AGENDA

AUDIT COMMITTEE

THE CORPORATION OF THE CITY OF MISSISSAUGA

MONDAY, MAY 6, 2013 – 9:00 AM

COUNCIL CHAMBER, 2ND FLOOR, CIVIC CENTRE,
300 CITY CENTRE DRIVE, MISSISSAUGA, ONTARIO L5B 3C1
http://www.mississauga.ca

Members

Mayor Hazel McCallion
Councillor Jim Tovey, Ward 1
Councillor Pat Mullin, Ward 2 (Chair)
Councillor Bonnie Crombie, Ward 5
Councillor Ron Starr, Ward 6

Contact: Carmela Radice, Legislative Coordinator, Office of the City Clerk
905-615-3200 ext. 5426 Fax: 905-615-4181
carmela.radice@mississauga.ca

CALL TO ORDER

DECLARATIONS OF (DIRECT OR INDIRECT) PECUNIARY INTEREST

MINUTES OF PREVIOUS MEETING

(a) Draft Minutes of the March 4, 2013 Audit Committee meeting.

Recommend Approval

APPROVAL OF THE AGENDA

DEPUTATIONS

MATTERS TO BE CONSIDERED

1. Report dated March 12, 2013 from the Director, Internal Audit re: **2012 Investment Audit.**

Recommendation

That the report dated March 12, 2013 from the Director of Internal Audit with respect to the 2012 Investment Audit be received for information.

Recommend Receipt

2. Report dated April 11, 2013 from the Commissioner of Corporate Services and Treasurer re: **2012 Audited Financial Statements.**

Recommendation

That the 2012 Audited Financial Statements for the City of Mississauga (City), City of Mississauga Public Library Board, City of Mississauga Trust Funds, Clarkson Business Improvement Area, Port Credit Business Improvement Area, Streetsville Business Improvement Area and Enersource Corporation be received.

Recommend Receipt

3. Report dated April 18, 2013 from the Commissioner of Corporate Services and Treasurer re: **2012 External Audit Findings Report.**

Recommendation

That the 2012 External Audit Findings Report dated April 18, 2013 from the Commissioner of Corporate Services and Treasurer, which includes the Audit Findings Report from KPMG for the fiscal year 2012 for the City of Mississauga, be received for information.

Recommend Receipt

4. Report dated April 23, 2013, from City Manager & Chief Administrative Officer re: **Status of Outstanding Audit Recommendations as of March 31, 2013.**

Recommendation

That the report dated April 23, 2013 from the City Manager & Chief Administrative Officer regarding the status of outstanding audit recommendations as of March 31, 2013 be received for information.

Recommend Receipt

INQUIRIES

ADJOURNMENT

MINUTES

AUDIT COMMITTEE

THE CORPORATION OF THE CITY OF MISSISSAUGA

MONDAY, MARCH 4, 2013 – 9:06 AM

COUNCIL CHAMBER, 2^{ND} FLOOR, CIVIC CENTRE,
300 CITY CENTRE DRIVE, MISSISSAUGA, ONTARIO L5B 3C1
http://www.mississauga.ca

Members Present
Councillor Jim Tovey, Ward 1
Councillor Bonnie Crombie, Ward 5 **(Chair)**
Councillor Ron Starr, Ward 6

Members Absent
Councillor Pat Mullin, Ward 2 (Other Municipal Business)
Mayor Hazel McCallion

Staff Present
Janice Baker, City Manager and Chief Administrative Officer
Brenda R. Breault, Commissioner, Corporate Services and Treasurer
Mark Beauparlant, Manager of Corporate Financial Services
Sally Eng, Director, Internal Audit
Patricia Elliot-Spencer, Director of Finance
Kevin M. Travers, Partner, KPMG, external auditors
Carmela Radice, Legislative Coordinator, Office of the City Clerk

CALL TO ORDER – (9:06 a.m.)

DECLARATIONS OF (DIRECT OR INDIRECT) PECUNIARY INTEREST - Nil

MINUTES OF PREVIOUS MEETING

Recommendation

AC-0001-2013
That the Audit Committee minutes of November 19, 2012 be approved as presented.

Approved (R. Starr)

APPROVAL OF THE AGENDA

That the agenda be approved as presented.

Motion: Moved by: J. Tovey

Carried

DEPUTATIONS

(a) Patti Elliot-Spencer, Director of Finance will be speaking to the Corporate Report titled "*Revised Corporate Policy – Investments.*"

Patti Elliott-Spencer, Director of Finance provided an overview of the Revised Corporate Policy – Investments and spoke to the investment policy principal priorities, cash management approach, investment management approach and updates to the policy. Councillors Tovey, Starr and Crombie inquired about the protocol of investment decisions. Mark Waugh, Investment Portfolio Manager spoke to the protocol.

MATTERS TO BE CONSIDERED

1. Report dated February 22, 2013 from the Director, Internal Audit re: **Final Audit Reports:**

1. Transportation & Works Department, Enforcement Division, Parking Enforcement – Revenue Audit

Heidi Bryck, Audit Associate provided an overview of the Enforcement Division Parking Enforcement – Revenue Audit. Councillors Tovey and Starr inquired about the controls over tracking and monitoring of parking tickets issued, adjusted, cancelled or refunded as well as how the City compares to other municipalities. Janice Baker, City Manager and CAO and Mickey Frost, Director of Enforcement indicated that the bench marking will be done during the budget process.

2. Corporate Services Department, Revenue, Material Management & Business Services Division, Material Management – Medium Value Acquisition Audit

Barbara Webster, Senior Internal Auditor provided an overview of the Revenue Material Management & Business Services Division, Material Management – Medium Value Acquisition Audit. Councillors Tovey, Crombie and Starr posed questions on the recommendations concerning testing the marketplace every few years, best value and lost or misplaced files. Sally Eng, Director of Internal Audit indicated that the time to test the marketplace depends on the types of goods/services required and the Buyers in the Material Management Division would be in the best position to determine when the best time should be to test the marketplace. Jeff Jackson, Director of Revenue and Material Management indicated that buyers will continue to review all procurements to ensure the best value for the City. He further indicated a revamp in their policy on filing to alleviate the percentage of misplaced or lost files.

<u>Recommendation</u>

AC-0002-2013
That the report dated February 22, 2013 from the Director of Internal Audit with respect to final audit reports:

1. Transportation & Works Department, Enforcement Division, Parking Enforcement – Revenue Audit.
2. Corporate Services Department, Revenue, Materiel Management & Business Services Division, Materiel Management – Medium Value Acquisition Audit be received for information.

<u>Approved (R. Starr)</u>

2. Report dated February 22, 2013 from the Director, Internal Audit re: **Status of Recommendations from the External Quality Assurance Review of the Internal Audit Function.**

Sally Eng, Director of Internal Audit provided an overview of the status of recommendations from the external quality assurance review of the internal audit function.

Recommendation

AC-0003-2013
That the report dated February 22, 2013 from the Director, Internal Audit with respect to the Status of Recommendations from the External Quality Assurance Review of the Internal Audit Function be received for information.

Received for information (J. Tovey)

3. Report dated February 22, 2013 from the Director, Internal Audit re: **Proposed Revisions to Internal Audit Charter.**

Sally Eng, Director of Internal Audit provided a summary of the proposed revisions to the Internal Audit Charter.

Recommendation

AC-0004-2013
1. That the proposed changes to the Internal Audit Charter (By-law 0240-2004) as detailed in the report dated February 22, 2013 from the Director of Internal Audit titled "Proposed Revisions to Internal Audit Charter", be approved.
2. That upon approval by the Audit Committee changes to the Internal Audit Charter be forwarded to Council for endorsement and for approval to amend By-law 0240-2004.

Approved (R. Starr)

4. Report dated February 22, 2013, from the Director, Internal Audit re: **2013 Internal Audit Interim Work Plan.**

Sally Eng, Director of Internal Audit provided a summary of the 2013 internal Audit Interim Work Plan. Councillors Starr and Crombie inquired on allocation of time on each audit and how the departments are selected. Ms. Eng indicated that the standard time allocation is three months unless the auditor assesses that it requires more time. She further indicated that audits are selected based on risk assessments not by departments.

Recommendation

AC-0005-2013
That the report dated February 22, 2013, from the Director, Internal Audit, with respect to the 2013 Internal Audit Interim Work Plan be approved.

Approved (R. Starr)

5. Report dated February 21, 2013, from the Commissioner of Corporate Services and Treasurer re: **Revised Corporate Policy – Investments.**

Recommendation

AC-0006-2013
That the revision to the Corporate Policy on Investments, attached as Appendix 1, to the report titled Revised Corporate Policy on Investments from the Commissioner of Corporate Services and Treasurer, dated February 12, 2013 be approved effective immediately.

Deputation (a)
Approved (J. Tovey)

CLOSED SESSION - Nil

INQUIRIES - Nil

ADJOURNMENT -10:28 a.m.

MISSISSAUGA

Corporate Report

Clerk's Files

Originator's Files

AUDIT COMMITTEE
May 6, 2013

DATE: March 12, 2013

TO: Chair and Members of the Audit Committee
Meeting Date: May 6, 2013

FROM: Sally P. Eng, CPA CA CMA
Director, Internal Audit

SUBJECT: **2012 Investment Audit**

RECOMMENDATION: That the report dated March 12, 2013 from the Director of Internal Audit with respect to the 2012 Investment Audit be received for information.

BACKGROUND: In accordance with the Terms of Reference for the Audit Committee (By-law 0321-2010), the Committee is responsible for "reviewing reports from the Director of Internal Audit identifying audit issues and the steps to resolve them, [and] reviewing the adequacy of the management responses to audit concerns, having regard to the risks and the costs involved."

COMMENTS: Internal Audit has completed finalization of the 2012 Investment Audit. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

Investment audits are performed annually and transactions are tested over the course of the year. The 2012 Investment Audit covered activities from January 1st to December 31st, 2012. The objectives of the audit were:

A. Compliance - Investments are in compliance with legislation, Council By-laws and Corporate Policy and Procedures 04-06-02;

B. Effectiveness - Return on investment is reasonable, having regard to constraints imposed by legislation, Council By-laws and City policy;

C. Control - There are proper controls over the investment process;

D. Cash Flow - Investment commitments do not interfere with the required cash flow and that sufficient working funds are maintained;

E. Follow up – Follow up on the status of audit recommendations from the previous investment audit report.

Based on the audit work performed, we found that the objectives stated above were met and there were no major concerns or recommendations resulting from the audit.

FINANCIAL IMPACT: Not applicable.

CONCLUSION: The 2012 Investment Audit is now complete. No major concerns or recommendations arose out of the audit.

Sally P. Eng, CPA, CA, CMA
Director, Internal Audit

Prepared By: Keith Kamino, CGA, Senior Internal Auditor

MISSISSAUGA

Corporate Report

Clerk's Files

Originator's Files

AUDIT COMMITTEE
May 6, 2013

DATE:	April 11, 2013
TO:	Chair and Members of Audit Committee Meeting Date: May 6, 2013
FROM:	Brenda R. Breault, CMA, MBA Commissioner of Corporate Services and Treasurer
SUBJECT:	**2012 Audited Financial Statements**

RECOMMENDATION: That the 2012 Audited Financial Statements for City of Mississauga (City), City of Mississauga Public Library Board, City of Mississauga Trust Funds, Clarkson Business Improvement Area, Port Credit Business Improvement Area, Streetsville Business Improvement Area, and Enersource Corporation be received.

REPORT HIGHLIGHTS:

- One of the fiduciary responsibilities of the Audit Committee is to review the annual financial statements and audit results.
- This report presents the following 2012 Audited Financial Statements for:
  - City of Mississauga
  - City of Mississauga Public Library Board
  - City of Mississauga Trust Funds
  - Clarkson Business Improvement Area
  - Port Credit Business Improvement Area
  - Streetsville Business Improvement Area
  - Enersource Corporation
- The financial statements have been audited by the City's external auditors, KPMG LLP. The City's financial statements follow the Public Sector Accounting Board (PSAB) recommendations and

comply fully with Canadian Generally Accepted Accounting principles.

- Enersource adopted International Financial Reporting Standards (IFRS). This change resulted in a restatement of income for 2011 and change in method of reporting net income.
- Appendix 2 (2012 Financial Statement Discussion and Analysis) provides detailed information and analysis on the financial statements and results.
- The 2012 financial results continue to demonstrate Mississauga's legacy of strong leadership and excellence in financial planning and fiscal prudence.

BACKGROUND:

The statutory function of our auditors, KPMG LLP, is to report to Audit Committee by expressing an opinion on the City's annual financial statements. The auditors conduct their audit in accordance with Canadian Generally Accepted Auditing Standards with the objective of expressing an opinion whether the City's annual financial statements present fairly, in all material respects, the financial position, results of operations and the cash flows of the City.

Management is responsible for the preparation and fair presentation of the City's annual financial statements in accordance with the Public Sector Accounting Board (PSAB) financial reporting framework.

One of the fiduciary responsibilities of the Audit Committee is to review the annual financial statements and audit results.

KPMG LLP has completed their fourth year of a 5-year audit contract for the years 2009 through 2013.

COMMENTS:

The financial statements have been audited by the City's external auditors, KPMG LLP. The City's financial statements follow the Public Sector Accounting Board (PSAB) recommendations and comply fully with Canadian Generally Accepted Accounting principles.

The financial statements must provide information on the cost of all activities, how they were financed, investing activities and the assets and liabilities of the government. The information is to reflect the full nature and extent of the government's financial affairs.

The Audited Financial Statements are a report card on the financial position, health and strength of the City of Mississauga. The 2012 financial results continue to demonstrate Mississauga's legacy of strong leadership and excellence in financial planning and fiscal prudence.

The City of Mississauga financial statements are comprised of all organizations, committees and local boards accountable to the City for the administration of their financial affairs and resources and which are owned or controlled by the City.

Refer to Appendix 2 (2012 Financial Statement Discussion and Analysis) for detailed information and analysis on the financial statements and results.

To complement the audited financial statements, Finance is currently preparing the 2012 Annual Financial Report.

The 2012 Annual Financial Report will continue to be prepared in electronic format and will be available to all stakeholders on the City's website. No print versions of the Annual report will be produced for public and stakeholder distribution. A notice will posted in the Mississauga News advising residents and other stakeholders that the Annual Financial Report will be posted and available on the City's website, www.mississauga.ca/finance where it can be printed or read at their convenience.

FINANCIAL IMPACT: The City's year-end audit fees for the 2012 financial statements were $131,250. This audit included the City, Mississauga Public Library Board, Trust Funds, and three Business Improvement Areas.

In addition to the City's year-end audit, there were also a few smaller audit engagements such as Federal Gas Tax Reporting ($2,500), Next Step Program ($4,500), and Bus Rapid Transit Funding and Claims ($1600).

The City's 90% interest in Enersource Corporation ($265.0 million) is reported as a financial asset on the Consolidated Statement of Financial Position. The City's share of Enersource's 2012 net income ($9.6 million) is reported as revenue on the City's Consolidated Statement of Financial Activities.

Enersource adopted International Financial Reporting Standards ("IFRS") for years ended December 31, 2012 and December 31, 2011. As a result, there were transitional adjustments as at January 1, 2011 relating to the adoption of IFRS which impacted the City's consolidated financial statements. Both the 2012 and 2011 Investment in Enersource values have been restated to the new accounting standards. These adjustments are one-time adjustments as a result the adoption of IFRS.

CONCLUSION:

The 2012 Financial Statements are a report on the stewardship of the City's financial affairs and the Auditor's Reports attest that they present fairly our financial position as at December 31, 2012 and the results of operations for the year then ended.

ATTACHMENTS:

Appendix 1: 2012 Audited Financial Statements
Appendix 2: 2012 Financial Statement Discussion and Analysis

Brenda R. Breault

Brenda R. Breault, CMA, MBA
Commissioner of Corporate Services and Treasurer

Prepared By: Mark Beauparlant, Manager, Corporate Financial Services

2012 Financial Statement Overview

The City of Mississauga's financial statements have been prepared in accordance with the Municipal Act and based on the reporting standards set by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants.

There are four required financial statements: statement of financial position; statement of operations; statement of changes in net financial assets; and statement of cash flows. These financial statements provide information on the cost of all the City activities, how they were financed, investing activities and the assets and liabilities of the City. The information also reflects the full nature and extent of the City's financial affairs similar to a private sector financial statement presentation.

Below is a high level overview of the 2012 financial results of the City.

Consolidated Statement of Financial Position (Balance Sheet)

The consolidated statement of financial position highlights four key figures that together describe the financial position of a government: (a) cash resources of the government, (b) net financial asset position calculated as the difference between financial assets and financial liabilities, (c) non-financial assets that are normally held for service provision such as tangible capital assets, (d) accumulated surplus/deficit (or in private sector terms retained earnings as there are no shareholder contributions or distributions).

Although the City continues to manage the financial operations of the City through various Funds such as the Operating Fund, the Capital Fund, and the Reserves and Reserve Funds, in accordance with PSAB, these funds are no longer reported in the financial statements and have been replaced by Accumulated Surplus. The Accumulated Surplus summarizes the Corporation's consolidated equity which identifies the financial position, including tangible capital assets, and financial resources of the City.

The City's accumulated surplus for fiscal year 2012 is $8.16 billion (2011 $8.16 billion). The City's accumulated surplus is made up of the following balances: investment in tangible capital assets of $7.6 billion; unexpended capital of $134.4 million; investment in Enersource Corporation of $265.0 million; Business Improvement Area surpluses of $0.05 million; Reserves of $50.7 million; Reserve Funds of $272.3 million; offset by unfunded employee benefits and other liabilities of $186.6 million. Refer to Note #8 in the Financial Statements for a detailed breakdown of the accumulated surplus.

2(e)

The City is a 90 per cent shareholder in Enersource Corporation. Enersource adopted International Financial Reporting Standards ("IFRS") for years ended December 31, 2012 and December 31, 2011. As a result, there were transitional adjustments as at January 1, 2011 relating to the adoption of IFRS which impacted the City's consolidated financial statements. Both the 2012 and 2011 Investment in Enersource values have been restated to the new accounting standards. These adjustments are one-time adjustments as a result the adoption of IFRS.

The City's 2012 Investment in Enersource Corporation is $265.0 million (2011 restated $267.7 million), a decrease of $2.7 million from the prior year. This decrease is attributed to the City's $9.9 million share of Enersource net income less a $12.3 million dividend payment received from Enersource in 2012.

In 2012, the City's Net Financial Assets were $526.1 million (2011 $600.1 million), a decrease of $74.0 million over the prior year. This decline was primarily due to an increase in the deferred revenue-obligatory reserve funds (i.e. development charges, cash-in-lieu of parkland, provincial transit funds, and federal gas tax). Despite the decline in the past year, the City's Net Financial Assets position continues to remain financially healthy and well-positioned for the future.

- Total Financial Assets as of December 31, 2012 were $1.23 billion (2011 $1.22 billion), an increase of $0.01 billion or $10 million.
    - Cash, short-term investments, and long-term investments at yearend 2012 were $860.9 million (2011 $874.6 million), a decrease of $13.7 million. The City's cash and investments are being drawn down to finance increased capital expenditures. As a financial investment strategy, more funds are being held in longer-term investments versus short-term as a strategy to maximize investment returns. This strategy does not impact the total cash and investment balance.
    - Taxes Receivable in 2012 were $46.0 million (2011 $50.9 million), a decrease of $4.9 million. The decrease was due to fewer receivables at yearend versus the prior year.
    - Accounts Receivable in 2012 were $56.8 million (2011 $29.2 million), an increase of $27.6 million. The increase was due to an outstanding $10.9 million transfer payment due from the Federal Government for Transit (Bus Rapid Transit), $12.6 million relates to school board tax adjustments, and the balance relates to various miscellaneous receivable balances.
    - Investment in Enersource Corporation in 2012 was $265.0 million (2011 restated $267.7 million), a decrease of $2.7 million from the prior year.

- Total Liabilities at the end of 2012 were $703.9 million (2011 $623.4 million), an increase of $80.5 million from the prior year.
    - Accounts Payable liabilities were $130.2 million in 2012 (2011 $132.1 million), a decrease of $1.9 million representing various liability accounts.
    - Deferred revenue-general were $8.3 million (2011 $6.6 million), an increase of $1.7 million due to general fluctuations in various departmental deferred revenue accounts.
    - The deferred revenue-obligatory reserve funds increased from $300.1 million in 2011 to $378.9 million in 2012. This increase was due to growth in various Obligatory Reserve Funds (i.e. Development Charges +$5.0 million, Cash-in-lieu of Parkland +$8.2 million, Provincial transit funds +$45.4 million, and Federal Gas Tax +$20.4 million).
    - Employees benefits and other liabilities were $186.6 million in 2012 (2011 $184.7 million), an increase of $1.9 million.

Non-financial assets were $7.6 billion as of December 31, 2012 (2011 $7.6 billion).

- Non-Financial Assets consist primarily of tangible capital assets.

<u>Consolidated Statement of Operations (Income Statement)</u>
The consolidated statement of operations reports the annual surplus/deficit from operations during the accounting period. The statement shows the cost of providing the City's services, the revenues recognized in the period and the difference between them.

<u>Revenues:</u>
Total revenues in 2012 were $702.3 million (2011 $790.2 million), a decrease of $87.9 million.

- Taxation revenues (property taxes and taxation from other governments) in 2012 were $374.3 million (2011 $353.7 million), an increase of $20.6 million.
    - The City had assessment growth of 1.1 percent in 2012.
    - City Council approved the 2012 budget which provided for a 7.2 percent average property tax rate increase on the City portion of the total tax bill, which includes a one percent infrastructure levy. This increase equates to an average 2.1 percent increase on the total residential tax bill.
- User charges in 2012 were $172.0 million (2011 $155.2 million), an increase of $16.8 million from the prior year.
    - Transit fares represent 40 per cent of total user charges. Transit Fares in 2012 were $69.0 million (2011 $65.9 million), an increase of $3.1 million from the prior year. Total 2012 revenue riders were 34.76 million versus the 2011 restated total of 33.45 million – the 4% increase in riders and a fare increase resulted in a revenue increase of $3.1 million over 2011.

2(g)

- General departmental user fees and service charges represent 26 per cent of total user charges. General departmental user fees and service charges in 2012 were $45.4 million (2011 $37.6 million), an increase of $7.8 million from the prior year. General departmental fees (i.e. Transportation and Works Services fees, Fire Emergency Services fees, Planning and Building Services fees, etc.) increased by $1.9 million, recreation membership fees increased by $0.3 million, transit advertising fees increased by $3.3 million, fees for internal work recoveries increased by $0.9 million, program registration fees increased by $0.4 million, and planning site fee applications increased by $0.3 million. Various other fees accounted for the balance of the increase.
- Golf green fees represent 2 per cent of total user charges. Golf green fees in 2012 were $3.3 million (2011 $3.0 million), an increase of $0.3 million from the prior year.
- Rents and concession fees represent 13 per cent of total user charges. Rents and concession fees in 2012 were $22.1 million (2011 $21.9 million), an increase of $0.2 million from the prior year.
- Licence and permit revenues represent 8 per cent of total user charges. Licence and permit revenues in 2012 were $14.1 million (2011 $11.0 million), an increase of $3.1 million from the prior year. Building permit revenues in 2011 were $9.4 million (2011 $6.6 million), an increase of $2.8 million due to some increase in building construction.
- Provincial offence revenues in 2012 were $8.4 million (2011 $8.3 million), an increase of $0.1 million from the prior year.

- Recovery charges in 2012 were $38.7 million (2011 $28.1 million), an increase of $10.6 million from the prior year. This increase relates to increased third party capital recoveries (i.e. Bus Rapid Transit (BRT), RINC, ISF developments) for project work completed in 2012.
- Development and other government contributions applied in 2012 were $14.6 million (2011 $81.0 million), a decrease of $66.4 million from the prior year.
  - Expenditures on development related capital projects, Investment Stimulus Fund (ISF) projects and the Recreational Infrastructure Canada Program (RiNC) projects in 2012 slowed down versus the prior year. In 2012, the City's ISF and RiNC projects were winding down which resulted in lower development and government contributions being applied and recognized as revenue from the deferred revenue-obligatory reserve funds in 2012.
- Penalties and interest earnings from over-due tax accounts in 2012 were $9.0.million (2011 $9.3 million), a decrease of $0.3 million from the prior year.
- Other revenues in 2012 were $3.9 million (2011 $5.0 million), a decrease of $1.1 million from the prior year. The decrease results in fewer one-time miscellaneous revenues in 2012 versus 2011.

- Contributed Assets in 2012 were $30.9 million (2011 $32.0 million), a decrease of $1.1 million from the prior year. Contributed assets include land under roads, land under infrastructure, as well as general infrastructure (storm sewers, roads, pathways, streetlights, etc.) assumed by the City through development agreements. In 2012, the City assumed $30.9 million in land under roads and infrastructure.
- The City's share of Enersource Corporation net income in 2012 was $9.6 million (2011 $25.1 million), a decrease of $15.5 million from the prior year.
    - From this net income amount, the City was paid a dividend of $12.3 million in 2012 (2011 $9.6 million).

Expenses:
Expenses are broken down into major expense categories: labour and benefits, materials and supplies, contracted services, rents and financial expenses, transfer payments, and amortization. Total expenses in 2012 were $708.0 million (2011 $700.4 million), an increase of $7.6 million.

- Labour costs (salaries, wages and benefits, and PSAB labour related adjustments) in 2012 were $407.0 million (2011 $404.9 million), an increase of $2.1 million from the prior year. The significant variances are broken down as follows:
    - Salary, wage, and benefit costs in 2012 were $404.8 million (2011 $388.6 million), an increase of $16.2 million (4.0%). Growth in the City's labour force for new and expanded services, labour contract settlements and pay adjustments, and increased benefit costs contributed to this increase.
    - PSAB labour related accounting adjustments for actuarial WSIB and post-employment, retirement, and sick-leave liabilities in 2012 were $1.9 million (2011 $14.8 million), a decrease of $12.9 million from the previous year. This adjustment reflects the change in actuarial assessment, assumptions, and estimates from the previous year.
    - Other miscellaneous labour adjustments accounted for the balance of the increase.
- Materials and supplies in 2012 were $53.1 million (2011 $52.2 million), an increase of $0.9 million from the prior year.
    - Diesel fuel costs for 2012 were $17.4 million (2011 $17.0 million), an increase of $0.4 million from the prior year primarily due to an increase in the average price per litre of diesel.
    - Transportation and maintenance related costs in 2012 accounted for the balance of the increase.
- Contracted services in 2012 were $61.5 million (2011 $70.3 million), a decrease of $8.8 million from the prior year.
    - Contracted services for standby winter control in 2012 were $13.0 million (2011 $14.9 million), a decrease of $1.9 million over the previous year.

2(i)

    - Contracted services for capital related projects accounted for the majority of the remaining decrease due to the wind-down of ISF and RINC capital projects.
- Rent and financial expenses in 2012 were $59.0 million (2011 $56.6 million), an increase of $2.4 million from the prior year.
    - Property tax related adjustments in 2012 were $6.8 million (2011 $5.4 million), an increase of $1.4 million over the prior year.
    - Other miscellaneous financial and occupancy related cost increases accounted for the difference.
- Amortization of Tangible capital assets in 2012 was $116.6 million (2011 $109.8 million), an increase of $6.8 million from the prior year.
- Loss on disposal of assets in 2012 was $6.9 million (2011 $3.1 million), an increase of $3.8 million. Approximately $6.1 million of the current year loss on disposal relates to land sizing corrections in the asset database.

Consolidated Statement of Change in Net Financial Assets

The statement of change in net financial assets (net debt) explains the difference between a municipality's surplus or deficit for the reporting year and its change in accumulated surplus in the same reporting year. This statement provides the reporting of the acquisition of tangible capital assets and other significant items that impact the difference between the annual surplus/ (deficit) and the change in net financial assets (net debt).

Consolidated Statement of Cash Flows

The statement of cash flows reports changes in cash and short-term investments resulting from operations and shows how the City financed its activities during the year and met its cash requirements.

Tangible Capital Assets Overview:

All City assets as at the end of 2012 have been inventoried, valued, and recorded in an Asset Registry for accounting and reporting purposes. The City's net book values of tangible capital assets at the end of 2012 were $7.6 billion (2011 $7.6 billion). Refer to Note #7 in the financial statements for a detailed breakdown of tangible capital asset activity for 2012.

Annual amortization expense has increased to $116 million from the $109 million in the prior year. The City contributed $27.6 million to fund Capital from the operating budget in 2012.

2012 Capital Project Highlights:
Some of the major capital projects undertaken in 2012 include:

TRANSPORTATION AND WORKS

- The contracts to implement LED street lighting throughout the City were awarded in 2012. All streetlights will be transitioned to the new LED lighting system by the end of 2014. The LED lights will significantly reduce maintenance costs, resulting in a 55 percent reduction in future energy consumption for the City. LED street lights will also increase safety and visibility and reduce light pollution in the sky.
- Council approved in principle a stormwater user fee for stormwater management. This fee will fund a more sustainable stormwater management program into the future. Staff are working on the final fee structure for Council approval in 2013.
- The City received the 2012 Bicycle Friendly Community Award – Bronze Designation from Share the Road Cycling.
- Received the 2012 excellence in Safe and Sustainable Snow Clearing Award from the Salt Institute. The Salt Institute is a non-profit organization which promotes the safe use of salt in the winter snow clearing operations, on health and on the environment. This award recognizes agencies which demonstrate best practices in salt storage and snow clearing. The City of Mississauga was the only Canadian (and most likely the only North American) municipality in which every one of their salt storage facilities won this award.
- The Lakeview Low Impact Development (LID) projects were completed for First and Third Street, including permeable pavers, rain gardens and educational signage. LID is a stormwater management approach that seeks to mitigate the impacts of stormwater runoff and pollution. Site specific design and small scale stormwater practices are used to promote the use of natural systems for infiltration, evapotranspiration, and reuse of rainwater. LID practices can effectively remove nutrients, pathogens and metals from stormwater, reducing the volume and intensity of stormwater flows.
- Eighty-five roads (41 kilometres) were resurfaced, nine kilometres of new sidewalk were completed and seven bridge/culvert structures were rehabilitated.
- Two concrete awards were won for the emergency lane rehabilitation on the left turn lane from west-bound Courtneypark to south-bound Kennedy Road, utilizing concrete as the road pavement material. The project won an award from two Ontario associations.
- The City received the 2012 Project of the Year Award from the Institute of Transportation Engineers (ITE) Toronto Section for the Sustainable Urban Transportation Downtown Mississauga.
- One kilometre of noise barriers were replaced along Central Parkway.
- Twenty-seven kilometres of cycling facilities installed.
- The Environmental Assessment (EA) for the Cooksville Creek Master Plan project was completed.

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- In 2012, MiWay achieved 100 percent route accessibility and added another 340 accessible stops.
- MiWay is compliant with the new Integrated Accessibility Standards Regulation (IASR) in 2012 and has accomplished much in relation to accessibility improvements within our facilities, policies, and services.
- Fifteen new MiWay 40ft express buses were delivered and commissioned for service in anticipation of BRT service in the fall of 2013.
- Eight replacement fuel efficient Transit cars entered service.

INFORMATION TECHNOLOGY

- The existing Integrated Library System was replaced in all 18 libraries. This system allows patrons to search the web-based Public Catalogue and put holds on materials, renew items via phone, receive notifications by phone and email. To enhance the library patron experience, the new system has the added features of faceted searching, content searching, and ability for patrons to post reviews.
- Digital signage was installed in eight libraries, nine community centres and four arenas in order to improve communication and messaging in public spaces within City of Mississauga facilities and enhance internal promotional opportunities. It will also be used to generate incremental revenue through the display of paid external advertisements.

Culture:

- Mississauga Cultural Resource Mapping Project (Culture Map) was launched in May 2012 providing a one stop, on line resource tool for artists, cultural stakeholders, residents and visitors.
- "Possibilities", a large, permanent public art work by Michel de Broin was installed at the roundabout on Square One Drive.

Fire:

- The Garry W. Morden Centre opened in May 2012 and now houses both Fire Training and Mechanical Staff, the Department of National Defence and other Region of Peel staff.
- Fire Station 106 previously located on Dixie Road was relocated to 1355 Winding Trail and is a co-location project with the Region of Peel Paramedic Services.

Recreation:

- New therapy pool addition at Mississauga Valley Community Centre opened in July 2012.
- The C Café at Celebration Square opened in October 2012.

Parks & Forestry:

- Scholars' Green and Sanford Farm Park opened in 2012.
- Hershey Sport Dome completed in March 2012.

- Improvements and redevelopment were completed at the Jubilee Garden Walk, Birchwood Park, Jon Clipperton Park, Riverwood Enabling Garden and various sports fields.
- Meadowvale Conservation Area Pedestrian Bridge & Boardwalk and Dellwood Park Pedestrian Bridge replacement completed.
- Shared-use artificial turf football field and synthetic track at Loyola Secondary School completed.
- Over 34,000 trees and shrubs were planted on City land in 2012.
- The City acquired 3.21 ha (7.9 acres) of park and greenbelt lands.

Reserves and Reserve Funds Overview:
Although Reserves and Reserve funds are not formally reported directly in the financial statements, they are a key area in the financial management and operations of the City. Reserves and Reserve Fund balances are consolidated within the Accumulated Surplus position on the Consolidated Statement of Operations. Refer to Note #8 in the financial statements for more Reserve and Reserve Fund information.

Reserves and Reserve Funds are established by Council. These funds are set aside to help offset future capital needs, obligations, pressures and costs. They are drawn upon to finance specific purpose capital and operating expenditures as designated by Council, to minimize tax rate fluctuations due to unanticipated expenditure and revenue shortfalls, and to fund on-going programs (i.e. insurance and employee benefits).

Reserves and Reserve Funds balances at the end of 2012 totalled $323.1 million (2011 $327.0 million), a decrease of $3.9 million from the prior year. The Reserves and Reserve Fund total does not include development charges and senior government grants that are reported as deferred revenue-obligatory reserve funds on the Statement of Financial Position.

Reserves:
Reserves, which are discretionary in nature, are generally used to offset major fluctuations in operating costs/revenues or to fund future contingent liabilities. Total Reserves in 2012 were $50.7 million (2011 $47.3 million), an increase of $3.4 million.

Reserve Funds:
Reserve Funds are non-discretionary, segregated and restricted to meet specific identified purposes for the municipality. Total Reserve Funds in 2012 were $272.4 million (2011 $279.7 million), a decrease of $7.3 million from the prior year. This decrease is the result of the drawdown of Reserve Funds to finance capital projects. This drawdown is greater than funds being transferred or deposited into the Reserve Funds. The reduction in capital reserves has been presented for many years as part of the City's capital forecast.

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The Reserve and Reserve Funds will help the City meet the projected expenditure needs in the upcoming years. However, draws on Reserve and Reserve Funds in future years to support our growing capital infrastructure and maintenance needs will reduce these balances and therefore reduce total accumulated surplus. This has been anticipated for many years, recognizing that as the City matured, infrastructure renewal would require increased funding. Additional funding support is needed from senior levels of government as well as on-going increased annual contributions from the operating funds, in order to help sustain and invest in new and replacement infrastructure.

3

Corporate Report

MISSISSAUGA

Clerk's Files

Originator's Files

AUDIT COMMITTEE
May 6, 2013

DATE: April 18, 2013

TO: Chair and Members of Audit Committee
Meeting Date: May 6, 2013

FROM: Brenda R. Breault, CMA, MBA
Commissioner of Corporate Services and Treasurer

SUBJECT: **2012 External Audit Findings Report**

RECOMMENDATION: That the 2012 External Audit Findings Report dated April 18, 2013 from the Commissioner of Corporate Services and Treasurer, which includes the Audit Findings Report from KPMG for the fiscal year 2012 for the City of Mississauga, be received for information.

REPORT HIGHLIGHTS:

- The 2012 External Audit Findings Report provides an overview of the 2012 audit process and findings and highlights those matters on which the Auditors wish to advise the Audit Committee.
- The Audit Committee is responsible for reviewing any reports and correspondence from the External Auditor relating to the City of Mississauga (City) and any local boards or agencies which may be created.
- KPMG did not identify any significant internal control deficiencies
- Enersource adopted International Financial Reporting Standards (IFRS) for 2012. This change resulted in a restatement of income for 2011 and change in method of reporting net income.

- As part of the 2012 audit, KPMG provided recommendations regarding two business improvement observations.
  -That a standardized process or procedure be implemented to require the regular review of the Assets under Construction (AUC) to assess the continued appropriateness of capitalization.
  -That management perform sample testing on the vacation liability report to validate the accuracy and completeness of the report in the future.

BACKGROUND:

The Audit Committee's Terms of Reference (Bylaw #0321-2010) establishes the role and responsibilities of the Audit Committee. The assigned responsibilities of the Committee include reviewing and making recommendations to Council regarding the external audit function, internal audit function, financial reporting, internal controls, and compliance.

The Audit Committee is responsible for reviewing any reports and correspondence from the External Auditor relating to the City of Mississauga (City) and any local boards or agencies which may be created. For fiscal year 2012, local boards and agencies include the Mississauga Public Library Board and the Business Improvement Area Boards.

COMMENTS:

KPMG have now completed the statutory audit for the fiscal year 2012 and have issued an Audit Findings Report for information.

The 2012 External Audit Findings Report assists the Audit Committee in the review of the consolidated financial statements and provides an overview and summary of the findings and an assessment of the completed audit.

The report also provides information and comments regarding the following areas:

- significant audit, accounting and reporting matters
- any corrected or uncorrected audit items
- control deficiencies and business improvement observations
- an Independence Letter

The Business Improvement Observations section provides auditor comments and recommendations relating to the design or effectiveness of internal controls, and/or enhancements to financial accounting and reporting.

In 2012, KPMG had two business improvements observations and related recommendations:

1. Observation: There is no standardized process or procedures in place that mandates the regular review of the Assets under Construction (AUC) for the continued appropriateness of capitalization.

   Recommendation: KPMG recommends that the nature and scope of the "Asset under Construction" reporting be expanded such that a regular review of the expense or expenditures incurred can be implemented. In addition, KPMG recommends that open projects be investigated more frequently in order to identify inactive or completed projects more promptly.

   Management Response: To be completed in 2013.
   Management agrees with the recommendation and will implement procedures to review AUC during the year and at year-end. Specifically, the review will focus on material non-capital expenses included in the projects as well as AUC versus closed capital projects.

2. Observation: The report used to generate the vacation accrual for the end of 2012 was missing some data.

   Recommendation: KPMG recommends that management perform sample testing on the vacation liability report with payroll records to validate the accuracy and completeness of the report in the future.

   Management Response: To be completed in 2013.
   Management agrees with the recommendation. Payroll procedures for generating the vacation liability accrual will be updated. Also, Payroll will sample test an employee in each pay-group to ensure the liability estimate is reasonable and accurate.

In 2011, KPMG had two recommendations based on business improvements observations:

1. KPMG recommended that the amortization rates used to calculate amortization during the year be verified to the amortization rates assigned in the Tangible Capital Asset Accounting and Reporting Policy before being applied.

Management Response: Completed.

- The Asset Registry System was updated to include all amortization rates for each category and sub-category for each asset. Staff also perform an amortization rate review prior to the finalization of the asset entries each year.

2. KPMG recommended that the financial statements and regulatory filings of each BIA be thoroughly reviewed prior to KPMG commencing the audit.

Management Response: Completed.

- Each of the BIA's has acquired a qualified accountant to manage the bookkeeping and financial reporting for their respective BIA. There were no audit concerns or recommendations in the 2012 audit review.

In 2010, KPMG had one business improvement observation still outstanding:

1. KPMG recommended that a formal policy be implemented to review and update the standard rates applied to capital labour chargebacks on a more frequent basis.

Management Response: Completed

- The capital labour overhead allocation rates were updated in 2012 with current departmental data. Also, going forward, staff will be exploring a centralized time tracking system that can assist with this chargeback process.

The Independence Letter identifies any professional services provided by our external auditors, KPMG, to the City during the year. It also identifies any relationships with the City that may reasonably be thought to bear on auditor independence. The Independence Letter confirms KPMG's independence throughout the audit year.

FINANCIAL IMPACT: There are no financial implications to the City from the Audit Findings Report.

CONCLUSION: The 2012 External Audit Findings Report is a by-product of the financial statement audit.

The 2012 External Audit Findings Report provides an overview of the 2012 audit process. The report highlights any audit findings and/or audit observations and recommendations for the Audit Committee's review and consideration.

The Independence Letter summarizes the relationship and independence between the City and our external auditors (KPMG).

ATTACHMENTS: Appendix 1: 2012 Audit Findings Report

Brenda R. Breault

Brenda R. Breault, CMA, MBA
Commissioner of Corporate Services and Treasurer

Prepared By: Mark Beauparlant, Manager, Corporate Financial Services

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APPENDIX 1

AUDIT

The Corporation of the City of Mississauga

Audit Findings Report

For the year ending December 31, 2012

KPMG LLP

Chartered Accountants, Licensed Public Accountants

kpmg.ca

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Contents

For KPMG's audit committee resources, please visit kpmg.ca/auditcommittee

3(g)

Executive summary

Overview

The purpose[1] of this Audit Findings Report is to assist you, as a member of the Audit Committee, in your review of the results of our audit of the consolidated financial statements of the Corporation of the City of Mississauga (The "City") for the year ended December 31, 2012.

We appreciate the assistance of management and staff in conducting our audit. We hope this audit findings report is of assistance to you for the purpose above, and we look forward to discussing our findings and answering your questions.

Status

As of the date of this report, we have completed the audit of the consolidated financial statements, with the exception of certain remaining procedures which include:

- completing our discussions with the audit committee
- receipt of the management representation letter, which is dated as of the date the City Treasurer (individual delegated authority to approve the consolidated financial statements) approves the consolidated financial statements
- Obtaining evidence of the City Treasurer's approval of the consolidated financial statements
- Completing our subsequent event review procedures

Please refer to the consolidated financial statements for our draft auditors' report. We will update you on significant matters, if any, arising from the completion of the audit, including completion of the above procedures. Our auditors' report will be dated upon completion of any remaining procedures.

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[1] This Audit Findings Report should not be used for any other purpose or by anyone other than the Audit Committee. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this Audit Findings Report has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

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Significant audit, accounting and reporting matters

Included in this report are significant matters we have highlighted for discussion at the upcoming Audit Committee meeting. We look forward to discussing these matters and our findings with you.

Changes from the Audit Plan

Final materiality was determined to be $13,470,000 based on actual figures as at December 31, 2012 versus $17 million that was originally anticipated during Planning.

Significant audit, accounting, and reporting matters

Enersource Corporation ("Enersource")
• The City has a 90% interest in Enersource and is accounted for on the modified equity basis in the City's consolidated financial statements • Enersource adopted International Financial Reporting Standards ("IFRS") for years ended December 31, 2012 and December 31, 2011 • There were transitional adjustments as at January 1, 2011 relating to the adoption of IFRS which impacts the City's consolidated financial statements • Prior to the adoption of IFRS, Enersource's net income for year ended December 31, 2011 as previously reported under the Canadian generally accepted accounting principles was $22,746k of which $20,471k related to the City's share of net income. After the IFRS transitional adjustments, net income for the year ended December 31, 2011 was $27,879 of which $25,091k related to the City's share of the net income. The opening surplus for the year ended December 31, 2011 was adjusted from $8,033k to $8,072k. These adjustments are onetime adjustments as a result the adoption of IFRS. • For fiscal year 2012, Enersource's net income was $10,654k of which $9,588k represented the City's share.
KPMG comments regarding effect on the audit
• The transitional adjustment to IFRS resulted in expanded note disclosure (Note#4) in the City's 2012 consolidated financial statements • We reviewed the audited financial statements of Enersource and related note disclosures and communicated with the component auditors, KPMG LLP from the Greater Toronto office, to verify that the changes were accurately recorded.
Misstatements
• None noted.
Significant deficiencies
• None noted.

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Other matters

We have highlighted below other significant matters that we would like to bring to your attention:

Tangible Capital Assets ("TCA")
• In performing testing over TCA, we noted that approximately $2,600k of Assets under Construction expenditures that were capitalized as TCA in prior years were expensed as a period cost in 2012.
KPMG comments regarding effect on the audit
• We reviewed a breakdown of the $2,600k and discussed with management the nature of these items and the City's process and procedures for identifying period costs for Assets under Construction. • Our discussion with management indicated that the majority of these items related to the change in design or scope of certain projects that triggered impairment of these costs as assets in 2012. • We concurred with management on the accounting treatment of these items in 2012.
Misstatements
• None noted.
Significant deficiencies
• None noted.

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Significant qualitative aspects of accounting policies and practices

Our professional standards require that we communicate our views regarding the matters below, which represent judgments about significant qualitative aspects of accounting policies and practices. Judgments about quality cannot be measured solely against standards or objective criteria. These judgments are inherently those of the individual making the assessment: the engagement partner. However, although judgments about quality are those of the engagement partner, the views discussed below are not contrary to positions KPMG has taken.

The following are the matters we plan to discuss with you:

Changes in financial reporting framework	• There were no changes to the financial reporting framework
Significant accounting policies	• There were no changes to any significant accounting policies • There were no new accounting pronouncements adopted in the current year.
Critical accounting estimates	• There were no significant accounting estimates other than amortization of tangible capital assets, certain valuations related to tangible capital assets and accruals.
Critical disclosures and financial statement presentation	• Significant disclosures include related party transactions

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Misstatements

Identification of misstatements

Misstatements identified during the audit have been categorized as follows:

- corrected misstatements, including disclosures
- uncorrected misstatements, including disclosures.

Corrected misstatements

The representation letter in the Appendices includes all corrected misstatements identified as a result of the audit procedures performed.

Uncorrected misstatements

We did not identify any uncorrected misstatements, including disclosures.

Control deficiencies

Background and professional standards

As your auditors, we are required to obtain an understanding of internal control over financial reporting (ICFR) relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on internal control. Accordingly, we do not express an opinion on the effectiveness of internal control.

Our understanding of ICFR was for the limited purpose described above and was not designed to identify all control deficiencies that might be significant deficiencies and therefore, there can be no assurance that all significant deficiencies and other control deficiencies have been identified. Our awareness of control deficiencies varies with each audit and is influenced by the nature, timing, and extent of audit procedures performed, as well as other factors.

Identification

We did not identify any control deficiencies that we determined to be significant deficiencies in ICFR.

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However, based on our audit we do have a number of performance improvement observations, as follows:

Description of performance improvement observations	Potential effect and Recommendation	Management comments
As noted above, we noted that there is no standardized process or procedures in place that mandate the regular review of the Assets under Construction ("AUC") for the continued appropriateness of capitalization. Further discussion with management also indicated that certain Assets Under Construction projects remained open even after full completion of the projects.	The first observation can potentially result in material overstatement of the TCA balances as certain costs reported under AUC do not carry any future benefits. The second observation resulted in discrepancies in reporting the in-service dates for the Assets Under Construction projects. The in service date triggers the transfer of assets under construction to active TCA. At that point, amortization of the TCA balance commences. This results in a misstatement of amortization expense for each applicable year. We recommend that the nature and scope of the "Asset under Construction" reporting be expanded such that a regular review of the expense or expenditures incurred can be implemented. In addition, we recommend that open projects should be investigated more frequently such that that inactive or completed projects are identified on a more timely basis and appropriate course of actions can be taken.	Status: To be completed in 2013. Management agrees with the recommendation and will implement business procedures to review AUC during the year and at year-end. Specifically, the review will focus on material non-capital expenses included in the projects as well as AUC versus closed capital projects.

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During the audit, we noted that the report used by management to generate the vacation accrual was not complete leading to an underaccrual of $2,000K.	This resulted in an underaccrual in the vacation accrual liability as at December 31, 2012 of $2,000K. This item is included as a corrected audit misstatement in the management representation letter. Management investigated the root cause of this matter and indicated that this incident was due to a manual error when the report was generated, resulting in the omission of vacation liability for certain departments. We recommend that management perform sample testing on the report to/from external payroll records to validate the accuracy and completeness of the report in the future.	Status: To be completed in 2013. Management agrees with the recommendation. Payroll procedures on generating the vacation liability accrual will be updated. Also, payroll will sample test an employee in each pay-group to ensure the liability estimate is reasonable and accurate.
Prior year process improvement points and update:		
During the review of amortization recorded for vehicles, it was noted that the amortization rate being applied to certain vehicle categories was 12 years as opposed to 15 years.	The difference in recorded depreciation was not material, however it does represent an error in the application of the approved policy and had the amount of assets being depreciated been greater, the difference could have been material. KPMG recommends that the amortization rates used to calculate amortization amounts during the year be verified to the amortization rates assigned in the Tangible Capital Asset Accounting and Reporting Policy before being applied.	Status: Completed The template in the Citywide Asset System has now been updated to include all amortization rates for each category and sub-category for each asset. Staff will also perform an amortization rate check on all assets and categories prior to preparing the amortization entry.

As part of the tracking of the reserve funds, management allocates interest to each reserve fund based on a formula of earnings as a proportion of the total reserve portfolio. In 2011, interest was allocated to the reserves prior the final adjustments being completed, and therefore the interest allocated to each reserve fund was incorrect. Overall, the total interest applied to the reserve funds was correct; however the interest per reserve fund was incorrectly allocated.	This has the impact of overstating some reserve fund accounts and understating others. We recommend that the spreadsheet to allocate interest be reviewed annually before any interest is allocated. We also recommend that management revisit the interest allocations for 2011 and correct them in fiscal 2012. **2012 update:** We noted during our audit that Finance reviews the interest allocation three times a year – June, September and December. At year end, the interest is calculated based on the accumulated opening balances of the funds for December 1^{st} of the prior year to November 30^{th} of the current year period the interest is calculated. In 2012, there is either no or minimal impact to the reserve funds balances in the month of December due to final entries and as such the impact on the allocated interest is not significant.	Status: Completed The interest allocations are completed after all monthly reserve final entries have been posted. As an added control, Finance reviews and redistributes the interest allocation at year end after the reserve fund final balance has been finalized.
As part of the audit engagement with the City of Mississauga, we also issue auditors' reports on the Business Improvement Areas of Port Credit, Clarkson and Streetsville. In performing the 2011 audits of these entities, we encountered significant inefficiencies as a result of	These adjustments result in additional time and cost to the BIAs. In some cases the adjustments relate to HST which had not been calculated properly or filed on a timely basis. We recommend that the financial statements and regulatory filings of each BIA	Status: Completed In 2012, each BIA acquired a qualified accountant to manage the book keeping and financing reporting for BIA and there were significant improvements on the financial reporting. KPMG and the City staff will continue to

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numerous adjusting entries being required, suggesting that these entities were not adequately prepared for the commencement of the audit.	be thoroughly reviewed prior to KPMG commencing the year-end audit. **2012 update:** We noted during the 2012 audit that each of the BIAs had obtained the services of a professional bookkeeper. We noted an overall reduction in the number of audit adjustments that were required during the current audit as opposed to prior year.	work with BIAs to continue to improve the process. The Finance Division also has processes in place to review and support the BIAs with their accounting and financial reporting. The BIAs must submit financial information to the City at the end of June and September of each year for review. Staff also performs site visits to BIAs between September and December if the BIA has any financial concerns or questions.
Land Cost While performing procedures aimed at ensuring completeness of the inventory of tangible capital assets in 2010, we noted one parcel of land measuring approximately 12,000 m2 which was not included in the City's final inventory of owned land, but for which the City does hold legal title.	Land was added to inventory and resulted in the recast of the 2009 financial statement figures. **2012 update:** We noted a net adjustment of ($1.8 million) to land inventory. Management believes future adjustments should be minimal.	Status: Work- in-progress The City substantially completed the first phase of the land inventory review at the end of 2012. In 2013, City staff will be assigning values to these adjustments and these adjustments will be included in the 2013 TCA financial reporting. Staff held off on all adjustments until the review and valuation was completed. Going forward, minor land cleanup adjustments may be required as new information is identified. These adjustments are expected to be immaterial. All municipalities are facing this similar issue and challenge because of the size and complexity of the land inventory, and the amount of land documentation available because of the asset age.

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Allocation of costs to tangible capital assets During the 2009 audit, we were informed that the standard rate utilized for absorption of overhead costs was based on an analysis performed in 2005.	While it is acceptable under Canadian generally accepted principles to use standard costing, the standard rate should approximate actual. Therefore, we recommend that a formal policy be implemented to review the standard rates on a more frequent basis. **2012 update:** We noted that the City refreshed its rates in 2012.	Status: Completed The 2012 chargeback rate updates were implemented as per recommendations. Management also noted that in 2013-2014 SAP workplan, the City will be exploring a centralized labour costing tracking system to assist with this chargeback process.

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Appendices

Independence letter

Thought Leadership

KPMG's Audit Committee Resources

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Independence letter

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Members of the Audit Committee
The Corporation of the City of Mississauga
300 City Centre Drive
Mississauga, ON L5B 3C1

April 15, 2013

Dear Members of the Audit Committee:

Professional standards specify that we communicate to you in writing all relationships between the Entity (and its related entities) and our firm, that may reasonably be thought to bear on our independence.

In determining which relationships to report, we consider relevant rules and related interpretations prescribed by the relevant professional bodies and any applicable legislation or regulation, covering such matters as:

a) provision of services in addition to the audit engagement

b) other relationships such as:

   holding a financial interest, either directly or indirectly, in a client

   holding a position, either directly or indirectly, that gives the right or responsibility to exert significant influence over the financial or accounting policies of a client

   personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client

   economic dependence on a client

PROVISION OF SERVICES

The following summarizes the professional services rendered by us to the Entity (and its related entities) since our last letter to you up to the date of our auditors' report:

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Description of Professional Services
• Audit of the 2012 consolidated financial statements for the Corporation of the City of Mississauga • Audit of the 2012 financial statements of the City of Mississauga Public Library Board, the City of Mississauga Trust Funds, the Next Steps to Active Living Program and the Federal Gas Tax Funds Programs • Audit of the 2011 and 2012 financial statements of Enersource Corporation • Audit of the 2012 of the City of Mississauga Clarkson Business Improvement District Association, City of Mississauga Streetsville Business Improvement District Association and City of Mississauga Port Credit Business Improvement Area

Professional standards require that we communicate the related safeguards that have been applied to eliminate identified threats to independence or to reduce them to an acceptable level. Although we have policies and procedures to ensure that we did not provide any prohibited services and to ensure that we have not audited our own work, we have applied the following safeguards regarding the threats to independence listed above:

- We instituted policies and procedures to prohibit us from making management decisions or assuming responsibility for such decisions.
- We obtained pre-approval of non-audit services and during this pre-approval process we discussed the nature of the engagement and other independence issues related to the services.
- We obtained management's acknowledgement of responsibility for the results of the work performed by us regarding non-audit services and we have not made any management decisions or assumed responsibility for such decisions.

OTHER RELATIONSHIPS

We are not aware of any other relationships between our firm and the Entity (and its related entities) that may reasonably be thought to bear on our independence from the date of our last letter up to the date of our auditors' report.

CONFIRMATION OF INDEPENDENCE

We confirm that we are independent with respect to the Entity (and its related entities) within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation or regulation from the date of our last letter up to the date of our auditors' report.

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OTHER MATTERS

This letter is confidential and intended solely for use by those charged with governance in carrying out and discharging their responsibilities and should not be used for any other purposes.

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

Yours very truly,

KPMG LLP

Chartered Accountants, Licensed Public Accountants

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Thought leadership

KPMG's Not-for-Profit practice proudly provided numerous programs, webinars, publications and communications to Not-for-Profits and Charities during 2012. Below is a quick reference list for your convenience.

KPMG's Not-for-Profit Practice - Year in Review

Programs

- Community Shift
  Community Shift is an exclusive development program and network for C-level leaders of Canadian charities and Not-for-Profit organizations, founded by KPMG Enterprise™ and the Richard Ivey School of Business. A rigorous annual five-day developmental program for Canada's leaders of charities and Not-for-Profits, Community Shift has changed the way participants look at their operations and provides a catalyst for change.

Webinars

- Indirect Tax Issues & Public Sector Organizations
  This webinar discusses how indirect taxes in Canada continue to evolve, bringing additional compliance issues and increasing the risks of over or under paying taxes. It looks at a number of major GST/HST and PST changes and their impact on Public Sector organizations (e.g. Not-for-Profit organizations, Charities, Municipalities, Universities, Colleges, Hospitals, Schools and Associations). Also covered in this webinar are savings opportunities as well as risks in view of the Canada Revenue Agency's (CRA) focus on Public Sector organizations for purposes of conducting GST/HST audits.

- Current Tax Issues for NPOs and Charities
  Senior officers, board members and the Canada Revenue Agency (CRA) continue to be challenged by income tax and GST/HST issues relating to registered charities and not-for-profit entities. On one side, increased attention to governance matters by boards and executives requires more focus on some of the grey areas that historically have not been closely monitored. On the other side, tax authorities are increasingly scrutinizing these entities for non-compliance. This webinar discusses the current issues our tax professionals are noting in their practices.

Publications and Communications

- Integrating Human Services in an Age of Fiscal Restraint (A Shifting Gears Report)
  This report evaluates the ongoing initiative in Ontario's Peel Region – and offers a valuable roadmap to other Public Sector organizations undertaking large-scale service reform in this age of fiscal restraint.

- Mitigating your Exposure to Risk
  This communication discusses responsibilities of the auditor vs. the Audit Committee/Board of Directors, types of risk, and ideas for mitigating risks.

- Fiscal Sustainability & the Future of Public Services (A Shifting Gears Report)
  This progress report examines how well the Public Sector in Canada and across the OECD are

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doing in returning to fiscally sustainable positions. It points out that while Canadian governments are in better shape than many of their peers, complacency must be avoided; and Governments must think carefully about incentives, governance, accountability, transparency, and measurement grounded in evidence. These are five lenses through which Public Sector organizations can assess potential reform initiatives.

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KPMG's Audit Committee resources

- *What is the role of audit committee*, Audit Committee Institute (Jan 2012) http://www.kpmg.com/Ca/en/WhatWeDo/SpecialInterests/AuditCommittee/Pages/Publications-surveys-and-resources.aspx
- Audit Committee Roundtables held each spring and fall, Audit Committee Institute http://www.kpmg.com/Ca/en/WhatWeDo/SpecialInterests/AuditCommittee/Pages/Roundtables.aspx
- *Accountability e-Lert* – periodic electronic newsletter. Subscribe at www.kpmg.ca/accountability
- Audit Committee Institute Web site – www.kpmg.ca/auditcommittee

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Corporate Report

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AUDIT COMMITTEE
May 6, 2013

DATE: April 23, 2013

TO: Chair and Members of Audit Committee
Meeting Date: May 6, 2013

FROM: Janice M. Baker, FCPA, FCA
City Manager & Chief Administrative Officer

SUBJECT: **Status of Outstanding Audit Recommendations as of March 31, 2013**

RECOMMENDATION: That the report dated April 23, 2013 from the City Manager & Chief Administrative Officer regarding the status of outstanding audit recommendations as of March 31, 2013 be received for information.

REPORT HIGHLIGHTS:

- This report shows the status of outstanding recommendations since the update report presented to the Audit Committee at the November 2012 meeting.
- Twenty-three (23) recommendations outstanding from the November 2012 report are still in progress as of March 31, 2013, of which four (4) will be completed by the end of June; six (6) will be implemented by the end of September; and the remaining thirteen (13) will be done before the end of 2013.
- Thirty-one (31) recommendations with due dates between October 1, 2012 and March 31, 2013 were added to the follow up. Seventeen (17) have been implemented; thirteen (13) are scheduled for completion prior to July 31, 2013 and the remaining one (1) will be addressed in the 2014 work plan of the Division concerned.

4(a)

BACKGROUND: The Terms of Reference for the Audit Committee (By-law 0321-2010) requires the submission of an annual report from the City Manager & Chief Administrative Officer indicating progress made in addressing recommendations which were made by Internal Audit and by the City's External Auditor. At the November 2011 Audit Committee meeting, members requested that a bi-annual progress update be submitted. The current report shows the status as of March 31, 2013.

COMMENTS: A summary of recommendations which were outstanding as of September 30, 2012 (the effective date of the previous report to the Audit Committee) and new recommendations which were scheduled for completion from October 1, 2012 to March 31, 2013 is attached as Appendix 1. This report does not include recommendations which were scheduled for implementation after March 31, 2013.

Fourteen (14) of the thirty-seven (37) recommendations which were previously outstanding as at September 30, 2012 have since been completed. In addition, of the thirty-one (31) new recommendations that were due between October 1, 2012 and March 31, 2013, seventeen (17) have been implemented. Implementation of these recommendations has been verified by Internal Audit.

Detailed comments and status for the twenty-three (23) recommendations that were outstanding as at September 30, 2012 and were still in progress as at March 31, 2013 are shown in Appendix 2. These recommendations could be summarized under six (6) main categories:

- Update of Corporate Policies – seven (7) recommendations
- Enhancement of Security Profiles – one (1) recommendation
- Business Process Documentation – three (3) recommendations
- Enhancement of Computer Systems and Reporting – six (6) recommendations
- Training – five (5) recommendations
- Purchasing – one (1) recommendation

Following the 2008 Facility Rental Revenue Audit, the Recreation Division of the Community Services Department conducted a comprehensive review of the facility rental fee structure (pricing

4(b)

study). The review was completed and approved in principle by Council in 2011. Further effort and time were required to consult with user groups, to roll out the new pricing structure and to discuss any concerns expressed by the groups that have been impacted. Once the issues relating to these complex policy and pricing changes have been addressed, updates to the related policies and business documentation will be completed.

Implementation of some of the other recommendations was delayed due to management/staff changes and resource constraints. In some cases, completion of one recommendation is dependent on the completion of another. For example, documentation of business processes cannot be finalized until the related policies are in place; and training cannot be done until the business processes are documented.

Of the twenty-three (23) outstanding recommendations, four (4) are expected to be done by the end of June; six (6) by the end of September; and thirteen (13) by the end of 2013.

With respect to the fourteen (14) recommendations that were originally due between October 1, 2012 and March 31, 2013 but were still in progress as of March 31, 2013, thirteen (13) are scheduled for completion before July 31, 2013. The remaining recommendation relates to the delivery of further training through the City's intranet on the low value acquisition process. This will be addressed in the Materiel Management Section's 2014 work plan.

FINANCIAL IMPACT: None

CONCLUSION: In summary, sixty eight (68) recommendations were scheduled for implementation prior to March 31, 2013, of which thirty-one (31) were completed and thirty-seven (37) are in progress. Of the thirty-seven (37) outstanding recommendations, seventeen (17) are expected to be completed by the end of July; six (6) by the end of September; thirteen (13) before the end of 2013; and the remaining one (1) relating to further training will be addressed in the Division's 2014 work plan.

4(c)

Continuous efforts are being made by staff to implement audit recommendations and progress is closely monitored to ensure timely implementation.

ATTACHMENT:

Appendix 1: Status of Outstanding Audit Recommendations as of March 31, 2013

Appendix 2: Status of Audit Recommendations Outstanding as of September 30, 2012 and still in progress as of March 31, 2013

Janice M. Baker, FCPA, FCA
City Manager & Chief Administrative Officer

Prepared By: Barbara Webster, Senior Internal Auditor

4(d)

Appendix 1

STATUS OF OUTSTANDING AUDIT RECOMMENDATIONS AS OF MARCH 31, 2013*

(1) Audit	(2) Date Issued	(3) Outstanding* September 30, 2012	(4) New**	(5) Implemented/ Resolved	(6) In Progress March 31, 2013
Facility Rental Revenue	09/08	5			5
Accounts Receivable Collection Processes	04/09	1		1	
Transit Maintenance	09/09	1		1	
Program Registration and Membership	11/09	4		3	1
Reimbursement of Expenses	04/10	3			3
Privacy	09/10	3		3	
Health Benefits Contracts	11/10	1			1
Mobile Licensing Revenue	02/11	7		1	6
2010 KPMG Management Letter	05/11		1	1	
Compliance & Licensing Revenue	09/11	4		2	2
Active Directory	09/11	1			1
Streetlighting Services	09/11	1		1	
Acquisition of Library Materials	11/11	1			1
Cash Receipt Forms	02/12	4		1	3
Mississauga Transit Coin Room	02/12	1		1	
Mississauga Spectator Arena Complex (Hershey Centre)	04/12		25	12	13
LVA Cheque Requisitions Transaction Review	09/12		3	2	1
Medium Value Acquisition	02/13		1	1	
Parking Enforcement Revenue	02/13		1	1	
TOTAL		**37**	**31**	**31**	**37**

* This column includes recommendations which were originally scheduled for implementation on or prior to September 30, 2012 (effective date of the previous report to the Audit Committee in November 2012).

** Recommendations in the "New" column were originally scheduled for completion between October 1, 2012 and March 31, 2013 (effective date of the current report to the Audit Committee).

Appendix 2 4(e)

STATUS OF AUDIT RECOMMENDATIONS OUTSTANDING AS OF SEPTEMBER 30, 2012 AND STILL IN PROGRESS AS OF MARCH 31, 2013

	Category	Audit	No. of Recommendations	Comments/Status
1.	**Update of Corporate Policies**	2008 Facility Rental Revenue	4	Updates to the Facility Rental Policy are expected to be completed by September 2013. Additional time was required as a result of the Facility Rental Fee Structure Review, which was intended to harmonize fees throughout the City. The review was completed and endorsed in principle by Council in November 2011. Further work was required to consult with user groups, finalize the review, and roll out the new pricing structure. As part of the implementation of the new pricing structure, staff are working with a number of user groups which have been impacted to address any concerns with respect to their new rates. Staff have also committed to Council to bring forward a new Ice Allocation Policy which will be aligned with the Facility Rental Policy. The length of time required to complete these complex policy and pricing changes is significant given the number of users and consultation required, and updates to the Facility Rental Policy cannot be done until these issues have been addressed.
2.		2010 Reimbursement of Expenses	3	A comprehensive review of the direction and framework for tuition reimbursement was completed and a revised Policy was endorsed by the Leadership Team in March 2013. The Policy is scheduled for presentation to Council before the end of June 2013.
3.	**Enhancement of Security Profiles**	2009 Program Registration and Membership	1	Staff are working to streamline the profiles relating to access to CLASS to meet business requirements and to achieve proper segregation of duties. The process is complex and delays were

STATUS OF AUDIT RECOMMENDATIONS OUTSTANDING AS OF SEPTEMBER 30, 2012 AND STILL IN PROGRESS AS OF MARCH 31, 2013

	Category	Audit	No. of Recommendations	Comments/Status
				experienced due to staff turnover. Staff have committed to completing this work before the end of September 2013.
4.	**Business Process Documentation**	2008 Facility Rental Revenue	1	Business processes will be updated once the Facility Rental Policy noted in (1) above is approved.
5.		2010 Health Benefits Contract	1	Process flows for the administration of the health benefits contract have been completed but require further refinements. Detailed procedures will also be documented by the end of 2013.
6.		2011 Mobile Licensing Revenue	1	Detailed business procedures are being documented. Due to the implementation of the Administrative Penalties System and changes in management and staff turnover in 2012, completion of this recommendation was delayed and is now being addressed in the Section's 2013 work plan.
7.	**Enhancement of Computer Systems and Reporting**	2011 Mobile Licensing Revenue	4	Staff are developing a procedure to receive updates from the Court system relating to outstanding fines. Staff are also working with Information Technology on the AMANDA application to enhance operational controls and efficiencies and to create management reports. These recommendations are expected to be completed before the end of 2013.
8.		2011 Compliance and Business Licensing Revenue	2	Staff are working with Information Technology to review and create reports for Business Licensing and Charity Gaming to assist in the monthly reconciliation process. Work has been delayed due to an extended absence of the analyst. This recommendation is expected to

4(f)

STATUS OF AUDIT RECOMMENDATIONS OUTSTANDING AS OF SEPTEMBER 30, 2012 AND STILL IN PROGRESS AS OF MARCH 31, 2013

	Category	Audit	No. of Recommendations	Comments/Status
				be completed by the end of 2013.
9.	**Training**	2011 Mobile Licensing Revenue	1	Priority is given to documentation of the business processes and training manual for the AMANDA system (see (6) and (7) above). Once the manual is complete, staff will undergo training. This recommendation is expected to be completed by the end of 2013.
10.		2011 Active Directory	1	Information Technology is committed to having one staff member trained and certified as an MCSA (Microsoft Certified Solutions Associate) by the end of 2013. Training and certification of additional staff will be considered as part of the implementation of recommendations from the IT E3 Review.
11.		2012 Cash Receipt Forms	3	Review of the applicable Corporate Policies and Procedures has been completed. Training will be provided through e-Learning modules which are currently under further development. These recommendations are scheduled for completion prior to the end of the year.
12.	**Purchasing**	2011 Acquisition of Library Materials	1	Staff in Materiel Management are in the process of finalizing the Request for Proposal which is expected to be issued shortly.
	TOTAL		**23**	