the organization communicate their commitments to this division on a regular and ongoing basis.

Information concerning commitments, including details of new lease arrangements, should be provided to the Accounting Services Division on a timely basis to ensure that the City's consolidated financial statements are complete and accurate.

*Management's response:*

Management acknowledges and agrees with this recommendation. The City will review its year end process and reporting responsibilities for operating leases. In addition, the City will enhance training and communication across the organization to ensure divisions consistently update information relating to operating leases in the commitment schedule.


## 55. Sinking Fund and Trust Fund

*Observation:*

The trial balances for sinking funds and trust funds do not include all the adjustments that are reported on the financial statements for these entities. The financial statements report investments at fair market value whereas the trial balance reports the investments at cost. Reporting at fair market value requires a number of different adjustments to be booked which are currently being tracked in the manual excel workbook.

The Accounting Services Division maintains an excel spreadsheet for each of these funds to calculate and report the figures reported in the financial statements.

*Impact:*

Lack of complete information in the main SAP system is a significant risk where the books and records are not complete and consolidated in one place.

This results in a risk of errors and omissions for the financial statements that are reported by the City. There is also a risk related to manual errors as the excel workbooks have a significant amount of manual calculations and formulas.

*Recommendation:*

All financial records including all adjusting entries should be recorded in the SAP financial reporting system at the City to ensure that the books and records at the City for the Sinking fund and the Trust fund is complete.

*Management's response:*

Management acknowledges and agrees with this recommendation. The City will ensure all financial records and adjustments relating to sinking funds and trust funds are booked into the City's SAP ECC financial system.