



City of Toronto

Audit Results – Year Ended December 31, 2009

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

June 18, 2010

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

Dear Members of the Audit Committee:

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

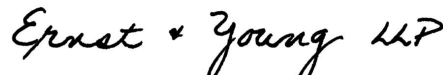
This report to the Audit Committee summarizes the issues of audit significance discussed with management and provides the communications required by our professional standards.

Our audit was designed to express an opinion on the December 31, 2009 consolidated financial statements of the City. In planning the audit, we held discussions with management, considered current and emerging business risks, performed an assessment of risks that could materially affect the financial statements, and aligned our audit procedures accordingly. We received the full support and assistance of the organization’s personnel in conducting our audit.

This report is intended solely for the use of the Audit Committee, Council and management, and is not intended to be and should not be used by anyone other than these specified parties. We disclaim any responsibility to any third party who may rely on it. Further, this report is a by-product of our audit of the December 31, 2009 consolidated financial statements and indicates matters identified during the course of our audit. Our audit did not necessarily identify all matters that may be of interest to the Audit Committee in fulfilling its responsibilities.

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

Very truly yours,

A handwritten signature in cursive script that reads 'Ernst & Young LLP'.

Chartered Accountants
Licensed Public Accountants

Mark Barrett, Partner/Kathi Lavoie, Senior Manager

Required Communications

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

Area	Comments
<p>Auditors' Responsibilities Under Generally Accepted Auditing Standards (GAAS)</p> <p>As set out in the planning document presented to the Audit Committee, we designed our audit to express an opinion on the City's consolidated financial statements.</p> <p>The consolidated financial statements are the responsibility of management. Our audit was designed in accordance with generally accepted auditing standards to obtain reasonable, rather than absolute, assurance that the consolidated financial statements are free from material misstatement.</p> <p>As a part of our audit, we obtained a sufficient understanding of the internal control structure to plan our audit and to determine the nature, timing and extent of testing performed.</p>	<p>We anticipate issuing an unqualified audit opinion dated June 2, 2010 upon approval of the financial statements by City of Toronto Council and the completion of the following outstanding procedure:</p> <ul style="list-style-type: none">• confirmation from the Audit Committee that there are no areas of concern that have not been addressed in this document;• final procedures relating to tangible capital assets;• final procedures relating to the draft consolidated financial statements and footnotes; and• letter of management representation.
<p>Changes to Audit Approach Outlined in Planning Document</p> <p>In our planning document, we indicated that we would conduct our audit in accordance with Canadian generally accepted auditing standards in order to deliver to you our final report on your 2009 consolidated financial statements. Our plan to you indicated that our strategy was to test and rely on controls in connection with City payroll and City and Police purchases and cash disbursements accounting streams, with substantive procedures covering the remainder of the accounts as the use of confirmations, detailed analytic procedures and specific testing of account balances is the more efficient approach for us to take in those areas.</p>	<p>There were no changes to the audit approach outlined in the planning document.</p>

Required Communications (continued)

Area	Comments
<p>Adoption of, or Changes in, an Accounting Principle, Including Material Alternative Accounting Treatments Discussed with Management and Acceptability of a Particular Policy used by Management</p> <p>We determine that the Audit Committee is informed about the initial selection of, and any changes in, significant accounting principles or their application when the accounting principle or its application, including alternative methods of applying the accounting principle, has a material effect on the consolidated financial statements.</p> <p>In addition, we report to the Audit Committee all alternative accounting treatments within Canadian generally accepted accounting principles (GAAP) for policies and practices related to material items (including recognition, measurement, presentation and disclosure alternatives) that have been discussed with management during the current audit period including acceptability of the policies or methods ultimately selected by management.</p>	<p>During the year, the City adopted Public Sector Handbook Section (“PS”) 1200 Financial Statement Presentation and PS 3150 Tangible Capital Assets. PS 1200 establishes the general reporting principals and standards for the disclosure of information in government financial statements. PS 3150 provides the basis for recording tangible capital assets. The impact of adopting these standards has been disclosed in note 2 of the 2009 consolidated financial statements and is discussed further under the “Items of Audit Significance Discussed with Management” section.</p> <p>There were no other changes in significant accounting principles or their application in 2009 and we had no discussions with management regarding material alternative accounting treatments.</p>
<p>Sensitive Accounting Estimates and Disclosures</p> <p>The preparation of financial statements requires the use of accounting estimates. Certain estimates and disclosures are particularly sensitive due to their significance to the financial statements and the possibility that future events may differ significantly from management’s current judgments.</p> <p>We determine that the Audit Committee is informed about management’s process for formulating particularly sensitive accounting estimates and disclosures and about the basis for our conclusions regarding the reasonableness of those estimates.</p>	<p>There are significant judgments and/or estimates required to prepare the consolidated financial statements where actual amounts may be significantly different from the estimates. We discuss the more significant accounting estimates further within the “Items of Audit Significance Discussed with Management” section.</p>
<p>Major Issues Discussed with Management Including Accounting for Significant Unusual Transactions and for Controversial or Emerging Areas</p> <p>We determine that the Audit Committee is informed about the methods used to account for significant unusual transactions and the effects of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.</p>	<p>We are not aware of any significant unusual transactions recorded by the City or of any significant accounting policies used by the City related to controversial or emerging areas for which there is a lack of authoritative guidance.</p>

Required Communications (continued)

Area	Comments
<p>Significant Audit Adjustments and Unrecorded Audit Differences Considered by Management to be Immaterial</p>	
<p>We provide the Audit Committee with information about adjustments arising from the audit (whether recorded or not) that could, in our judgment, either individually or in the aggregate, have a significant effect on the City's consolidated financial statements.</p> <p>We inform the Audit Committee about unrecorded audit differences accumulated by us (i.e. adjustments either identified by us or brought to our attention by management) during the current audit period and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the consolidated financial statements taken as a whole.</p>	<p>Significant audit differences identified by us have been adjusted by management and are discussed within their respective sections within the "Items of Audit Significance Discussed with Management" section below. We also identified misclassifications in the consolidated statement of financial position that decreased financial assets and decreased financial liabilities by \$85.7 million that were adjusted by management.</p> <p>We identified misclassifications in the consolidated statement of financial position that would increase financial assets by \$32.5 million, increase financial liabilities by \$55.7 million and decrease accumulated surplus by \$23.2 million, which have not been adjusted in the consolidated financial statements.</p> <p>Refer to the "Summary of Audit Differences" section of this report for the listing of unrecorded audit adjustments related to the consolidated statement of operations. There were no unrecorded audit adjustments that could, in our judgment, either individually or in the aggregate, have a significant impact on the consolidated financial statements.</p>
<p>Disagreements with Management</p>	<p>None.</p>
<p>Serious Difficulties Encountered in Dealing with Management when Performing the Audit</p>	<p>None.</p>
<p>Significant Weaknesses in Internal Controls</p>	
<p>We communicate all significant weaknesses in internal control over financial reporting that may have been identified during the course of our audit.</p>	<p>No significant weaknesses in internal control were identified, however, during our audit certain matters came to our attention where we feel management can either strengthen controls or improve efficiencies within its current processes. See the "Letter of Recommendations" section.</p>

Required Communications (continued)

Area	Comments
<p>Fraud and Illegal Acts</p> <p>We report to the Audit Committee fraud and illegal acts involving senior management and fraud and illegal acts (whether caused by senior management or other employees) that cause a material misstatement to the consolidated financial statements.</p> <p>We are also required to make inquiries of the Audit Committee related to fraud, including both (1) your views about the risks of fraud, and (2) your knowledge of any actual or suspected fraud.</p>	<p>Our audit procedures include ongoing discussions with the Auditor General's Office on instances of fraud and our review of its annual report on fraud to the Audit Committee. We are not aware of any matters that require communication based on our audit procedures performed on the consolidated financial statements.</p> <p>We would request that the Committee members raise with us, any areas of risk not addressed in our communications and that you inform us of your knowledge of any actual or suspected fraud.</p>
<p>Consultation with Other Accountants</p>	<p>None of which we are aware.</p>
<p>Other Information in Documents Containing Audited Financial Statements</p> <p>Our financial statement audit opinion relates only to the consolidated financial statements of the City. However, we also review other information in the Annual Report, such as Management's Discussion and Analysis, for consistency with the audited financial statements.</p>	<p>Once completed, we will review the Annual Report for consistency with the audited consolidated financial statements.</p>
<p>Related Party Transactions</p> <p>Related party transactions identified by the auditor that are not in the normal course of operations or that involve significant judgments made by management concerning measurement or disclosure must be disclosed to the Audit Committee.</p>	<p>Significant related party amounts that are not eliminated for government business enterprises are disclosed within Notes 6 and 7 to the consolidated financial statements.</p>
<p>Major Issues Discussed with Management in Connection with Initial or Recurring Retention</p>	<p>Our current contract for audit services expires with our audit services to report on the 2009 consolidated financial statements.</p>

Required Communications (continued)

Area	Comments
<p>Matters Relating to Component Entities of the Organization</p> <p>When the financial statements of an organization (primary entity) include financial information from financial statements of a component entity (a subsidiary, investee (other than a portfolio investment), or joint venture; or an entity whose financial information from financial statements is included with those of the primary entity), the auditor communicates with the Audit Committee those matters relating to the component entities that in the auditor's judgment are of significance in the context of the primary entity (for example, weaknesses in systems of internal control that have resulted, or could result, in material errors in the primary entity's consolidated financial statements).</p>	<p>The consolidated financial statements include the City and all organizations that are accountable to Council for the administration of their financial affairs and resources and are controlled by the City, except for government business enterprises that are accounted for using the modified equity basis of accounting (whereby operations are brought in under one line on the financial statements of the City and the accounting policies of the entity are not converted to that of the City's), and the Toronto Waterfront Revitalization Corporation ("TWRC"), which is jointly controlled by the City, Province of Ontario and Government of Canada and is line by line consolidated for the City's 1/3rd interest. Refer to Note 1 in the consolidated financial statements.</p> <p>All audit differences identified in our performance of the individual audits of the component entities of the City are discussed with management of that entity and we communicated to the Audit Committee or Board of Directors of that entity. Any unrecorded audit differences identified in those entities that met our reporting threshold at the consolidated City level have been included in our Summary of Audit Differences. See "Summary of Audit Differences" section.</p> <p>We are not aware of any matters relating to component entities of the City that could have a significant impact on the City's consolidated financial statements.</p>
<p>Auditors' Independence</p> <p>Canadian generally accepted auditing standards require that we communicate at least annually with you regarding all relationships between your organization and Ernst & Young LLP that, in our professional judgment, may reasonably be thought to bear on our independence.</p>	<p>Refer to the "Independence Letter" section.</p>
<p>Other Audit and Non-Audit Services Provided to Your Organization</p>	<p>Audit services provided to the City are in accordance with the City's request for proposal from 2003 and our two-year contract extension for the years ended December 31, 2008 and 2009. During 2009 and 2010, we also performed work on the recording of the City's tangible capital assets and separately agreed our fees for these services with the City Treasurer. We have also been engaged to perform specified procedures on various subsidy reports prepared by the City from time to time. Fees charged to the City are included in the "Fees" section.</p>

Required Communications (continued)

Area	Comments																		
Fees	<p>A summary of our fees is included below for your reference.</p> <table style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th></th> <th style="text-align: right;">2009</th> <th style="text-align: right;">2008</th> </tr> <tr> <th></th> <th style="text-align: right;">\$</th> <th style="text-align: right;">\$</th> </tr> </thead> <tbody> <tr> <td>Annual audit fees (City only)</td> <td style="text-align: right;">449,670</td> <td style="text-align: right;">449,670</td> </tr> <tr> <td>Tangible Capital Assets (City only)</td> <td style="text-align: right;">485,000</td> <td style="text-align: right;">Nil</td> </tr> <tr> <td>Other audit related fees</td> <td style="text-align: right;">48,500</td> <td style="text-align: right;">211,370</td> </tr> <tr> <td>Special reports</td> <td style="text-align: right;">40,000</td> <td style="text-align: right;">26,500</td> </tr> </tbody> </table> <p>The annual audit fees are in accordance with our two-year contract extension approved by City Council ending with the audit of the December 31, 2009 consolidated financial statements.</p> <p>Fees for tangible capital assets are for audit services performed over the City's adoption of the new handbook standard PS 3150 and have been approved by the City Treasurer. Refer to "Adoption of PS 3150 Tangible Capital Assets" section on page 9.</p> <p>Other audit fees for the current year include fees for audit services provided regarding the segmented reporting and the complexities of the consolidation of ABC's.</p> <p>Other audit related fees in the prior year include fees for audit services provided regarding the restatement of employee benefit liabilities, adoption of segmented reporting, consolidation of TWRC and Toronto Economic Development Corporation and additional procedures performed for landfill closure and post-closure costs, insurance risk liabilities, duplication of journal entry testing, tax advisory services, review of the Union Station agreement and our review of the record retention by-law. These fees were approved by the City Treasurer.</p> <p>We perform specified procedures with respect to special reports required for Ministry purposes. These reports were completed or are in progress for the Homelessness Partnership Initiative Program \$11,500 (2008 - \$11,500), Gas Tax Annual Expenditures and Compliance Report \$23,000 (2008 - \$15,000) and the 2008 Toronto York Spadina Subway Extension Annual Expenditure Report \$5,500.</p> <p>Annual audit and other audit related fees for the City's ABC's are disclosed in our audit results reporting packages for those respective entities.</p>		2009	2008		\$	\$	Annual audit fees (City only)	449,670	449,670	Tangible Capital Assets (City only)	485,000	Nil	Other audit related fees	48,500	211,370	Special reports	40,000	26,500
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Items of Audit Significance Discussed with Management

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

Item	Description	Audit Results and Comments
New Government Reporting Model	<ul style="list-style-type: none"> • As reported in our 2009 Audit Planning document, the City adopted PS 1200 Financial Statement Presentation effective January 1, 2009, which established the general reporting principals and standards for the disclosure of information in government financial statements and significantly changed the presentation of the 2009 consolidated financial statements. • The changes included the introduction of an accumulated surplus balance and recording of tangible capital assets on the statement of financial position and the inclusion of non-cash expenditures such as amortization, gains/losses or write-offs for disposals of capital assets on the statement of operations and accumulated surplus and cash flows. The schedule of capital operations has been removed and management of the City has chosen the permitted option to exclude the schedule of reserves and reserve funds and show these details within the notes to the financial statements. Finally, a new statement ‘Change in Net debt’ has been included within the consolidated financial statements. • The impact of adopting these standards has been disclosed in note 2 of the consolidated financial statements. 	<ul style="list-style-type: none"> • We performed audit procedures to test that the City appropriately adjusted its financial statements to conform to the new government reporting model, including the restatement of the 2008 comparative period. • We concur with the new reporting and related disclosures made by management in the 2009 consolidated financial statements.

Items of Audit Significance Discussed with Management (continued)

Item	Description	Audit Results and Comments
Adoption of PS 3150 Tangible Capital Assets	<ul style="list-style-type: none"> • As reported in our 2009 Audit Planning document, the City adopted PS 3150 effective January 1, 2009, which required the City to record its tangible capital assets (“TCA”) on the consolidated statement of financial position. • All of the Agencies, Boards and Commissions (“ABC’s”) have previously recorded their respective TCA’s except for the Toronto Public Library Board, who also adopted PS 3150 effective January 1, 2009. • Management’s process for accounting for TCA’s included the consolidation of the TCA’s reported within the ABC’s and adjusting for any inconsistent accounting policies between the ABC’s and the City . • The changes to the 2009 consolidated financial statement presentation are discussed in the previous section “New Government Reporting Model”. • The TCA accounting policy, impact of adopting this standard and further detail of the TCA balances have been disclosed in notes 1, 2, 16 and Schedule 1 of the consolidated financial statements. 	<ul style="list-style-type: none"> • We performed audit procedures to test the completeness, existence, valuation and rights and obligations of the 2008 opening TCA balances, 2008 and 2009 TCA transactions and closing TCA balances recorded in the December 31, 2009 consolidated financial statements. • We identified audit adjustments that decreased the 2008 opening TCA and accumulated surplus by \$136.5 million. In addition, we identified audit differences in 2008 that increased the December 31, 2008 TCA and annual surplus by \$36.2 million. These audit differences were recorded by management. We identified one audit difference in 2009 due to an accounting policy difference between the City and an ABC that increased 2009 TCA and annual surplus by \$5.8 million and was not recorded by management. See “Summary of Audit Differences” section. • We performed audit procedures to test that the City has included the appropriate disclosures in the 2009 consolidated financial statements and we concur with the information presented in the consolidated financial statements. • The City plans to migrate its recording of TCA to an SAP module in 2010 and as part of that process, implement internal controls over the completeness, existence and valuation of TCA on an ongoing basis. We encourage City management to ensure it also incorporates working with the ABC’s and the consolidation of their TCA into this process.

Items of Audit Significance Discussed with Management (continued)

Item	Description	Audit Results and Comments
Significant Accounting Estimates – Opening Tangible Capital Assets	<ul style="list-style-type: none"> • Due to the lack of historical cost records for many TCA, the recording of the opening TCA balances required a number of complex estimates and judgments as follows: <ul style="list-style-type: none"> ○ Estimates of current replacement costs ○ Estimates of years of acquisition or construction ○ Selection of deflation indices for discounting current replacement costs back to years of acquisition or construction ○ Estimates of useful lives of assets in order to amortize TCA in a systematic and rational manner 	<ul style="list-style-type: none"> • Our audit procedures were designed to evaluate whether the estimation methods and assumptions used by management and the City’s valuation specialists were appropriate, reasonable and internally consistent when considered collectively with all assumptions and corroborated by observable marketplace assumptions, where applicable. • We identified audit differences in performing our procedures, some of which were adjusted by management. See discussion in the “Adoption of PS 3150 Tangible Capital Assets” section above.

Items of Audit Significance Discussed with Management (continued)

Item	Description	Audit Results and Comments
Significant Accounting Estimates - Employee Benefit Liabilities	<ul style="list-style-type: none"> • Employee benefit liabilities represent a significant liability of the City. • Actuarial valuations for the sick leave benefit, Workplace Safety and Insurance Board obligations and other retirement and post-employment benefits are conducted on a periodic basis. The last actuarial review was completed by an actuarial firm in 2010 using the data as of December 31, 2009 and includes benefit plan changes negotiated with the City's unions in 2009. • The 2009 valuation identified actuarial gains of \$436.1 million, the largest portion of which was a \$435.2 million gain on post-retirement benefits and a \$63.5 million gain on sick leave benefits. The largest amounts offsetting these gains were losses for the TTC employee benefit liabilities of \$47.2 million, which are mainly the result of a change in an actuarial assumption that reduced the discount rate. The reduction in future payments required for the post-retirement benefits is due predominantly to the change in retirement assumption which assumes later retirements, and the experience of lower than expected retirements and claims costs from the previous valuation. The gain on sick leave was also due to the change in the retirement assumption and the settlement/curtailment of a portion of the plan in 2009. • The employee benefit liabilities recorded on the statement of financial position do not reduce immediately for these actuarial gains as they are amortized over a 14 - 18 year period. 	<ul style="list-style-type: none"> • As disclosed in our 2009 Audit Planning document, certain of our procedures involve reliance on the work of specialists. In this instance, we rely on the work of the actuary for their calculation of the employee benefit liabilities and we perform certain procedures concerning the reasonableness of the data and assumptions used by the actuary in accordance with generally accepted auditing standards. These tests do not include re-performance of the actuary's calculations. • We performed the following audit procedures in accordance with generally accepted auditing standards when relying on specialists: <ul style="list-style-type: none"> ○ Testing the participant data provided to the actuary; ○ Comparing the participant data reported by the actuary to the data provided to the actuary for accuracy and completeness; ○ Comparing the plan data reported by the actuary to the most recent employee agreements; ○ Testing that the assumptions related to various rates used within the actuarial calculations are reasonable; and ○ Testing that the City is in compliance with the appropriate accounting principles for the calculation, presentation and disclosure of these liabilities within the consolidated financial statements. <p>We did not identify any audit differences as a result of our audit procedures.</p> <ul style="list-style-type: none"> • We also performed variance analysis to assess the reasonableness of changes in employee benefit liabilities. We did not identify any areas where the results were unsupported or unreasonable.

Items of Audit Significance Discussed with Management (continued)

Item	Description	Audit Results and Comments
<p>Differences in Generally Accepted Accounting Principles for Employee Benefit Liabilities</p>	<ul style="list-style-type: none"> • The City arranges the actuarial valuation for all ABC's under the Public Sector Accounting Handbook, except for Toronto Community Housing Corporation ("TCHC") and Toronto Transit Commission ("TTC"), and these results are incorporated by the City in the consolidated financial statements. • The accounting policies for employee benefit liabilities followed by TCHC and TTC in the reporting of their financial results differ from the policies followed by the City. • The City has recorded adjustments in their consolidated financial statements to align the policies of all of the ABC's with its own, except for TCHC and the TTC. TCHC and TTC have independent actuarial valuations completed under their own accounting policies, and do not incorporate Public Sector Accounting Handbook policies. 	<ul style="list-style-type: none"> • We analyzed the impact of aligning TCHC's and TTC's accounting policies with the policies of the City. As a result of our procedures, we recorded an overaccrual of employee benefit liabilities of \$4.5 million on the Summary of Audit Differences. • Except for the audit difference discussed above, we concur with the information presented in the consolidated financial statements.

Items of Audit Significance Discussed with Management (continued)

Item	Description	Audit Results and Comments
Significant Accounting Estimates – Contingent Liabilities, including Property and Liability Claims	<ul style="list-style-type: none"> • Management has assessed the likelihood of its contingent liabilities occurring. In those instances where a liability is likely to occur, management has estimated and recorded a liability. • Management has drawn upon the expertise of the City’s internal Legal Services Department in assessing non-insurance related claims. Where necessary, the City also inquired of external legal counsel. • Management engaged the services of an actuarial firm to assist in performing management’s assessment of self-insurance related claims. The latest actuarial review was completed in 2010 using the data as of December 31, 2009. 	<ul style="list-style-type: none"> • Our audit procedures were designed to test that all significant contingent liabilities of the City were included in management’s assessment and that management’s estimation process was reasonable. • We relied on the work of the actuary for their calculation of the self-insurance claims liability. These tests do not include the re-performance of the actuary’s calculations. We performed the following audit procedures in accordance with generally accepted auditing standards when relying on specialists: <ul style="list-style-type: none"> ○ Testing the claims data provided to the actuary; ○ Comparing the claims data reported by the actuary to the data provided to the actuary for accuracy and completeness; and ○ Testing that the assumptions related to claims growth and various rates within the actuarial calculations were reasonable; and ○ Testing that the City is in compliance with the appropriate accounting principles for the calculation, and the presentation and disclosure of these liabilities are appropriate within the consolidated financial statements. • As a result of our tests performed, we concur with the reasonableness of the accruals recorded and the disclosures in the consolidated financial statements.

Items of Audit Significance Discussed with Management (continued)

Item	Description	Audit Results and Comments
Significant Accounting Estimates – Landfill Closure and Post-Closure Liabilities and Environmental Liabilities	<ul style="list-style-type: none"> • The provision for closure and post-closure costs for the City's active and inactive landfill sites is a significant liability of the City. • The Green Lane Landfill (purchased in 2007) continues to be the only active landfill site held by the City and provisions for both closure and post-closure costs are included in this liability. • Other environmental liabilities that may exist within the City are accrued to the extent that there is a legal obligation to remediate the properties to a certain level and are recorded in other liabilities. Accruals beyond this point are not required to be recorded under the current accounting standards. 	<ul style="list-style-type: none"> • Our audit procedures included testing the landfill capacity data for the City's active landfill site. We tested the estimated closure and post-closure costs for active and inactive sites, which included comparing management's estimated costs to actual historical experience. During the performance of our audit procedures, we identified an overstatement of estimated closure and post-closure costs of \$25.6 million. This audit difference was recorded on our Summary of Audit Differences and subsequently adjusted by management. • Using cost estimates that exceed historical experience can materially impact the landfill closure and post-closure liabilities recorded in the City's consolidated financial statements. Management has indicated to us that they are revising their forecasting model in 2010 to incorporate actual historical experience. • Our procedures also tested that management's assumptions for inflation and discount rates used in the present value calculation were within a range of reasonableness and that the present valuation calculation was properly performed. No differences were identified in our testing. • We concluded that the adjusted provision for closure and post-closure liabilities is reasonable and we concur with the disclosures in the consolidated financial statements. • We did not identify any differences when performing our audit procedures on environmental liabilities and we concur with the amounts recorded and disclosures in the consolidated financial statements for these liabilities.

Items of Audit Significance Discussed with Management (continued)

Item	Description	Audit Results and Comments
Significant Accounting Estimates – Tax Provisions	<ul style="list-style-type: none"> • Provisions for potentially uncollectible property taxes receivable, or refundable property taxes payable to taxpayers, include complex estimates and judgments by management in the following areas: <ul style="list-style-type: none"> ○ Losses to the City for successful property assessment appeals by taxpayers ○ Payments in lieu of taxes ○ Interest adjustments ○ Rebates under various programs: vacancy, heritage properties, charitable organizations ○ Taxes due on contaminated properties • Amounts collected for property taxes that are potentially repayable to taxpayers are recorded as accounts payable and accrued liabilities and not as a reduction to property taxes receivable. 	<ul style="list-style-type: none"> • Our audit procedures included a review of the City’s process for estimating the impact of appeals on current property taxes receivable and refundable property taxes payable recorded by the City. We also corresponded directly with the Municipal Property Assessment Corporation (“MPAC”) on the rate of appeals heard and won to test the reasonability of estimates made by City staff at year end. • For each property class (other than commercial), we compared management’s at-risk rate used to calculate the appeal provision to the average adjustment rate experienced since 1999 and found them to be comparable. • Management’s at-risk rate for commercial appeals was based on the highest adjustment rate experienced since 1999 as a greater number of open appeals pertain to properties with higher original assessment values. We concluded that this is a reasonable assumption. • We assessed the reasonableness of management’s provisions for payments in lieu, interest adjustments and rebates based on historical collection experience. • Arrears on contaminated properties are fully provided for. • Based on our testing of the assumptions used by management and historical experience with collection, we concluded the provision recorded against property taxes receivable and refundable property taxes payable is reasonable.

Items of Audit Significance Discussed with Management (continued)

Item	Description	Audit Results and Comments
Significant Accounting Estimates – Water Receivable and Provision	<ul style="list-style-type: none"> • Water revenue is based on water production being charged to users at water rates approved by Council. The water accrual at December 31, 2009 captures revenue between the last billing dates to December 31 for each individual account and is based on consumption estimates produced by the City's water information system multiplied by a seasonal factor as determined by management. • The provision for non-collectible water accounts includes estimates and judgments by management. The provision arises from arrears on active, inactive and non-linked accounts. 	<ul style="list-style-type: none"> • We analyzed water production data and approved water rates by Council in order to determine an expectation of water revenue for the year. We also analyzed the change in production data and approved water rates for 2009 to set an expectation of fluctuation in water revenues year-over-year. We included certain assumptions over water loss and unbillable water revenue in setting our expectations. We compared our expectation with revenue recorded by the City and concluded that water revenue recorded by management is within our range of reasonableness. • We tested assumptions used by management to estimate the year-end accrual, performed detailed testing of individual account balances included within the accrual and tested subsequent water billings and collections for water consumed in 2009. We concluded that the water revenue accrual recorded by management is within our range of reasonableness. • Based on our review of the assumptions used by management, the City's collection strategy and historical experience with collection, we concluded that the provision for non-collectible water receivables recorded by management is within our range of reasonableness.
Significant Accounting Estimates – Parking Tags Receivable	<ul style="list-style-type: none"> • Included in accounts receivable is management's estimate of revenue expected to be collected from fines issued for parking infractions. Management's accrual estimates are based on historical collection experience for these fines. 	<ul style="list-style-type: none"> • We analyzed historical collection information to set an expectation of what we would consider a reasonable year-end receivable for unpaid parking tags. • We tested management's assumptions and analysis and concluded that the year-end receivable for unpaid parking tags is within our range of reasonableness.
Significant Accounting Estimates – Provincial Offences Receivable	<ul style="list-style-type: none"> • Included in accounts receivable is management's estimate of revenue/accounts receivable expected to be collected from fines issued for provincial offences, other than parking tags mentioned above. Management's accrual estimates are based on historical collection experience for these fines and management's expectation of fines to be collected in the upcoming year. 	<ul style="list-style-type: none"> • We analyzed historical collection information to set an expectation of what we would consider a reasonable year-end receivable for unpaid provincial offences. • We tested management's assumptions and analysis and concluded that the year-end receivable for provincial offences is within our range of reasonableness.

Items of Audit Significance Discussed with Management (continued)

Item	Description	Audit Results and Comments
Financial Statement Close Process	<ul style="list-style-type: none"> • The City's consolidated financial statements are prepared in accordance with the Public Sector Accounting Board standards, which is the basis of accounting to be followed under the City of Toronto Act. This process involves consideration of information from the City's information system, other relevant support and information from various departments and the financial statements from each of the City's ABC's that form a part of the consolidated entity. • Each of the ABC's have stand alone accounting systems and report based on generally accepted accounting principles applicable to their organization, which may not be the same as the principles applied by the City. The ABC's also have transactions with the City during the year that are required to be removed from both the ABC's and the City's records when preparing the consolidated financial statements. As a result, consolidation is a complex and manual process. 	<ul style="list-style-type: none"> • Our audit procedures are designed to test that all entities are appropriately accounted for within the consolidated financial statements and that all required entries and financial statement disclosures are made so that the City's consolidated financial statements are in accordance with generally accepted accounting principles applicable to the City. We identified audit differences in performing our procedures, some of which remain unrecorded and are included in the "Summary of Audit Differences" section. See also discussion below in "Reconciliation and Elimination of Inter-Organizational Balances" for comments specific to the ABC elimination entries. • Our audit procedures also include reviewing the audit results of the consolidated entities to identify any amounts not adjusted through their statements that should be recorded on the City's Summary of Audit Differences in this results package. As at December 31, 2009, the TTC had audit differences that overstated their expenses by \$4.56 million and were not adjusted in the TTC's 2009 consolidated financial statements. As a result, these audit differences were not adjusted in the City's 2009 consolidated financial statements and are recorded on the Summary of Audit Differences. See "Summary of Audit Differences" section. • The complexity of the process increases the potential of errors and, as such, we had included a formal management letter point in 2005. In 2009, this point was removed and replaced with "2009 – Finance – Financial Statement Close Process". Refer to the "Letter of Recommendations" section for further details.

Items of Audit Significance Discussed with Management (continued)

Item	Description	Audit Results and Comments
Reconciliation and Elimination of Inter-Organizational Balances	<ul style="list-style-type: none"> • Part of the City's consolidation process is the elimination of inter-entity balances based on the results of the various local ABC's. These eliminations are performed based on the amounts reported within the various ABC's and may not agree in their entirety with the amounts recorded within the City's accounts. 	<ul style="list-style-type: none"> • We audit the schedules and information provided to us by Accounting Services. Our review of the eliminations that should have occurred between the entities has shown that there are judgmental differences of \$1.1 million for amounts that have not been eliminated in the consolidated statements. This difference has been taken to the Summary of Audit Differences. See "Summary of Audit Differences" schedule.
Public Transit Funds – Ontario Bus Replacement Program	<ul style="list-style-type: none"> • The City previously entered into an agreement with the Province under the Ontario Bus Replacement Program ("OBRP") for funding in 2008 and 2009. The funding for each program year was payable in equal instalments over a 12-year period. • In 2008 and 2009, the City recognized the expenses incurred under the program, but only recognized a portion (1/12th) of the funding related to these expenses for each respective year as the Province could, at its discretion, discontinue future funding upon giving 30-days notice to the City. • The remaining revenue (11/12th) has been accrued as accounts receivable and deferred revenue, with revenue to be recorded in income on an annual basis that would reduce the deferred revenue balance over time. • In the Provincial 2010 budget, the Province discontinued the OBRP but committed to fully fund future years' contributions under the programs. As a result, the City will record the remaining deferred program revenue in income in 2010. 	<ul style="list-style-type: none"> • We concur with the accounting for these funds at December 31, 2009 and the disclosure of the subsequent event in Note 19 to the consolidated financial statements.

Items of Audit Significance Discussed with Management (continued)

Item	Description	Audit Results and Comments
Note Receivable – Toronto Hydro Corporation	<ul style="list-style-type: none"> • The City held a note receivable from Toronto Hydro Corporation at December 31, 2009 in the amount of \$490.1 million (2008 - \$735.2 million). Subsequent to year-end, the City sold this note to a 3rd party for cash consideration of \$528.0 million, resulting in a gain on sale of \$37.9 million. 	<ul style="list-style-type: none"> • We concur with the disclosure of this subsequent event in Note 19 to the consolidated financial statements.
Provincial Loan	<ul style="list-style-type: none"> • In 2004, the City restructured its loan with the Province of Ontario (“Province”) and in 2005, the City made one of two scheduled payments. The second payment to the Province was withheld and was supposed to be settled through the transfer of a property from the City to the Province. As a result of the dispute, payment has not been made on the outstanding debt since 2005. • As mentioned in previous years Audit Results documents, the City continues to negotiate forgiveness of the outstanding loan with the Province; however, the loan has still not been formally forgiven by the Province. 	<ul style="list-style-type: none"> • The loan balance outstanding is approximately \$170 million plus accrued interest of \$18.5 million as at December 31, 2009. In the absence of formal forgiveness of the debt, the City continues to record both the principal and accrued interest on the loan in order to reflect the current amount owing to the Province. • As part of our audit procedures, we confirmed the loan balance with the Province and reviewed the accrued interest for reasonableness. No exceptions were noted. We concur with management’s accounting treatment of the loan.
2009 Audit Differences not Previously Addressed	<ul style="list-style-type: none"> • The following audit difference was not adjusted in the City’s 2009 consolidated financial statements and has not been discussed in the previous points: <ul style="list-style-type: none"> ○ Judgmental overstatement of amortization of actuarial losses by \$3.9 million that will continue each year until the overstatement of unamortized losses is reduced to nil. 	<ul style="list-style-type: none"> • See 2009 “Summary of Audit Differences” section.

Items of Audit Significance Discussed with Management (continued)

Item	Description	Audit Results and Comments
Changes to the 2009 Financial Statements	<ul style="list-style-type: none"> • The significant changes to the consolidated financial statements not addressed elsewhere in this section on items of audit significance discussed with management, are as follows: <ul style="list-style-type: none"> • Separate disclosure of development charges and investment income on the statement of operations and accumulated surplus. • Supplementary information on the consolidated statement of cash flows. • Note 1: Accounting policy disclosure for user charges, development charges, other revenue, expenses and derivative financial instruments. • Note 3: New disclosure on the significant components of accounts receivable. • Note 4: New disclosure on the more significant components of other assets. • Note 8: New disclosure on bank indebtedness. • Note 9: New disclosure on the significant components of accounts payable and accrued liabilities. • Note 17: Includes disclosure of a class action lawsuit against the City, Province and TTC in March 2010. • Note 18: New disclosure of components of accumulated surplus. • Note 19: New note disclosure concerning subsequent events. 	<ul style="list-style-type: none"> • We concur with the changes to the consolidated financial statements.

Items of Audit Significance Discussed with Management (continued)

Item	Description	Audit Results and Comments
Accounting Changes in Canada	<ul style="list-style-type: none"> • In our audit planning package previously presented to the Audit Committee, under the New Developments in Accounting and Auditing Standards, one change we informed you of was with respect to the Introduction to Public Sector Accounting Standards section and revisions being made to clarify which generally accepted accounting principles (“GAAP”) government organizations should apply when preparing their own financial statements. 	<ul style="list-style-type: none"> • While this project has no current impact on the City’s operations, revisions made to this standard will have an impact on the reporting of certain of the City’s ABC’s for years beginning on or after January 1, 2011.

Summary of Audit Differences

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

	Recording/Differences Would Have Increased/(Decreased) Annual Surplus	
	<u>2009</u>	<u>2008</u>
	\$ (000's)	\$
Known Audit Differences – City:		
Over(under)accrual of employee benefit liabilities for differences in GAAP between ABC's and the City	4,476	(7,208)*
Understatement of revenue for funding of tangible capital assets due to GAAP differences between ABC's and the City	5,762	—
Elimination of inter-organizational amounts with the ABC's and GBE's	1,138	1,002
Overaccrual of revenue from Move Ontario Trust that should have been deferred	—	(11,510)
Underaccrual of transfer to revenue from the tax repayment account	—	3,596
Elimination of non-financial asset GAAP difference between ABC's and the City	—	(1,332)
Judgmental Audit Differences - City:		
Overstatement of amortization of actuarial losses	3,900*	3,900*
Overaccrual of provision for commercial property tax appeals	—	10,890
Underaccrual of provincial offences revenue	—	6,500
Overaccrual of provision for heritage rebate program	—	1,373
Known and Judgmental Audit Differences – ABC's:		
TTC – total over(under)statement of net expenses	<u>4,565</u>	<u>(6,246)**</u>
Effect of Unadjusted Audit Differences on Annual Surplus Before Turnaround		
Effect of Prior Year Differences	19,841	965
Turnaround Effect of Prior Year Differences on Annual Surplus	<u>(4,273)</u>	
Total Unadjusted Audit Differences on Annual Surplus After Turnaround Effect of Prior Year Differences	<u>15,568</u>	

* This audit difference does not turnaround in the current year.

**This audit difference was identified in 2009 but related to 2008.

Independence Letter

June 18, 2010

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

Dear Members of the Audit Committee:

We have been engaged to audit the consolidated financial statements of the City of Toronto (the "City") for the year ending December 31, 2009.

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

We have prepared the following comments to facilitate our discussion with you regarding independence matters arising since June 18, 2009, the date of our last communication.

We are not aware of any relationships between Ernst & Young and the City that, in our professional judgment, may reasonably be thought to bear on our independence since June 18, 2009, the date of our last communication.

Canadian generally accepted auditing standards require that we confirm our independence to the Audit Committee in the context of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario. Accordingly, we hereby confirm that we are independent with respect to the City within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario as of June 17, 2010.

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

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

Yours truly,


Chartered Accountants
Licensed Public Accountants

Letter of Recommendations

June 18, 2010

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

Dear Members of the Audit Committee:

Re: Recommendations to Management for the year ended December 31, 2009

In planning and performing our audit of the consolidated financial statements of the City of Toronto (the "City") for the year ended December 31, 2009, in accordance with auditing standards generally accepted in Canada, we considered the City's internal control over financial reporting ("internal control") as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

During our audit, certain matters came to our attention where we feel management can either strengthen controls or improve efficiencies within its current processes. Our study and evaluation disclosed no condition that we believed to be a material weakness, but did disclose certain areas where we believe further review by management is warranted. These points have been formalized in the attached letter, together with management's comments. Other observations made by us during the course of our audit that should be considered by management, are reflected within our discussion in this results package under "Items of Audit Significance Discussed with Management".

Recommendations to management for the individual Agencies, Boards and Commissions have been presented to their respective Audit Committees or Boards of Directors and are included within each of their "2009 Audit Results Packages". These packages are forwarded to the City of Toronto Audit Committee at the same time that their respective audited financial statements are forwarded.

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

- 2001 – Information Technology – Disaster Recovery Planning
- 2005 – Information Technology – SAP User Termination Process
- 2005 – Finance – Consolidation Process (replaced with 2009 – Finance – Financial Statement Close Process)
- 2006 – Finance – Reconciliations between the City and its Agencies, Boards and Commissions
- 2007 – Information Technology – Data Centre Access

Letter of Recommendations (continued)

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

Yours truly,

Ernst + Young LLP
Chartered Accountants
Licensed Public Accountants

Letter of Recommendations (continued)

2009 – Finance – Financial Statement Close Process

Observation

The financial statement close process (“FSCP”) includes the initiation, authorization and recording of journal entries and preparing the financial statements. The FSCP also includes financial statement disclosures where transactions, events, or conditions required to be disclosed are accumulated, recorded, processed, summarized and appropriately reported in the consolidated financial statements.

The City’s FSCP is complex given the number of Agencies, Boards and Commissions (“ABC’s”) that are consolidated within its financial statements. In addition, with the exception of the Toronto Public Library Board, the ABC’s follow different accounting standards than the City and their financial results need to be adjusted to conform to the City’s accounting standards.

During the performance of our audit procedures over the City’s financial statement close process, we identified audit differences relating to consolidation, elimination and reclassification journal entries recorded by management, omitted journal entries that should have been recorded and omitted disclosures in the consolidated financial statements.

Recommendation

There are changes to the FSCP that can be implemented to reduce the risk of errors. Specifically, we recommend management implement a FSCP process that requires:

- Timely reporting of audited financial statements from ABC’s sufficiently in advance of the City’s reporting deadlines;
- Timely communication by the ABC’s to City management of any changes to their submitted financial statements;
- Timely consolidation of significant statement changes from the ABC’s draft financial statements;
- City management provide the ABC’s with a reconciliation schedule of the ABC’s accounting standards to the City’s accounting standards, which should be completed by the ABC’s and submitted with their financial statements to the City;
- Appropriate level of review of consolidation and elimination entries; and
- Appropriate level of review of ABC financial statements for significant disclosures that are required to be presented in the consolidated financial statements of the City.

Management Comments

Although timely receipt of draft and final ABC data has been problematic, we will continue to pursue ideas that will facilitate earlier compilation of results in a standard format. For the 2010 reporting year, Accounting Services staff will provide additional guidance to ABCs, including requirements for additional data, in particular detailed schedules for tangible capital assets. With all consolidating entities now closer to the same basis of accounting, and with anticipated movement of more ABCs to the PSAB Handbook for the 2011 fiscal year, the requirement for re-articulating ABC financial information into the PSAB format will diminish significantly, streamlining the consolidation process.

Letter of Recommendations (continued)

2009 – Finance – Employee Future Benefits Liability Experience Study

Observation

Management revised a number of assumptions used in the actuarial valuation of employee benefit liabilities as at December 31, 2009 to better reflect anticipated experience under its employee benefit plans. For example, assumptions regarding terminations were revised downwards to reflect lower terminations and retirement assumptions were also revised downwards to be consistent with OMERS retirement rates, which are lower than the City's retirement rates. We audited management's revised assumptions and concluded they were reasonable and supported; however, the City is of sufficient size that an experience study on the City prior to the next employee future benefits valuation would provide meaningful insights and further support management's best estimate assumptions.

Recommendation

We recommend the City perform an experience study to further support the actuarial assumptions required to perform the next valuation of employee future benefit liabilities.

Management Comments

A full actuarial study was completed in early 2010 for use (with minor annual updates) for the 2009, 2010 and 2011 financial statements. We will review the benefits and costs of an experience study with the City's actuaries and determine whether this should be completed concurrent with the full actuarial study planned for late 2012 or early 2013.

Letter of Recommendations (continued)

CARRYFORWARD OF PRIOR YEAR POINTS FROM AUDIT RESULTS

2007 – Information Technology - SAP Password Parameters

Observation

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

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

Recommendation

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

Management Comments

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

2008 Update

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

2008 Management Comments

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

2009 Update

We reviewed the password SAP settings and noted the following: minimum password length is set to 6, password expiry is set to 30 days, password history size is set to 5 and table USR40, which contains list of passwords that cannot be used, has many entries. EY also confirmed again that SAP security settings are managed as part of the corporate governance program. EY recommends that the City consider enhancing further the SAP password settings when the corporate governance model is revised in 2010.

2009 Management Comments

No further action taken at this time as we are awaiting pending feedback from the corporate governance model for security.

Letter of Recommendations (continued)

2007 – Information Technology - Periodic User Access Review

Observation

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

Recommendation

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

Management Comments

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

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

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

2008 Update

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

2008 Management Comments

Accounting Services

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

Payroll

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

Letter of Recommendations (continued)

2007 – Information Technology - Periodic User Access Review (continued)

HR

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

Facilities & Real Estate

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

Toronto Police Services

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

2009 Update

EY noted that Payroll conducted a review of PPEB division users and roles. However, we determined through inquiry with the ERP Competency Centre and business divisions that comprehensive enterprise wide periodic reviews of user access are not performed.

EY recommends that the City implement reliable periodic review procedures at all divisions or a coordinated review across the enterprise to periodically review the appropriateness and validity of user access rights. The review should be documented and evidence of the review retained.

2009 Management Comments

ERP Competency Centre

System security management for appropriate access remains a shared function outside of I&T division. Therefore, periodic review on appropriateness of system access is owned by respective business divisions. System security management for appropriate access remains a shared function between divisions and the I&T Division. Therefore, periodic review on the appropriateness of system access is owned by the respective business divisions, with the assistance of the ERP CC.

Accounting Services

Due to the large number of FIS (Accounting Services) job roles and transaction codes a regular review of user's access is extremely difficult to perform. By the time such reviews would be completed the findings would no longer be accurate/valid and the review would have to begin over. With over 2500+ FIS users, user access changes daily making regular reviews of access a difficult and time consuming task. A regular review of sensitive transaction codes within FIS job roles should be carried out on a regular basis.

Letter of Recommendations (continued)

2007 – Information Technology - Periodic User Access Review (continued)

Human Resources

Human Resources will implement an enterprise-wide review of SAP users with HR roles in 2010.

Facilities Management

Access to all FM & RE roles will be conducted on a semi-annual basis to review roles and ensure that only authorized staff has access.

Letter of Recommendations (continued)

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

Observation

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

Recommendation

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

2006 Management Comments

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

2007 Update

We understand this matter is still being addressed.

2007 Management Comments

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

2008 Update

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

2008 Management Comments

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

Letter of Recommendations (continued)

2006 – Information Technology - SAP Configuration – Review of Logs of Changes (continued)

2009 Update

EY requested a listing of individuals who have access to SAP transaction codes SM30 and SM31 (transaction codes used allow users to make direct changes to tables in production). EY noted that no users have access to SM31. EY evaluated the appropriateness of user access to SM30 with managers from the users' departments. EY noted that access to this transaction code is available to some individuals who do not require access.

We recommend that access to SM30 be removed from individual user accounts and be moved to emergency user IDs, which are controlled and monitored.

2009 Management Comments

ERP Competency Centre

The management of non ERP CC individuals having transaction access to SM30 and SM31 remains a shared function between outside of I&T division. Therefore, such a periodic access review is owned by respective business divisions. Within ERP CC, transaction SM30, SE93, SE38, SCC4, and SE11 have been removed from the BASIS role (SR#3375). The two users identified by EY are controlled users in Production. They are required for the Early Watch and other monitoring processes. The observation was made that the system is closed to modification, and this role would only be used for table changes during a controlled and monitored break/fix.

Accounting Services

SM30 is scarcely used in Production. There is however a few noted times that table changes to select modifiable tables is required for production sustainment. In addition SM30 poses little to no risk in the current production environment due to the fact that:

- Production is locked for direct changes
- The underlying object associated with SM30 have been restricted

Human Resources

HR has initiated a service request with the ERP Competency Centre to assess the HR roles and role assignments for the HR Production Support Team. Special attention will be given to the transaction codes. This service request will be implemented as soon as possible.

The userid HR-EMERGENCY will be deleted from the system. Emergency access will be managed instead, through an authorized request to the ERPCC to add the HR Emergency role to the Production Support Team Member's userid only for the duration of the task which requires the access. Each instance where the Emergency role is used is logged by the ERP Competency Centre.

Facilities Management

SM30 will be removed from all active user roles and placed into "Emergency roles" as per the auditor's recommendation.

Letter of Recommendations (continued)

2006 – Information Technology - SAP Configuration – Review of Logs of Changes (continued)

Parks Forestry and Recreation

We agree that transaction SM30 should be locked down except when the system is explicitly open for modification and that removing unnecessary grants to this transaction would further reduce risk of unauthorized change. Unnecessary access will be revoked.

Letter of Recommendations (continued)

2003 – Information Technology – SAP Information Security

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

Observation

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

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

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

Recommendation

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

2005 Management Comments

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

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

Letter of Recommendations (continued)

2003 – Information Technology – SAP Information Security (continued)

2006 Management Comments

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

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

2007 Update

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

2007 Management Comments

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

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

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

Letter of Recommendations (continued)

2003 – Information Technology – SAP Information Security (continued)

2008 Update

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

2008 Management Comments

Accounting Services

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

Payroll

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

HR

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

Facilities & Real Estate

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

Toronto Police Services

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

2009 Update

EY performed a review of critical access in the production environment and had discussions with management of the related divisions to evaluate the appropriateness of user access to transaction codes and authorization objects. EY confirmed with Facilities Management that they have performed a review of sensitive transactions. However, we noted multiple cases of individuals in other divisions who have access, which is not required.

Letter of Recommendations (continued)

2003 – Information Technology – SAP Information Security (continued)

2009 Management Comments

ERP Competency Centre

System security management for appropriate access remains a shared function outside of I&T division. Therefore, periodic review on appropriateness of system access is owned by respective business divisions. System security management for appropriate access remains a shared function between divisions and the I&T Division. Therefore, periodic review on the appropriateness of system access is owned by the respective business divisions, with the assistance of the ERP CC.

Within ERP competency Centre, the following steps are performed:

- Dialog user accounts belonging to BASIS and Solution Manager having privileged access in Production are in a controlled environment. To mitigate potential risk, the Production system remains closed by default. Approval from IPAG is required to open the Production system and any changes done are logged.
- User administration access to Production by dialog users is required to perform BASIS/Security activities.
- Manual maintenance of profiles (SU02) and authorizations privileges (SU03) in Production are removed from the Security role (SR#3375).

Accounting Services

Based on discussions with the EY audit team, the access assigned to the listed FIS 'super users' is in many cases justified and valid. There were few transactions and objects that it was agreed to would be removed from these users and these will be reviewed and where applicable deleted from these users.

User can be assigned SU01D (display only) and display only access to PFCG. This way SU01 can be removed. This will enable the user to still view the access being requested for approval. The list of FIS users with SU01 can be reviewed and where possible reduced.

Access to S_DEVELOP, SE11 and SE80 will be reviewed and where applicable removed from these users.

Human Resources

HR has initiated a service request with the ERP Competency Centre to adjust the HR Production Support roles to restrict the number of user ids with user administration access (SU01 & SU03). This service request will be implemented as soon as possible.

The risk with transaction code PFCG is that it permits changes to roles. However, in our role TOR_BC-USER_ROLE_PROF_DISPLAY we have confirmed that the authorization objects associated with this transaction contain values that permit display access only. Access to PFCG will be extended to the user administration team and the production support team to display roles, not maintain them.

HR has initiated a service request with the ERP Competency Centre to assess the HR roles and role assignments for the HR Production Support Team. Special attention will be given to the transaction codes. This service request will be implemented as soon as possible.

Letter of Recommendations (continued)

2003 – Information Technology – SAP Information Security (continued)

The userid HR-EMERGENCY will be deleted from the system. Emergency access will be managed instead, through an authorized request to the ERP CC to add the HR Emergency role to the Production Support Team Member's userid only for the duration of the task which requires the access. Each instance where the Emergency role is used is logged by the ERP Competency Centre.

Facilities Management

SM30 will be removed from all active user roles and placed into "Emergency roles" as per the auditor's recommendation.

Parks Forestry and Recreation

We agree that transaction SM30 should be locked down except when the system is explicitly open for modification and that removing unnecessary grants to this transaction would further reduce risk of unauthorized change. Unnecessary access will be revoked.

Letter of Recommendations (continued)

2001 – TPS - Information Technology – Disaster Recovery Planning

Observation

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

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

Recommendation

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

2005 Management Comments

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

2006 Update

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

2006 Management Comments

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

2007 Update

We understand this matter is still being addressed.

Letter of Recommendations (continued)

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

2007 Management Comments

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

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

2008 Update

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

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

EY recommends that the TPS monitor the City disaster recovery plan for completion and finalize the disaster recovery plan for Class B and Class C applications soon after.

2008 Management Comments

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

2009 Update

EY understands that the City has developed a plan that allows for the full recovery of SAP and the City and Toronto Police use the same SAP system.

We understand that, due to funding restrictions, a full DRP for the other administration systems is not currently being considered. TPS is planning to document the procedures to be followed to recover the Class B and Class C applications but no hardware will be purchased. In the event of a disaster, all payroll and HR processing will be manual.

Letter of Recommendations (continued)

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

2009 Management Comments

Comments have not changed since 2008. ITS is still working with the City to review the final disaster recovery plan as well as the TPS business continuity plans in order to align with the City and Service plan. Any budgetary support related to the outcome of the review for classification of application and systems will be requested through the appropriate funding channels.

Letter of Recommendations (continued)

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

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

Observation

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

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

Recommendation

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

2005 Management Comments

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

2006 Update

We understand this matter is still being resolved.

2006 Management Comments

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

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

Letter of Recommendations (continued)

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

2007 Update

We understand this matter is still being resolved.

2007 Management Comments

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

2008 Update

We understand this matter is still being resolved.

2008 Management Comments

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

2009 Update

We understand this matter is still being resolved.

2009 Management Comments

The Director of Accounting Services will meet with TCHC representatives in 2010 to update information regarding the amounts involved, and to work together on alternative funding strategies.



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