To: Chair and Members
Audit and Administration Committee

From: Joseph L. Rinaldo
General Manager
Finance and Corporate Services

Telephone: (905) 540-6150
Facsimile: (905) 546-2095
E-mail: jrinaldo@hamilton.ca

Date: January 10, 2007

Re: 2005 Audit Management Letters of City Boards and Related Agencies (FCS06086) (City Wide)

Council Direction: Not applicable.

Information:
That Report FCS06086 “2005 Audit Management Letters of City Boards and Related Agencies” be received for information.

Executive Summary:

The audit committee of most organizations is required to provide oversight of the organization’s financial reporting. This responsibility includes review of the financial statements, control structures and internal controls. The Strategic Planning & Budgets Committee has that role for the City of Hamilton’s consolidated operations. The City of Hamilton’s related entities have boards for each of their organizations that review and approve the financial statements and any audit management letters.

Audit management letters provide committee members and board members with the auditors’ findings in their review of internal controls. The management responses provide the action plan to address the weaknesses and deficiencies in internal controls as identified by the auditors.

The City of Hamilton’s 2005 consolidated financial statements were approved by this Committee at its meeting of May 17th, 2006 (item 7.1, Report FCS06051) and the 2005 audit management letter was approved on June 7th, 2006 (item 7.1).
The 2005 financial statements approval dates for the boards are as follows:

- CityHousing Hamilton: May 15th, 2006
- Tourism Hamilton: May 26th, 2006
- Hamilton Utilities Corporation (“HUC”): May 29th, 2006
- Hamilton Public Library: June 28th, 2006
- Hamilton Renewable Power Inc. (“HRPI”): July 11th, 2006
- Business Improvement Areas (BIA’s): See Note 1

Note 1: Management of each of Hamilton’s Business Improvement Areas (BIA’s) have not all approved their 2005 financial statements.

There was no audit management letters for HECFI, Tourism Hamilton and HRPI for the 2005 audits. The audit management letters from the City of Hamilton’s separate boards are attached to Report FCS06086. Management responses are not included for the BIA’s as management did not yet respond to the auditors.

_______________________
Joseph L. Rinaldo
General Manager
Finance and Corporate Services

Appendix ‘A’ CityHousing Hamilton 2005 Audit Management Letter
Appendix ‘B’ Hamilton Public Library 2005 Audit Management Letter
Appendix ‘C’ (i) (ii) Business Improvement Areas 2005 Audit Management Letter
March 17, 2006

Ms. Vicki Woodcox  
Director of Employment, Housing, and Long Term Care  
City of Hamilton  
55 Hess Street  
Hamilton, Ontario  
L8N 4E5

Dear Vicki:

RE: Municipal Non-Profit (Hamilton) Housing Corporation  
Hamilton Housing Corporation  
Dundas Valley Non-Profit Housing Corporation

RE: Internal Control Findings from the 2005 Audit

Receiving observations and findings on your financial reporting processes and controls is one of the benefits of an annual financial statement audit. Grant Thornton LLP continued to incorporate processes and technology to address the changing standards of conducting a financial statement audit. This approach includes an increased emphasis on internal control. Our procedures identified a few items that we need to bring to your attention.

Our audit is planned and conducted to enable us to express an audit opinion on the annual financial statements. The matters dealt with in this letter came to our attention during the conduct of our normal examination, and as a result, this letter does not necessarily include all matters that would be uncovered through a more extensive or special engagement.

The standards of the public accounting profession require us to report annually to you our findings on certain weaknesses and deficiencies in your internal controls. We have categorized our findings as follows:

- **Material weaknesses** (individual or aggregated deficiencies that could result in a material misstatement in the financial statements due to fraud or error)

- **Significant deficiencies**

- **Other deficiencies and advisory comments**

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Canadian Member of Grant Thornton International
**Material weaknesses:**

We noted no material weaknesses in documenting internal controls for City of Hamilton – Housing Division.

**Significant Deficiencies**

**Overpayment of invoice**

During our testing of payables and accruals in Hamilton Housing Corporation, we noted that an invoice of $1,869.56 was overpaid by $45,825 due to an input error. The cheque was drafted, approved and signed for an incorrect amount and the payment was posted against accounts payable. This error was not noticed by staff and was identified through the audit. Staff have now contacted the vendor for a refund.

There are several controls in place that should have caught this error. Invoices are attached to cheques when submitted for approval and signature. In addition, the reconciliation of the accounts payable subledger should have flagged a significant debit in this vendor’s account. While this incident appears to be isolated, given the number of invoices tested from January 1 to March 15, 2006, management should review current controls to ensure that they are designed effectively and are operating effectively to detect this type of error.

**Management Response**

As soon as management was advised of this error, staff met with all individuals who were involved, and reviewed the appropriate procedures to ensure this error would not occur again. Although there were several controls in place, two additional processes were added to the procedures; batch total verification, as well as a random audit that has been incorporated into the cheque signing process.

Although the auditors’ were of the opinion this was an isolated event, staff conducted their own audit on 10% (400) of all cheques greater than $5,000 that were issued in 2005. There were no errors detected as a result of this analysis.

Staff advised the vendor and he promptly returned to CHH the money owed as a result of this overpayment. It is worth noting, that since this was a capital project, it would have been found through the year end capital expenditure analysis.

Management will continue to be attentive to this issue and are confident, given the additional analysis and procedures in place that this error will not occur again in the future.
Other deficiencies and advisory comments

Income testing

In testing rent-geared-to-income (RGI) revenue to ensure Ministry guidelines were properly followed, we noted one discrepancy. A tenant received rent forgiveness at an incorrect amount which resulted in a $359 difference. While this amount is trivial, it is one error in a sample of items selected for testing and resulted from a weakness in internal controls. Clerks are required to check the original rent charge before processing a rent forgiveness credit and this was not done.

We have discussed this issue with Housing staff and new instructions have now been given to print off the tenants records and highlight the amount being forgiven before posting a correction to prevent this error from occurring in the future.

It is management’s responsibility to weigh the costs of implementing controls against the benefits that the controls will achieve. The purpose of this letter is to provide you with the information related to the identified risks so that you can make the necessary decisions.

The matters discussed herein are those that have been noted as of March 17, 2006, and we have not updated our procedures regarding these matters to the current date. In addition, this communication is prepared solely for the information of management and is not intended for any other purposes; we accept no responsibility to a third party who uses this communication.

Thank you for the opportunity to contribute to the present and future success of City of Hamilton – Housing division.

Yours truly,

GRANT THORNTON LLP

Evan McDade, CA, CBV
Partner
April 14, 2006

Hamilton Public Library Board
55 York Blvd
PO Box 2700
Hamilton, Ontario
L8N 4E4

To Management and the Board:

RE: Internal Control Findings from the 2005 Audit

Receiving observations and findings on your financial reporting processes and controls is one of the benefits of an annual financial statement audit. Grant Thornton LLP continued to incorporate processes and technology to address the changing standards of conducting a financial statement audit. This approach includes an increased emphasis on internal control. Our procedures identified a few items that we need to bring to your attention.

Our audit is planned and conducted to enable us to express an audit opinion on the annual financial statements. The matters dealt with in this letter came to our attention during the conduct of our normal examination, and as a result, this letter does not necessarily include all matters that would be uncovered through a more extensive or special engagement.

The standards of the public accounting profession require us to report annually to you our findings on certain weaknesses and deficiencies in your internal controls. We have categorized our findings as follows:

- Material weaknesses (individual or aggregated deficiencies that could result in a material misstatement in the financial statements due to fraud or error)
- Significant deficiencies
- Other deficiencies and advisory comments

Significant Deficiencies:

Controls around Fine Revenue

In 2004, management added policies to the staff manual to improve controls around cash responsibilities and petty cash. These policies ensure that staff are aware of policies and procedures and outline responsibility to various staff members. In updating our documentation and understanding of fine revenue, we have identified further controls which can enhance these existing policies. As fine revenue is an increasing amount of the Board’s budget, it is critical that there are adequate controls around this process.

We recommend that the Board consider implementing several controls which will allow management to quickly analyze trends to identify unusual activities. Suggested controls include receiving monthly reports indicating the amount of fines which have been waived. This will identify potentially forfeited revenue. A second possible control is a daily print out from the
horizon system of fine revenue charged to library accounts for the day. This report can be used to verify the reasonableness of the fine revenue entered into the cash register.

Management's Response:

Agree. Monthly reports will be generated indicating the amount of fines that have been waived on the Horizon library automated system and reviewed by management. Reports will also be generated indicating the fine revenue recorded daily in the Horizon library automated system and compared to the actual fine revenue recorded in the accounting system.

It is management’s responsibility to weigh the costs of implementing controls against the benefits that the controls will achieve. The purpose of this letter is to provide you with the information related to the identified risks so that you can make the necessary decisions.

The matters discussed herein are those that have been noted as of March 24, 2006, and we have not updated our procedures regarding these matters to the current date. In addition, this communication is prepared solely for the information of management and is not intended for any other purposes; we accept no responsibility to a third party who uses this communication.

Thank you for the opportunity to contribute to the present and future success of the Hamilton Public Library Board.

Yours truly,

GRANT THORNTON LLP

Evan McDade, CA, CBV
Partner
July 26, 2006

International Village BIA
307 King Street East
Hamilton, Ontario
L8N 1C1

To Management and the Board:

RE: Internal Control Findings from the 2005 Audit

Receiving observations and findings on your financial reporting processes and controls is one of the benefits of an annual financial statement audit. Grant Thornton LLP continued to incorporate processes and technology to address the changing standards of conducting a financial statement audit. This approach includes an increased emphasis on internal control. Our procedures identified some items that we need to bring to your attention.

Our audit is planned and conducted to enable us to express an audit opinion on the annual financial statements. The matters dealt with in this letter came to our attention during the conduct of our normal examination, and as a result, this letter does not necessarily include all matters that would be uncovered through a more extensive or special engagement.

The standards of the public accounting profession require us to report annually to you our findings on certain weaknesses and deficiencies in your internal controls. We have categorized our findings as follows:

- **Material weaknesses** (individual or aggregated deficiencies that could result in a material misstatement in the financial statements due to fraud or error)

- **Significant deficiencies**

- **Other deficiencies and advisory comments**

**Material weaknesses:**

We noted no material weaknesses in documenting internal controls for the International Village BIA.
**Significant Deficiencies:**

Segregation of duties

Segregation of duties is a key control designed to prevent employees from both being able to commit and conceal errors or irregularities in the normal course of their duties. Supervision acts as a compensating control in some cases where, because of the size of the organization, complete segregation of duties is not possible. However, supervision will only detect an error; it will not prevent it from occurring.

This issue has carried forward from the 2005 internal control recommendation letter. International Village BIA is a small entity with only minimal individuals responsible for bookkeeping responsibilities with assistance from the external auditor at year end. We realize that it is difficult to have appropriate segregation in these circumstances.

**Management Response**

Reliance on external auditor

The preparation of the year end financial statements is done by the external auditor through summarization of information provided by management and various entries required to apply generally accepted accounting principles (GAAP). In addition, there is reliance placed upon Grant Thornton, as your external auditors, to ensure the notes to the financial statements are in accordance with GAAP. Ownership of financial reporting should rest with management.

There is an opportunity for the International Village BIA to prepare, at least in draft form, the financial statements including note disclosures, as these are the responsibility of management. We would be pleased to offer assistance in setting up this process.

It is management’s responsibility to weigh the costs of implementing controls against the benefits that the controls will achieve. The purpose of this letter is to provide you with the information related to the identified risks so that you can make the necessary decisions.

The matters discussed herein are those that have been noted as of March 31, 2006, and we have not updated our procedures regarding these matters to the current date. In addition, this communication is prepared solely for the information of management and is not intended for any other purposes; we accept no responsibility to a third party who uses this communication.
Thank you for the opportunity to contribute to the present and future success of International Village BIA.

Yours truly,

GRANT THORNTON LLP

Evan McDade, CA, CBV
Partner
July 26, 2006

Main Street West BIA
c/o RBC Royal Bank
65 Locke Street South
Hamilton, Ontario
L8P 4A3

To Management and the Board:

RE: Internal Control Findings from the 2005 Audit

Receiving observations and findings on your financial reporting processes and controls is one of the benefits of an annual financial statement audit. Grant Thornton LLP continued to incorporate processes and technology to address the changing standards of conducting a financial statement audit. This approach includes an increased emphasis on internal control. Our procedures identified some items that we need to bring to your attention.

Our audit is planned and conducted to enable us to express an audit opinion on the annual financial statements. The matters dealt with in this letter came to our attention during the conduct of our normal examination, and as a result, this letter does not necessarily include all matters that would be uncovered through a more extensive or special engagement.

The standards of the public accounting profession require us to report annually to you our findings on certain weaknesses and deficiencies in your internal controls. We have categorized our findings as follows:

- **Material weaknesses** (individual or aggregated deficiencies that could result in a material misstatement in the financial statements due to fraud or error)

- **Significant deficiencies**

- **Other deficiencies and advisory comments**

**Material weaknesses:**

We noted no material weaknesses in documenting internal controls for the Main Street West BIA.
**Significant Deficiencies:**

**Segregation of duties**

Segregation of duties is a key control designed to prevent employees from both being able to commit and conceal errors or irregularities in the normal course of their duties. Supervision acts as a compensating control in some cases where, because of the size of the organization, complete segregation of duties is not possible. However, supervision will only detect an error; it will not prevent it from occurring.

This issue has carried forward from the 2005 internal control recommendation letter. Main Street West BIA is a small entity with only one individual responsible for all bookkeeping responsibilities with assistance from the external auditor at year end. We realize that it is difficult to have appropriate segregation in these circumstances.

**Management Response**

**Reliance on external auditor**

The preparation of the year end financial statements is done by the external auditor through summarization of information provided by management and various entries required to apply generally accepted accounting principles (GAAP). In addition, there is reliance placed upon Grant Thornton, as your external auditors, to ensure the notes to the financial statements are in accordance with GAAP. Ownership of financial reporting should rest with management.

There is an opportunity for the Main Street West BIA to prepare, at least in draft form, the financial statements including note disclosures, as these are the responsibility of management. We would be pleased to offer assistance in setting up this process.

It is management’s responsibility to weigh the costs of implementing controls against the benefits that the controls will achieve. The purpose of this letter is to provide you with the information related to the identified risks so that you can make the necessary decisions.

The matters discussed herein are those that have been noted as of April 5, 2006, and we have not updated our procedures regarding these matters to the current date. In addition, this communication is prepared
solely for the information of management and is not intended for any other purposes; we accept no responsibility to a third party who uses this communication.

Thank you for the opportunity to contribute to the present and future success of Main Street West BIA.

Yours truly,

GRANT THORNTON LLP

Evan McDade, CA, CBV
Partner