Dear Committee members:

RE: Internal Control Findings from the 2008 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 has adopted the auditing standards on implementing new 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 number of items that we need to bring to your attention.

Our approach to internal control involves gaining an understanding of your controls pertinent to reliable financial reporting and evaluating our findings against the internal control framework.

More specifically, our process this year involved:

- understanding the processes that impact financial reporting
- documenting an understanding of the controls within such processes that prevent or detect errors, including fraud.
- assessing the effectiveness of the design of those controls
- identifying potential control “gaps,” operating deficiencies, and other weaknesses or advisory comments.

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.

Subdivision deposit reconciliations

During the course of the audit, we noted that the subdivision deposits subledger reflected a balance that differed from the Peoplesoft general ledger by approximately $1 million. After further testing, we noted that there were balances which were recorded that could not be supported by the receipts and payments documented in the respective files.

A lack of proper tracking of subdivider deposits could result in errors such as the overpayment of deposits and inaccurate information being included in the financial reports generated and used by management and council in decision making.
We are aware that the internal audit group has also issued a report with respect to processes and controls around the tracking of deposits.

We recommend that the Development Financial Officer conduct a detailed review of all files maintained on subdivision deposits to ensure the completeness and accuracy of the deposit subledger. On a go-forward basis, reconciliation of the subdivision deposit subledger to the Peoplesoft general ledger should occur on a monthly basis, with an independent review of this reconciliation also occurring in order to ensure accuracy and completeness. Any errors that are present could then be identified and corrected in a timely manner.

Management’s response

The Manager of Capital Budgets and Development Finance will ensure that a detailed review of all of the files maintained for development cash security is completed by August 1, 2009. The Development Financial Officer will continue to maintain the development financial requirements in individual files by subdivision name and registered owner. Copies of deposits received, payments made and journal entries processed for deposits transferred to capital projects will be filed and used to update the subdivision subledger on a monthly basis. The Development Financial Officer will reconcile the subledger to the general ledger account on a monthly basis. The Manager of Capital Budgets and Development Finance will review and approve the reconciliation on a monthly basis.

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 matter discussed herein is noted as of May 6, 2009, and we have not updated our procedures regarding this matter 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 Corporation of the City of Hamilton.

Yours truly,

GRANT THORNTON LLP

Allister Byrne, FCA
Partner