Audit Committee:
Update on Action Plans
KPMG Audit Recommendations

Background and Status of KPMG Recommendations

This presentation responds to a direction from Council arising from Item AU13.2 - The City of Toronto Audit Findings Report for the Year Ended December 31, 2021, as adopted by City Council at its meeting on July 19, 20, 21 and 22, 2022, for the Chief Financial Officer & Treasurer to report to Council on the status of the 55 recommendations in the Management Letter (December 15, 2021) from KPMG LLP.

- The City's external auditor KPMG issued the consolidated financial statements for the year ended December 31, 2020 and 2021.
- KPMG's initial audit, after a decade with the predecessor auditing firm, allowed for the delivery of a comprehensive management letter, which was requested by management.
- For the year-ended December 31 2020, KPMG did not identify any significant deficiencies in internal control over financial reporting (ICFR); however, they did identify 55 recommendations for process improvements at the City for management's consideration.
- For the year-ended December 31 2021, KPMG did not identify any significant deficiencies; however 5 additional recommendations were identified.
- Management is in the process of implementing action plans for the 60 recommendations.
- Of the 60 recommendations; 7 have been implemented by the City. Internal audit has confirmed implementation of the recommendations and KPMG through their annual financial statement audit will validate and close out the recommendations.

Impact of Financial Systems Transformation Project on Recommendations

The City had identified the need for change preceding KPMG audit and had started the Financial Systems Transformation Project (FSTP) as the response to lack of financial system updates not done over the past multiple years. FSTP will create standardized business processes across the main business process streams, integrating input from over 70 subsidiary systems.

50% of the applicable actions plans for KPMG’s 60 recommendations are linked to the ongoing FSTP work 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 many of the recommendations.

Status of FSTP:

- The design phase has been completed
- The build phase is underway and is expected to be completed by late 2023
- User testing in preparation to launch Financial System to be completed by end of 2023
- Launch of FSTP will take place mid 2024

Financial Systems Transformation Project (FSTP) - Phases

Transformation journey over the next ~20months

1. Imagine (Design)	2. Deliver (Build)	3. Deliver (Validate)	4. Run (Deploy)
Lay the foundations:	**Begin the process to build the system:**	**Train users and test the system:**	**Implement the leading practice S/4HANA:**
• Set the vision for business transformation and change, and define the end-state solution and business processes	• Work iteratively and incrementally to build the path to realization by: • Detailing design • Informing system demo • Cleanse and make quality data available	• Validate the vision of the business transformation by: • Conducting user acceptance testing • Testing integration with existing divisional systems • Attending training on new finance processes and the S/4HANA system	• Realize the vision of the business transformation • Enable adoption of new system within

TORONTO

FSTP – Design phase accomplishments

Design phase by-the-numbers

94 Process workshops

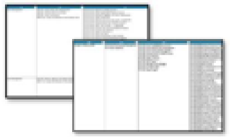
511 In-scope processes

400+ Internal stakeholders engaged

Design phase deliverables

Business Process Map lists

A collection of the detailed business processes aligned to the respective process group.



IP5 Process Maps

A diagrammatic representation of the business processes from the process lists.

Playback materials

Summary of all the workshops design decisions, gaps and change impacts to the standard SAP S/4HANA solution design

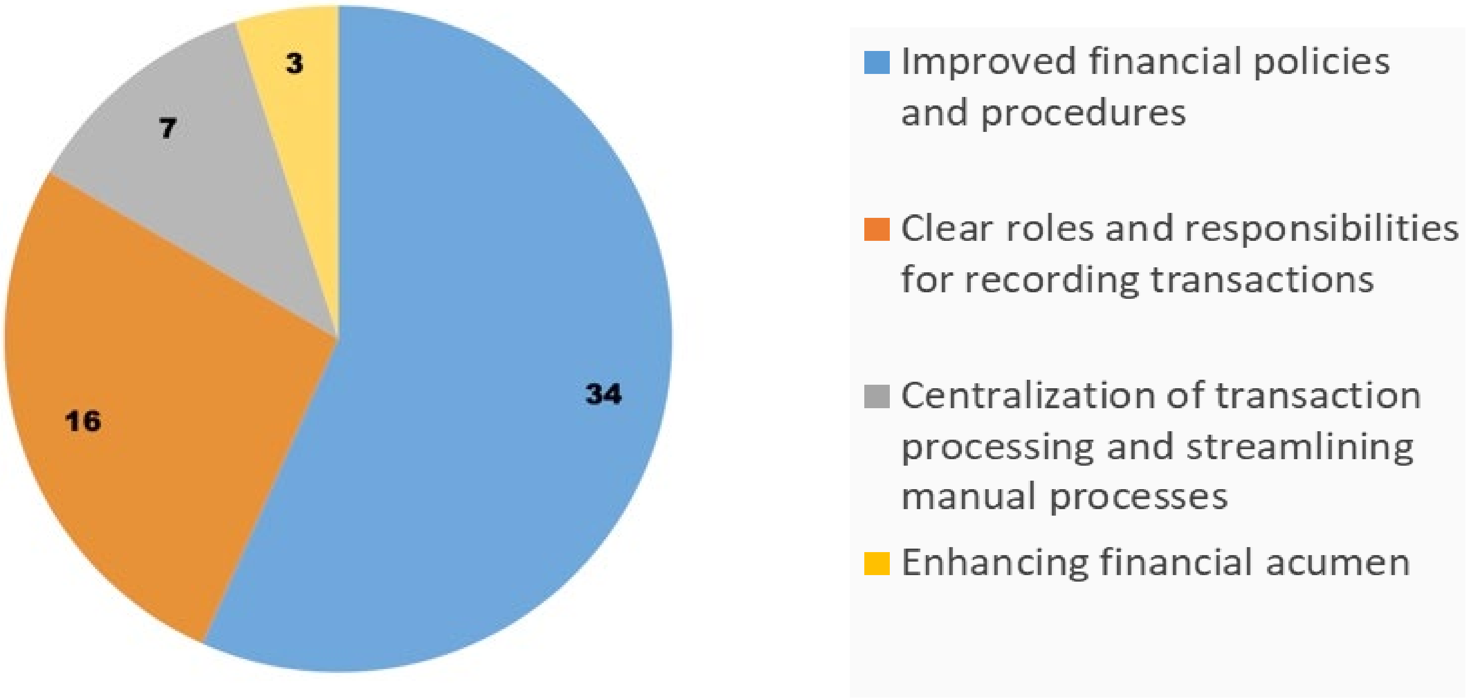
Key outcomes

- The **key outputs and decisions** from the Design phase deliverables have been captured in templates called fit-gap requirements.
- These requirements will be used as **inputs** to build the system during the next phase.

Recommendations – General Themes

The City of Toronto is committed to implementing action plans that adequately address the risks associated with the 60 recommendations from KPMG.

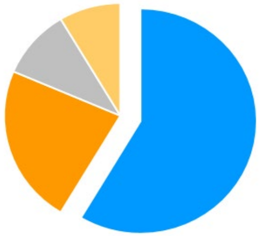
The general themes of the 60 recommendations are as follows:



Listing of Implemented Recommendations

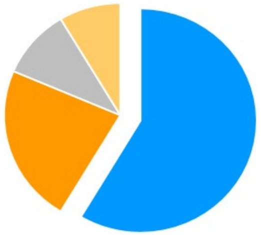
Recommendation	Action Plan	Validated by Internal Audit
Employee Benefit Obligations - Amortization Schedules	The City shared its preferred amortization practices and principles with the actuary to ensure amortization amount booked each year is accurate. Lifeworks has compiled the historic Amortization Schedules for the period 2003 to 2021 and will update them on an annual basis.	✓
Employee Benefit Obligation - Discount Rate	Appropriate discount rates applied. Effective December 31, 2021, the discount rate method was changed to reflect different discount rates for the various entities under the City of Toronto (for each of the benefits).	✓
IT Governance - System Architecture	In order to support standardization of architecture, Service Intake process and Enterprise Architecture Review Board which is a governing body with Office of Chief Information Security Office members have been launched City-wide.	✓
IT Security - User Access	To ensure access commensurate with job responsibilities, an annual Systems Applications & Products (SAP) User Access Review process and access certification across city divisions including Toronto Police Services (TPS) has been launched. Annual checks are being conducted on SAP central component.	✓
IT Security - Super User Access	In order to enhance monitoring, a process has been implemented for managing super user accounts.	✓
IT Support - Incident Resolution	A source system is being used to monitor the response/resolution time as per Service Level Agreement (SLA).	✓
Property & Liability Claims - Discount Rate	Discount rate used is the City's rate of return estimate for long term funds and KMPG concurred with this discount rate.	✓

Recommendations for improved financial policies and procedures



ACTION ITEMS	STATUS
A 5 year plan has been implemented to improve status of City's Insurance Reserve Fund and related future liability	√
A complete listing of bank accounts owned throughout the City has been developed and will be utilized to rationalize the number of bank accounts	√
New metric to measure error rate and corrections related to property & liability claims has been implemented	√
Reviews have been completed on petty cash procedures by Internal Audit and KPMG	√
Security deposits policy and related training has been developed and released	√
Year-end instructions now include detailed procedures for divisions to follow in order to support year end balances	√
A policy development plan as well as Finance and Treasury Services policy framework is being developed which will include policy communication and change management procedures	Underway
Additional policies such as Banking Governance Policy is being developed which will outline accountability and timelines for bank account reconciliations as well as opening and closing of bank accounts	Underway

Recommendations for improved financial policies and procedures (Conti.)



ACTION ITEMS	STATUS
A cloud based solution is being developed as an interface to reconcile property & liability claims database with SAP and data quality work continues to enhance data integrity	Underway
Processes have been defined and documented for access rights for terminated employees and the team is working on process automation	Underway
A revenue recognition policy with related training module is being developed	Underway
Separate procedural documents are being developed to outline various processes such as for useful lives and amortization calculations, to report gain or loss in SAP, move Assets under construction to completed TCA as per system requirements and required accounting standards	Underway
Petty cash policy will be updated to ensure it is in line with the current environment	To begin in 2023
Tangible Capital Assets accounting policy will be updated and underlying procedures will be developed to ensure it is reflective of actual accounting practices	To begin in 2023

Recommendations for clear roles & responsibilities for the recording of financial transactions

ACTION ITEMS	STATUS
FSTP design phase is complete - business process lists and process maps for 511 in-scope processes have been created	✓
FSTP Build phase has started - outputs from the design phase are being used to develop framework for the new system	Underway
Design work of the Target Operating Model (TOM) has started and will support FSTP's overall financial transformation work	Underway

Recommendations for centralization of transaction processing & streamlining manual processes

ACTION ITEMS	STATUS
Deeper assessment of procurement process and practices completed by KPMG – Report with data analytics under advisement with Purchasing & Material Management Division (PMMD) for next steps	✓
Work continues with divisions to onboard eligible employees to Employee Self Services (ESS) in efforts to standardize time entry system for employees	Underway
Monthly updates on core inflation rate, borrowing rates and expected return on investments will be made available on internal webpage	Underway
In order to enhance governance in IT, project gating process review and standardization of divisional IT is in progress	Underway
Compliance review to be conducted to inform program design for indirect tax	To begin in 2023

Recommendations to enhance financial acumen

ACTION ITEMS	STATUS
Certified Public Accountant (CPA) pre-approved program has been established and training has been developed and launched	✓
Analysis and Compliance team has been created to ensure compliance with Public Sector Accounting Standards (PSAS) and implement reviews of transactions that will help educate divisions	✓
Organizational staff responsible for finance functions has been provided with training materials for the policies and processes that have been recently introduced	✓
Accounting Services Division is working towards staffing majority of its accounting related positions with CPAs.	Underway
Accounting Services Division sending communication and updates to divisional finance staff and providing advice as the accounting centre of excellence	Underway
Training material is being developed and training sessions planned for new policies/processes that are being revised or introduced	Underway

5 Additional Recommendations from the 2021 annual audit

Theme	Recommendation	Action Plan
Improved financial policies and procedures	Improve financial policies and procedures for tracking and recognizing revenue for government transfers	Through FSTP, the City will focus on automation and implementing business processes. Internal Audit will conduct a review of practices related to government transfers. In the interim, efforts will be made to record revenue in a manner compliant with PSAS.
Centralization of transaction processing & streamlining manual processes	City should assess and mitigate the potential risk of incomplete and inaccurate data as it may result in misestimation of unpaid claim liabilities.	Data quality working group process will be documented, corrections will be tracked and reported and corrections will be completed in a timely manner.
Centralization of transaction processing & streamlining manual processes	Centralize processing of data to decrease manual errors for Long Term Care Homes - Annual Reconciliation Report	Through FSTP recording activities will be refined. In the interim, efforts will be made to bring SAP closer to the data that exists in the auxiliary systems.
Improved financial policies and procedures	Improve financial policies and procedures to reduce delays in recording legal expenses	Through FSTP, reporting and recording activities will be redefined to ensure timely processing of invoices. In the interim, work will be done to develop process changes for year-end payments.
Improved financial policies and procedures	Improve financial policies and procedures for consistency in note disclosure for Commitments – Indirect Tax financial statements	Through FSTP, will be able to train staff with informative tools. Interim improvements will include providing job aids to staff, communicate tax policies and staying up to date with CRA requirements.

Next Steps

- 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 implementation.
- Bi- annual reporting of status and progress made on implementation of recommendations to audit committee.