

# KPMG Audit Recommendations

# Background - Internal control over financial reporting (ICFR)

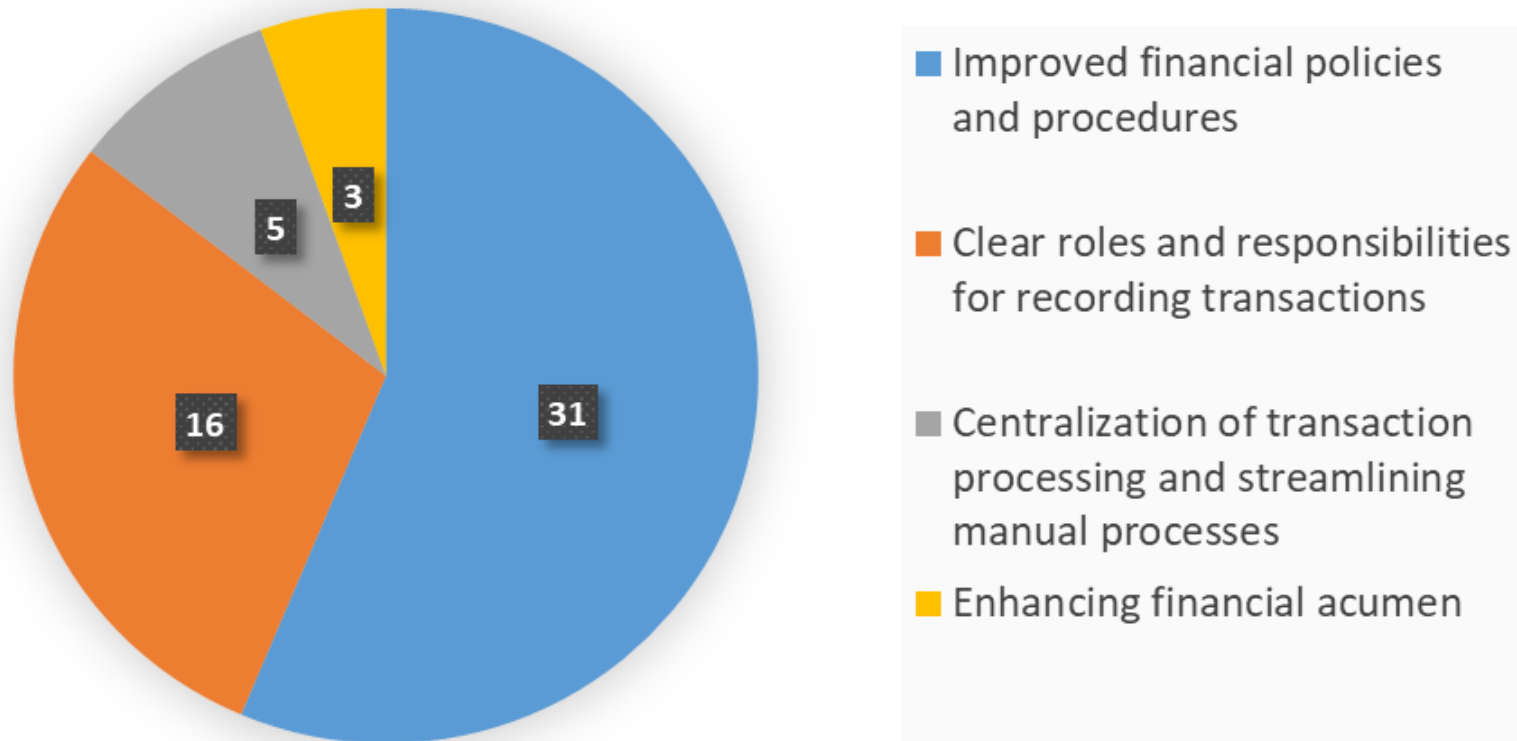
- ▶ An unmodified opinion was issued by the City's external auditor KPMG for the consolidated financial statements for the year ended December 31, 2020.
- ▶ For the year-ended December 31 2020, KPMG also issued a management letter to the CFO pertaining to the results of their audit. KPMG did not identify any significant deficiencies in ICFR; however, they did identify 55 recommendations for process improvements at the City for management's consideration.
- ▶ Management is in the process of implementing action plans for the 55 recommendations.
- ▶ It is anticipated that an unmodified opinion will be issued for the year ended December 31, 2021. KPMG has also identified additional preliminary recommendations for process improvements which are in draft and will be issued in a management letter once finalized.

# Status of 2020 Recommendations

The City of Toronto is committed to implementing action plans that adequately address the risks associated with the 55 recommendations from KPMG.

The City noted that over 50% of the applicable actions plans for the 55 recommendations are linked to the ongoing Financial Systems Transformation Project which will re-engineer business processes, transform the business operating model and enable an automated and robust financial system. This centralized financial system will play a key role in enhancing internal controls and process improvements required to close out the recommendations.

**The general themes of the 55 recommendations are as follows:**

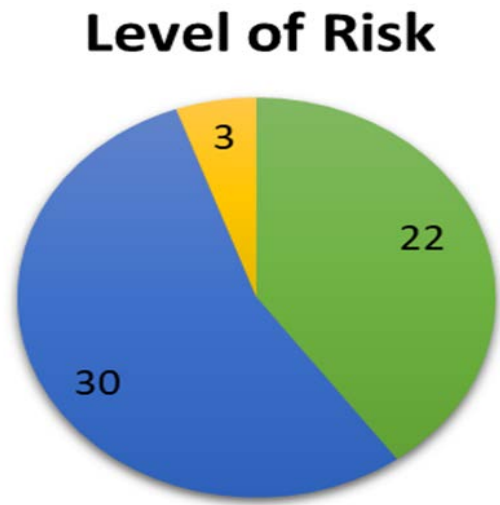


# 2020 Recommendations - Overall Action Plans

Key Activities		Underway (0 - 12 months):	Intermediate (12 - 24 months):	Long Term (36 months):
<b>Improved financial policies and procedures</b>				
1	Assessment of current processes to identify gaps	✓		
2	Design of future state processes and develop related policies and procedures	✓	✓	
3	Implement new business processes			✓
4	Review of bank and petty cash controls and transactions	✓		
5	Detailed review and data analysis of procurement process and timelines	✓		
<b>Clear roles and responsibilities for the recording of financial transactions</b>				
1	Design of the Target Operating Model for FSTP outlining roles & responsibilities	✓		
2	Build FSTP platform and implement Target Operating Model		✓	✓
3	Rollout training resources for new Target Operating Model			✓
4	Make amendments to governance instruments for Agencies and Corporations	✓	✓	
<b>Centralization of transaction processing and streamlining labour intensive and inefficient manual business processes</b>				
1	Assessment of current processes to identify gaps	✓		
2	Design of future state processes	✓	✓	
3	Build FSTP platform and new business processes		✓	✓
<b>Need to enhance financial acumen</b>				
1	Conduct assessment of financial acumen and technical expertise	✓		
2	Launch of Pre-Approved CPA Training Office	✓		
3	Development/update of financial training material		✓	

# Risk Assessment of 2020 Recommendations

An internal risk assessment of the 55 recommendations indicated that there are 22 high risk recommendations. The breakdown is as follows:



**High Risk** – High probability of occurrence or significant impact  
**Medium Risk** - Medium probability of occurrence and impact  
**Low Risk** - Low probability of occurrence and low impact

# Status of 22 High Risk Recommendations

Category	# of High Risk Recommendations	Action Plans	Status of Action Plans
Bank accounts and petty cash management	8	The City engaged KPMG to conduct a review on bank accounts and petty cash across the City which has been <b>completed</b> and the final report has been issued. Findings from the review will be used to implement cash management process improvements for the City.	Green
Procurement Practices	4	The City engaged KPMG to conduct a deeper data analysis to ascertain the root causes of inconsistent procure to payment practices (P2P) at the City. The review has been <b>completed</b> and the final report has been issued. Findings from the review will be used to streamline procure to payment practices.	Green
City's Books and Records	2	Through FSTP, current business processes are being re-engineered and the City's Target Business Operating Model is being transformed to enable an automated, robust and centralized financial system.	Green
Technology Services Governance - IT Strategy	1	The City has rolled out the Intake Process which manages incoming technology work requests from clients. An Enterprise Architecture Review Board (EARB) was launched to increase alignment to IT strategy. Intake and EARB processes help manage the reduction of technology sprawl and overlapping of various technology applications by limiting duplication of solutions.	Green
Technology Services Security - Terminated Employees	1	The City is working to refine the business requirements of when and how the accounts should be deactivated, in addition to improving the City's existing automated process for employee termination. This process is currently under revision and finalization between Technology Services and Payroll.	Green
Technology Services Security - User Access	1	The City conducts periodic certification of SAP ECC applications on an annual basis since 2021. City also implemented an Annual User Access Review process which included the review of current state, development of procedures in support of existing policies, development of communication procedures, and implementation of review process.	Green

**Green - On track**  
**Yellow - Delayed**  
**Red - Significantly Delayed**

# Status of 22 High Risk Recommendations

Category	# of High Risk Recommendations	Action Plans	Status of Action Plans
Property and Liability Claims - System reconciliation	1	The City will implement a new RMIS (which is a cloud based solution that has the potential to interface with SAP) by Q4 2022. The City will also develop interface with SAP to input financial data directly to SAP to ensure the claims database and SAP reconcile. Interface with SAP is dependent on FSTP	
Property and Liability Claims - Data Reliability and Accuracy	1	The City will implement a new RMIS by Q4 2022. This includes measures to ensure no discrepancies between the City's RMIS and iAdjust by eliminating double entry. Also creating new position who will be responsible for data quality / reconciliation. To be approved as part of 2023 budget process and filled in early 2023.	
Property and Liability Claims - Funded Liability	1	The City has developed a 5-year plan to reach a target Insurance Reserve Fund balance	Completed
Commitments - Operating Leases	1	Through the design work for FSTP, the City is will develop a central repository for all commitments within a module in S/4HANA to generate a complete repository of all operating leases. The design phase has been completed.	
Sinking Fund and Trust Fund	1	Through the design work for FSTP, a process for adjusting entries will be developed by the City.	

**Green - On track**

**Yellow - Delayed**

**Red - Significantly Delayed**

# Summary of 2021 Preliminary Recommendations

The preliminary recommendations for the December 31, 2021 financial statement audit are as follows:

1. Government Transfers - *Improve financial policies and procedures for tracking and recognizing revenue*
2. Legal Claims Liability - *Centralize legal claims database for completeness of information*
3. Long-term Care Homes - Annual Reconciliation Report - *Centralize processing of data to decrease manual errors*
4. Liabilities Claims - legal expenses - *Improve financial policies and procedures to reduce delays in recording legal expenses*
5. Commitments - Indirect Tax - *Improve financial policies and procedures for consistency in note disclosure for financial statements*



# Next Steps

- ▶ Meet with KPMG to clarify the 2021 observations to determine if the City agrees with recommendations. Develop and implement action plans that adequately address the risks associated with the new recommendations.
- ▶ Continuous monitoring of progress and closing out of the recommendations is a priority, with the expectation that progress updates will be tabled to the senior leadership team on a regular basis.
- ▶ Any areas of concern or delays in implementing action plans will be escalated to the senior management team.
- ▶ Independent validation by Internal Audit on action plans that have been fully implemented.