

ASSURANCE AND ADVISORY  
BUSINESS SERVICES

July 11, 2007



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# City of Ottawa

## Management Letter

### Year ended December 31, 2006

July 11, 2007

Ms. Marian Simulik  
Treasurer  
City of Ottawa  
110 Laurier Avenue West  
Ottawa ON K1P 1J1

Dear Ms. Simulik:

**Re: Fiscal 2006 Management Letter**

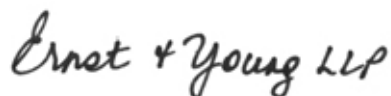
As part of our audit of the financial statements of the City of Ottawa for the fiscal year ended December 31, 2006, we evaluated the City's system of internal controls to the extent we considered necessary under Canadian generally accepted auditing standards. This is done to establish a basis for reliance on systems and determining the nature, timing and extent of other auditing procedures necessary to express an opinion on the City's financial statements. This study was not designed to determine whether the City of Ottawa's system of internal controls is adequate for management's purposes.

Our audit of the financial statements will not necessarily disclose all conditions requiring attention in the system of internal control because both the audit and study employed, as is customary, selected tests of accounting records and related data. Our procedures for your organization were primarily of a substantive nature. However, our audit identified areas where financial management and internal controls could be strengthened. The attached memorandum of observations and recommendations is enclosed for your information and consideration.

The suggestions and comments outlined in the memorandum concern processes and systems and are not intended to reflect in any way upon your personnel.

We would be pleased to discuss this document or to respond to any questions at your convenience.

Sincerely,



Chartered Accountants  
Licensed Public Accountants

Enclosures

cc. Mr. Wayne Martin, Manager, Accounting and Financial Reporting, City of Ottawa

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## Provision for Property Tax Appeals

### Observation and Recommendation

The City currently does not provide for taxation revenue reductions resulting from successful assessment appeals. We believe that a reasonable historical basis could be established to estimate such adjustments on outstanding appeals at the end of a fiscal period. This would provide a better matching of taxation revenue adjustments with the period to which they relate.

The City should record taxation assessment adjustment provisions that exist at year end.

### Management's Comment

Management disagrees. Assessment appeals present a number of intrinsic difficulties. A number of appeals especially in the commercial, industrial and multi-residential tax classes, do not come before the Assessment Review Board until subsequent years (sometimes 3 or more years after the appeal year). The magnitude of the impact on taxation revenue is also quite often unknown in the appeal year. Therefore, reasonableness can only be established on gathering statistical data on an historical basis.

## Payables Cut-off

### Observation and Recommendation

During our subsequent payments testing, we identified significant fiscal 2006 capital expenses which were not accrued as liabilities and as a result not recorded in the financial statements. Such unrecorded liabilities are a result of timing differences between when the expense had been incurred and when the City of Ottawa processed the related invoice.

City of Ottawa management should strengthen its process for recording expense liabilities at year end.

### Management's Comment

Management Agrees. The capital expenses identified were subsequently recorded in the final 2006 financial statements. Due to the volume of transactions associated with the City's capital program (approximately \$500 million of annual spending distributed to over 2000 capital projects) timing differences do occur. These timing differences are not significant relative to the City's total capital program.

Financial Services management will work with operating departments to inform and educate staff to ensure capital expenses are recorded in the proper period and that estimates are recorded when related invoices are not available at year end.

## Ministry of Ontario Revenue Cut-off

### Observation and Recommendation

During our audit procedures, it was noted that the City of Ottawa did not accrue for some provincial ministry revenues earned from program expense reimbursement in the 3rd and 4th quarters of fiscal year 2006 because the program expense claims had not been completed and submitted to the province. This resulted in provincial program revenues being understated.

Cut-off procedures should strengthen its process for recording provincial program reimbursement revenues at year end. Estimated claim amounts should be accrued as receivables on a timely basis.

### Management's Comment

Management Agrees. The timing differences relate to the recording of capital revenue. Estimates will be recorded to accrue appropriate revenue to prevent timing differences where final claims have not been completed by the year end cutoff deadlines.

## Access to perpetual inventory records

### Observation and Recommendation

During our inventory count observation procedures, we noted that employees performing the counts and recounts had access to the perpetual records. The employees conducting counts and recounts should not have access to perpetual records in order to ensure an objective first and second count. Management should compare count results to system records after the counts have been completed.

### Management's Comment

Supply Management agrees that a distinction between those conducting the actual count and staff with access to the perpetual records is preferable, and currently management in the General Stores and Fleet Stores operations ensure that this separation of duties is in place for those involved in the inventory taking process, whether performed annually or otherwise.

Materials Management Transit is primarily concerned with this comment and as mentioned in the 2005 report has implemented in 2006 a roving audit process to ensure the counts were performed correctly.

In the 2007 budget year, approval was given to hire more staff in support of Materials operations in Transit. The position of an Inventory Control Specialist is in the process of being staffed and will oversee the cycle count process and other inventory control functions. Two (2) newly budgeted positions will also report to this Specialist for Cycle count specific functions that will preclude access to perpetual inventory records.

It should also be noted that a Bar Code implementation project is in process within Material Management that will feature Cycle Count specific improvements and the employment of dedicated scanners and profiles with controlled system access. This implementation is planned for 2008.

## **Pension Plan Accounting**

### **Observation and Recommendation**

Pension Plan obligations were not accrued by the City of Ottawa at fiscal year end. Public Sector Accounting (PS 3250) requires that obligations be accrued for in the year of plan amendment. City of Ottawa management needs to consider pension plan amendments effects on their financial statements.

The City should consider accruing such obligations as required by Public Sector Accounting Guidelines.

### **Management's Comment**

Management Agrees. Management will assess pension plan accounting and disclosure requirements as required by Public Sector Accounting Guidelines for the 2007 financial statements.

## **Employee Vacation Carry-Over**

### **Observation and Recommendation**

As noted in prior years, several employees carry large vacation banks far in excess of the allowable carry-over period stated in collective agreements.

As per our discussion with management, employees can carry over more than the amount allowable in the collective agreement in instances where there are work related situations and deadlines that preclude them from taking vacation. However, some employees have up to one full year of vacation carry over, which appears excessive. If these people were to take this vacation all at one time they would have to be replaced and the City would have to pay someone else to fill their position. This would be costly and lead to possible staffing shortages.

The City of Ottawa should implement a program to reduce the vacation carry over balance. Management should enforce the carry over policies as per the collective agreement.

### **Management's Comment**

Management agrees. The City of Ottawa has developed an approach to reduce the vacation carryover balance. Senior management have been provided with details of employees in their respective areas that have carried over vacation in excess of their annual allotment. Managers are asked to work with affected staff to develop a plan to liquidate any excess vacation leave. A bulletin will also be circulated reminding managers of their responsibility to monitor their staff's vacation leave usage.

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