



AUDIT COMMITTEE AGENDA

Audit Committee Meeting
Tuesday, June 17, 2014
Tom Davies Square

4:00 p.m. AUDIT COMMITTEE MEETING
COUNCIL CHAMBER

Council and Committee Meetings are accessible. For more information regarding accessibility, please call 3-1-1 or email clerks@greatersudbury.ca.

DECLARATIONS OF PECUNIARY INTEREST AND THE GENERAL NATURE THEREOF

APPOINTMENT OF COMMITTEE CHAIR AND VICE-CHAIR

1. Report dated December 27, 2013 from the Executive Director, Administrative Services/City Clerk regarding Appointment of Chair and Vice-Chair - Audit Committee. **4 - 7**

(RECOMMENDATION PREPARED)

(City Clerk, Caroline Hallsworth will call the meeting to order and preside until the Audit Committee Chair and Vice-Chair have been appointed, at which time the newly appointed Chair will preside over the balance of the meeting.)

PRESENTATIONS

1. Report dated June 9, 2014 from the Chief Financial Officer/City Treasurer regarding 2013 Audit Findings Report. **8 - 48**
(ELECTRONIC PRESENTATION) (FOR INFORMATION ONLY)
 - Michael Hawtin, Partner, PricewaterhouseCoopers LLP(This report provides the audit findings with respect to the 2013 year-end.)
2. Report dated June 9, 2014 from the Chief Financial Officer/City Treasurer regarding 2013 Annual Financial Statements. **49 - 118**
(ELECTRONIC PRESENTATION) (RECOMMENDATION PREPARED)
 - Lorella Hayes, Chief Financial Officer/Treasurer(This report recommends that the Consolidated Financial Statements of the City of Greater Sudbury and the Financial Statements of the City of Greater Sudbury Trust Funds for the year ended December 31, 2013 be adopted by Council.)
3. Report dated June 11, 2014 from the Auditor General regarding Auditor General's 2014 Audit Work Plan. **119 - 125**
(ELECTRONIC PRESENTATION) (RECOMMENDATION PREPARED)
 - Brian Bigger, Auditor General(The Auditor General's 2014 Audit Work Plan provided to Council for information)
4. Report dated June 12, 2014 from the Auditor General regarding Audit Report - Competitive Procurement. **126 - 153**
(ELECTRONIC PRESENTATION) (RECOMMENDATION PREPARED)
 - Brian Bigger, Auditor General(This report is to communicate the results of an audit of competitive procurement practices.)
5. Report dated June 11, 2014 from the Auditor General regarding Audit Report - Monitoring Progress Of Action Plans (May 31, 2014) . **154 - 174**
(ELECTRONIC PRESENTATION) (FOR INFORMATION ONLY)
 - Brian Bigger, Auditor General(A summary of the status of the Monitoring Progress of the Action Plans as of May 31, 2011)

MANAGERS' REPORTS

- R-1. Report dated June 11, 2014 from the Auditor General regarding Audit Review - Heartbleed Vulnerability Assessment. **175 - 177**
(RECOMMENDATION PREPARED)

(Update notifying the Audit Committee of results of the Auditor General's review to determine these were any concerns related to the Heartbleed Vulnerability.)

ADDENDUM

CIVIC PETITIONS

QUESTION PERIOD AND ANNOUNCEMENTS

NOTICES OF MOTION

ADJOURNMENT

CAROLINE HALLSWORTH, EXECUTIVE DIRECTOR, ADMINISTRATIVE SERVICES/CITY CLERK

Request for Decision

Appointment of Chair and Vice-Chair - Audit Committee

Presented To:	Audit Committee
Presented:	Tuesday, Jun 17, 2014
Report Date	Friday, Dec 27, 2013
Type:	Appointment of Committee Chair and Vice-Chair

Recommendation

That the City of Greater Sudbury appoint Councillor _____ as Chair and Councillor _____ as Vice-Chair of the Audit Committee for the term ending November 30, 2014.

Background

This report sets out the procedure for the election by the Committee of the Chair and Vice-Chair of the Audit Committee for the term ending November 30, 2014.

The Procedure By-law provides that a Member of the Committee shall be appointed annually by the Committee to serve as Chair of the Audit Committee. As well, a Vice-Chair is appointed annually.

The above appointments need only be confirmed by resolution.

Remuneration

The Chair of the Audit Committee is paid \$1,988.86 per annum.

Selection

The selection of the Chair and Vice-Chair is to be conducted in accordance with Article 45 of the Procedure By-law (copy attached).

Council's procedure requires that in the event more than one (1) candidate is nominated for either the Chair or Vice-Chair's position, a simultaneous recorded vote shall be used to select the Chair and Vice-Chair.

It is always in order for a Member of Council to nominate themselves and to vote for themselves. Under *Robert's Rules of Order* a nomination does not need a second.

Signed By

Report Prepared By

Brigitte Sobush
Deputy City Clerk
Digitally Signed Dec 27, 13

Recommended by the Department

Caroline Hallsworth
Executive Director, Administrative Services/City Clerk
Digitally Signed Jan 3, 14

Recommended by the C.A.O.

Doug Nadorozny
Chief Administrative Officer
Digitally Signed Jan 3, 14

Once the successful candidates have been selected, a resolution will be introduced confirming the appointment of the successful candidates.

ARTICLE 45. NOMINATING COMMITTEE**45.01 Mandate**

The Nominating Committee shall meet, as needed by Council, for the purpose of considering and recommending to Council citizen appointments to agencies, boards, advisory panels, and other bodies as required.

45.02 Primary Objectives

In making such appointments, the Nominating Committee shall take into consideration a balanced representation from communities of interest so as to be reflective of the geographical and demographic composition of the community.

45.03 Membership

The Nominating Committee shall be composed of all Members of Council and chaired by a Deputy Mayor.

45.04 Term

The term of the Nominating Committee shall coincide with the term of Council.

45.05 Procedure

In making such appointments, the procedure set out in this Article shall apply unless otherwise provided in a shareholders' declaration.

45.06 Number of Applicants Matches Positions - Motion

Where the number of applicants matches the positions to be filled, a motion to appoint the applicant(s) to the position(s) in question shall be presented and voted upon.

45.07 Simultaneous Recorded Vote

A simultaneous recorded vote shall be used to select the applicants to fill each position available, in accordance with Article 33.05, except that:

- (1) the Clerk need not read each ballot aloud nor record each individual vote; and
- (2) the ballots shall be retained as part of the minutes.

45.08 Number of Applicants Exceeds Positions - Simultaneous Recorded Vote

Where the number of applicants exceeds the number of positions available, a simultaneous recorded vote shall be conducted in accordance with Article 37.09.

45.09 Term of Appointment – Local Boards

The term of office of each citizen appointed to a Local Board shall be set out in the body's terms of reference and shall not exceed the term of Council, unless otherwise specified by statute. However for purposes of continuity, such citizen appointments shall remain in effect following a municipal election until their successors are appointed by the incoming Council.

45.10 Term of Appointment – Staff

Except where prohibited by statute, the Nominating Committee may recommend the appointment of a member of staff to a board or agency within its mandate in the place of a Member when no other Members are available to be appointed.

For Information Only

2013 Audit Findings Report

Presented To:	Audit Committee
Presented:	Tuesday, Jun 17, 2014
Report Date	Monday, Jun 09, 2014
Type:	Presentations

Recommendation

For information only.

BACKGROUND

For entities with public accountability, auditing standards require auditors to communicate specific information to an Audit Committee. The City's external auditors will be presenting their Audit Findings Report with respect to the 2013 year-end to the Audit Committee on June 17, 2014. Their presentation will cover the following issues:

- Audit Opinion
- Independence
- Audit Highlights and Findings
- Internal Control Recommendations

The purpose of their presentation will be to communicate to the Committee a summary of any significant findings and other matters which our external auditors believe should be brought to your attention, thereby assisting this Committee with respect to their review and recommendation to Council for approval of the 2013 Financial Statements. Attached is the complete Audit Findings Report prepared by the external auditors.

In addition to reporting all financial transactions appropriately following Generally Accepted Accounting Principles for local governments established by the Public Sector Accounting Board of The Canadian Institute of Chartered Accountants, management also has a responsibility to apply their best judgement at the time in preparing accounting estimates and/or disclosures in the financial statements.

The concept of materiality is applied in determining whether or not the statements are considered to be a fair representation. Materiality includes both qualitative and quantitative factors which are assessed in the light of whether or not they may be likely to influence the decisions made by persons relying on the financial statements. The auditors will confirm that there are no material unadjusted financial statement misstatements. Management has reviewed and adjusted the misstatements identified by the auditors in the financial statements.

Signed By

Report Prepared By

Christina Dempsey
Co-ordinator of Accounting
Digitally Signed Jun 9, 14

Division Review

Paddy Buchanan
Manager of Accounting
Digitally Signed Jun 9, 14

Recommended by the Department

Lorella Hayes
Chief Financial Officer/City Treasurer
Digitally Signed Jun 10, 14

Recommended by the C.A.O.

Doug Nadorozny
Chief Administrative Officer
Digitally Signed Jun 10, 14

A further requirement of any audit is to obtain sufficient understanding of internal controls and to test those internal controls so that the auditor can place reliance on them as part of the audit. The Audit Findings Report comments on weaknesses that have been identified as part of the audit and those identified in the report relate to information technology recommendations.

City of Greater Sudbury

*2013 Year-end report
to the Audit Committee*

*Prepared as of
June 3, 2014*





June 3, 2014

Members of the Audit Committee
City of Greater Sudbury

Dear Members of the Audit Committee:

We have substantially completed our audit of the consolidated financial statements of the City of Greater Sudbury (the City) prepared in accordance with Canadian generally accepted accounting standards as established by the Public Sector Accounting Board (Public Sector GAAP) for the year ended December 31, 2013. We propose to issue an unqualified report on those financial statements, pending resolution of outstanding items outlined on page 1. Our draft auditor's report is included as Appendix A.

We have issued the accompanying report to assist you in your review of the financial statements. It includes an update on the status of our work, as well as a discussion on the significant accounting and financial reporting issues dealt with during the audit process.

The matters raised in this report are only those that have come to our attention arising from or relevant to our audit that we believe need to be brought to your attention. This report has been prepared solely for the use of the Audit Committee, Council and management, and should not be used by anyone other than these specified parties. We disclaim any responsibility to any third party who may rely on it.

We propose to review the key elements of this report at the upcoming meeting and discuss with you our key findings.

We would like to express our sincere thanks to the management and the staff of the City who have assisted us in carrying out our work and we look forward to our meeting on June 17, 2014. Should you have any questions or concerns prior to the Audit Committee meeting, please do not hesitate to contact me in advance.

Yours very truly,

PricewaterhouseCoopers LLP

Michael Hawtin
Partner
Audit and Assurance Group

cc: Ms. Lorella Hayes, Chief Financial Officer / Treasurer

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PwC refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

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Appendices

Appendix A: Draft auditor's report

Appendix B: Draft management representation letter

Appendix C: Independence letter

Appendix D: Internal control recommendations

The matters raised in this and other reports that will flow from the audit are only those that have come to our attention arising from or relevant to our audit that we believe need to be brought to your attention. They are not a comprehensive record of all the matters arising and, in particular, we cannot be held responsible for reporting all risks in your business or all internal control weaknesses. This report has been prepared solely for your use and should not be quoted in whole or in part without our prior written consent. No responsibility to any third party is accepted, as the report has not been prepared for, and is not intended for, any other purpose. Comments and conclusions should only be taken in context of the financial statements as a whole as we do not mean to express an opinion on any individual item or accounting estimate.

1. *Executive summary*

a. Status of the audit

We have substantially completed our audit of the 2013 consolidated financial statements. Our auditor's report will be issued once we receive and have completed our audit work on the outstanding items noted below.

This document includes the required communications between an auditor and Audit Committee, as required by Canadian generally accepted auditing standards (Canadian GAAS).

Our audit has been performed substantially in accordance with the plan and timeline previously communicated to you at the October 22, 2013 Audit Committee meeting.

The following items will need to be completed/received prior to the issuance of our opinion. We will provide an update on the status of these items at our upcoming meeting.

Outstanding items
i. Completion of subsequent event procedures up to the date of our auditor's report
ii. Receipt of signed management representation letter
iii. Approval of the financial statements by Council

b. Key issues for discussion

Discussion item	Summary	For further reference
Significant audit, accounting and financial reporting matters	<ul style="list-style-type: none"> Section 2 of our report discusses the areas that we focused on in conducting our audit and significant accounting matters which we believe should be brought to your attention. These areas comprise the following: <ul style="list-style-type: none"> New accounting standards adopted during the year; Significant estimates and areas of management judgment; and Management override of controls. 	Section 2
Summary of unadjusted and adjusted items	<ul style="list-style-type: none"> There are no unadjusted or adjusted items as a result of our audit. In our opinion, the financial statements, taken as a whole, are free of material misstatement. A copy of our draft auditor's report can be found in Appendix A. 	Section 3 and Appendix A
Internal control recommendations	<ul style="list-style-type: none"> We issued a report in June 2013 summarizing our internal control observations and recommendations as they related to the 2011 and 2012 audits. An update on the remediation status of these internal control observations can be found in Appendix D. No new internal control observations were identified during the 2013 audit. 	Appendix D
Independence	<ul style="list-style-type: none"> We confirm that we are independent of the City as at the date of this report, and our independence letter can be found in Appendix C. 	Appendix C

Discussion item	Summary	For further reference
Fraud	<ul style="list-style-type: none">No instances of fraud were noted as part of our audit procedures.We wish to reconfirm whether the Audit Committee is aware of any known, suspected or alleged incidents of fraud.	
Management representations	<ul style="list-style-type: none">Under Canadian GAAS, we are required to inform you of the representations we are requesting from management. A copy of the management representation letter is included in Appendix B.	Appendix B

2. *Significant audit, accounting and financial reporting matters*

Preparation of the consolidated financial statements requires management to select accounting policies, as well as make critical accounting estimates and disclosures that may involve significant judgment and measurement uncertainty. These matters can significantly impact the City's reported results.

We are responsible for discussing with the Audit Committee our views about the significant qualitative aspects of the City's accounting practices, including accounting policies, the accounting estimates, and financial statement disclosures.

Our comments and views included in this report should only be taken in the context of the consolidated financial statements as a whole and are not meant to express an opinion on any individual item or accounting estimate. We are sharing our views with you to facilitate an open dialogue of these matters.

During the audit, we dealt with the following complex issues, areas of judgment and significant audit risks:

Item 1	New accounting standards adopted during the year
Background information	<p>The City adopted the following accounting standards during the year ended December 31, 2013:</p> <ul style="list-style-type: none"> a) Government transfers - PS 3410 was effective for fiscal years beginning on or after April 1, 2012. In accordance with the transitional provisions, the City has adopted this revised standard on January 1, 2013 on a prospective basis. This section provides additional guidance on recognition of government transfers. Under the revised accounting standard, revenue from government transfers is recognized when the transfer is authorized and all eligibility criteria have been met (if applicable) except when and to the extent that the transfer gives rise to an obligation that meets the definition of a liability under Public Sector GAAP. b) Tax revenue - PS 3510 was effective for fiscal years beginning on or after April 1, 2012. The City has adopted this new standard on January 1, 2013. This section establishes standards on how to account for and report tax revenue in government financial statements. c) Liability for contaminated site - PS 3260 is effective for fiscal years beginning on or after April 1, 2014. This section establishes standards for reporting a liability associated with the remediation of contaminated sites. The City has early adopted this standard effective January 1, 2013. <p>Management assessed the impact of adoption of these standards on the consolidated financial statements as summarized below:</p> <ul style="list-style-type: none"> a) Management reviewed agreements related to government transfers effective January 1, 2013 for compliance with the revised standard. Specifically, management reviewed the City's funding agreements for eligibility criteria and stipulations. It was concluded that the City's 2013 funding agreements do not contain any stipulations that give rise to an obligation that meet the definition of a liability under Public Sector GAAP. In accordance with the revised accounting standard, revenue from government transfers is recognized in the year for transfers that are authorized and all eligibility criteria have been met.

Item 1	New accounting standards adopted during the year
	<p>b) Management reviewed its existing accounting policy for recognition of tax revenue to ensure compliance with the new PS 3510. As part of this analysis, management reviewed the City's accounting treatment for tax concessions and changes in valuation allowance of tax receivable as well the presentation in the consolidated financial statements. Management determined that no adjustments were required to the measurement, classification or disclosure of tax revenues as a result of adopting this new accounting standard.</p> <p>c) A listing of contaminated or potentially contaminated sites was identified by management, in consultation with the City's real estate and asset services group, with a focus on assets no longer in productive use or assets where there may be change in the intended use that may give rise to an obligation under this new accounting standard. Based on this review, management determined that at present they do not need to recognize any liabilities associated with contaminated sites under this new accounting standard.</p>
PwC's views	<p>Through our meetings with management, we gained an understanding of the processes and analyses performed by management to ensure compliance with the new accounting standards.</p> <p>a) For government transfers, we reviewed management's analysis of the eligibility criteria and stipulations for material funding agreements and tested a sample to ensure compliance with the revenue recognition provisions contained in PS 3410. We note that the review of stipulations involves management judgment with respect to the assessment of meeting the definition of a liability under Public Sector GAAP. We have no matters to report as a result of completing these audit procedures and found management's judgments with respect to its review of stipulations to be reasonable.</p> <p>b) For tax revenue, we reviewed management's analysis and noted that the City's existing revenue recognition policy for taxation was in compliance with the provisions contained in the new accounting standard PS 3510. We have no matters to report as a result of completing these audit procedures. In addition, we note that the disclosures in the financial statements related to taxation revenue are in compliance with PS 3510.</p> <p>c) For liabilities for contaminated sites, our audit approach involved discussions with management and others within the City that has responsibility for handling matters related to contaminated sites to assess the City's process with respect to the identification of contaminated or potentially contaminated sites under the scope of this new accounting standard. We note that the review of contaminated and potentially contaminated sites involved management estimation and judgment with respect to the assets intended use in the future. We also reviewed management's assessment of contaminated or potentially contaminated sites with respect to the recognition and measurement criteria under the new standard. Where third party assessments were available, we reviewed the reports from 3rd party specialists to support management's conclusions. We found management's approach and methodology with respect to the identification of contaminated sites reasonable and are in agreement with the accounting conclusions reached.</p>

Item 2	Significant estimates and areas of management judgment
Background information	<p>There are a number of complex and significant accounting estimates that require management judgment in preparing the City's consolidated financial statements as at December 31, 2013.</p> <p>Significant provisions and estimates include:</p> <ul style="list-style-type: none"> a) provision for property tax appeals; b) provision for accounts receivable; c) employee benefit obligations; and d) landfill closure and post-closure costs for active and inactive landfill sites. <p>Management has processes and controls in place for formulating these estimates as summarized below:</p> <ul style="list-style-type: none"> a) The provision for property tax appeals is based on management's estimates of losses relating to successful appeals by taxpayers. The provision is based on historical arbitration experience as adjusted by management based on specific facts and circumstances related to open appeals at year-end. b) The provision for accounts receivable is based on management's review of individual account balances using historical collection and other relevant debtor information. c) The City engages a third party actuary to determine the liability for post-employment benefit obligations for sick leave benefits, WSIB and other post-retirement benefits. The liabilities associated with these employee benefit arrangements are calculated by the City's actuary and involve the use of significant assumptions, including but not limited to, the discount rate, salary growth, inflation and health care increases for dental, drugs and medical costs. d) Management, through the use of internal and external specialists, determines the landfill liabilities by estimating the costs to be incurred during the closure and post-closure periods. The liability is calculated using significant estimates for discount and inflation rates as well as estimates of expenditures for closure and post-closure care of the landfill sites, site capacity and remaining useful lives and the post-closure care period.
PwC's views	<p>We held discussions with management responsible for establishing these estimates to understand the key assumptions as well as validate and benchmark these judgments against our expectations as summarized below:</p> <ul style="list-style-type: none"> a) For property taxes we corresponded directly with Municipal Property Assessment Corporation (MPAC) to obtain the assessment of properties used in determining property taxation revenue for the year to assist in our validation of management's calculations. <p>We also validated the historical arbitration information on the rate of successful appeals to assess the reasonability of the estimates used by management at year-end. We compared management's "at-risk" rate used to calculate the provision to the average rate as calculated from the historical arbitration information for the</p>

Item 2	Significant estimates and areas of management judgment
	<p>past six years and found them to be comparable. We also reviewed management's adjustments to the provision for specific open appeals and found them to be reasonable.</p> <p>b) For provisions related to accounts receivable, we examined management's analysis and aging of accounts receivables at year-end and have no matters to report.</p> <p>c) For employee benefit obligations, our audit approach involves the reliance on the work of the City's actuary. In accordance with generally accepted auditing standards, we relied on the actuary for its calculation of the employee benefit liabilities and expense for the year. Our audit procedures mainly consist of reviewing the reasonableness of the data and assumptions used by the actuary and do not include a re-performance of the actuarial calculations. Accordingly, we performed the following audit procedures when relying on the work of specialists:</p> <ul style="list-style-type: none"> • Tested the participant data provided to the actuary by comparing the data to source documents maintained by the City's payroll department; • Assessed the significant actuarial assumptions (i.e. discount rates, medical cost increases, etc.) to determine that they are within a reasonable range and consistent with the provisions in the City's plans; and • Assessed that the City is in compliance with the appropriate accounting principles for the calculation, presentation and disclosure of the employee benefit obligations in the consolidated financial statements of the City. <p>We have no matters to report as a result of completing these audit procedures.</p> <p>d) For landfill liabilities, our audit approach involved the reliance on the work of the City's external environmental specialist for their calculation of the landfill liability and expense for the year. In accordance with generally accepted auditing standards, we relied on the environmental specialist for its calculation of the landfill liability and expense for the year.</p> <p>Our audit procedures mainly consist of reviewing the reasonableness of the data and assumptions used by the specialist, including benchmarking the data to prior years and obtaining explanations for significant variances and independent validation of the assumptions used for inflation and discount rates.</p> <p>We have no matters to report as a result of completing these audit procedures.</p>

Item 3	Management override of controls
Background information	<p>Canadian auditing standards require auditors to plan and perform the audit to obtain reasonable assurance that the consolidated financial statements are free of material misstatements, whether caused by error or fraud.</p> <p>The likelihood of not detecting a material misstatement resulting from fraud is higher than the likelihood of not detecting a material misstatement resulting from error, because fraud may involve collusion as well as sophisticated and carefully organized schemes designed to conceal it.</p> <p>We note that the City has developed policies and procedures to ensure appropriate segregation of duties to mitigate the risk of fraud and management override of controls.</p> <p>In addition, the City has policies in place to prevent and detect fraud, including maintaining a code of conduct (as set out in the employee handbook), Auditor General Office, processes relating to the review and approval of manual journal entries and management reviews of the divisional operating results of the City.</p>
PwC's views	<p>During our audit, we executed the following procedures in order to fulfill our responsibilities:</p> <ul style="list-style-type: none"> • Inquired of management, auditor general and legal offices and others related to any knowledge of fraud or suspected fraud; • Performed test of details primarily over revenue, including consideration of unusual or unexpected relationships; • Incorporated an element of unpredictability in the selection of the nature, timing and extent of our audit procedures; • Performed additional required procedures to address the risk of management's override of controls, including: <ul style="list-style-type: none"> ◦ examined journal entries and other adjustments for evidence of the possibility of material misstatement due to fraud; ◦ reviewed accounting estimates for biases that could result in material misstatement due to fraud; and ◦ evaluated the business rationale of significant unusual transactions. <p>As a result of completing these procedures we did not encounter any instances of fraud.</p>

3. Summary of unadjusted and adjusted items

We have concluded that the consolidated financial statements taken as a whole are free of material misstatement and (pending the completion, to our satisfaction, of the outstanding matters identified in section 1), we are prepared to issue an unqualified opinion on the financial statements.

Our responsibility is to issue an opinion as to whether the financial statements are free of material misstatement.

Under Canadian GAAS, we are required to communicate to you the unadjusted items and the effect that they may have on our opinion and to request that unadjusted items be corrected.

We did not identify any unadjusted or adjusted items during the audit.

4. *Other required communications*

Canadian GAAS requires that the external auditor communicate certain matters to the Audit Committee that may assist you in overseeing management's financial reporting and disclosure process.

Below, we summarize these required communications as they apply to you:

Matter to be communicated	PwC's response
Management's representations	<ul style="list-style-type: none"> Under Canadian GAAS, we are required to inform you of the representations we are requesting from management. A copy of the management representation letter is included in Appendix B.
Significant deficiencies in internal control	<ul style="list-style-type: none"> Recent changes to Canadian GAAS require us to communicate to the Audit Committee internal control weaknesses identified as part of our audit that are considered to be significant deficiencies. A significant deficiency is defined as an internal control deficiency that we consider merits the attention of the Audit Committee. We have none to report this year. See Appendix D of this report for our internal control recommendations that we would like to bring to the Audit Committee's attention.
Significant difficulties or disagreements that occurred during the audit	<ul style="list-style-type: none"> No difficulties or disagreements occurred while performing our audit that requires the attention of the Audit Committee.
Fraud and illegal acts	<ul style="list-style-type: none"> No fraud involving senior management, employees with a significant role in internal control or that would cause a material misstatement of the financial statements, came to our attention as a result of our audit procedures.

5. *Internal control recommendations*

The purpose of our audit was to enable us to express an opinion on the consolidated financial statements. The audit included consideration of internal control relevant to the preparation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control over financial reporting.

We issued a report in 2012 summarizing our internal control observations and recommendations as they related to the 2011 and 2012 audits. Most of them were remediated by management in 2013.

An update on the remediation status of these internal control observations is reported in Appendix D. No new internal control observations were identified during the 2013 audit.

6. 2013 audit fees

Our fees are in accordance with our response to the City's Request for Proposal dated October 18, 2011 covering three year contract period for the years ended December 31, 2011 through to 2013. The fee for the 2013 audit of the City's consolidated financial statements is \$89,200.

7. Upcoming changes to accounting standards

As part of our commitment to quality service, we now draw your attention to new and emerging accounting, auditing and regulatory developments on City of Greater Sudbury's financial reporting:

a. Financial instruments and financial statement presentation

Section PS 3450, Financial Instruments, will be effective for municipal governments for periods beginning on or after April 1, 2016. Early adoption is permitted. This section provides guidance on the recognition, measurement, presentation and disclosure of financial instruments. Derivatives and portfolio investments that are equity instruments quoted in an active market are measured at fair value. Other financial instruments may be elected as measured at fair value under certain conditions.

Concurrent with the adoption of Section PS 3450, organizations must adopt Section PS 1201, Financial Statement Presentation (replacing Section PS 1200) and Section PS 2601, Foreign Currency Translation (replacing PS 2600). These new standards require presentation of a new primary statement – the statement of remeasurement gains and losses – reporting various unrealized gains and losses and may also change the accounting for long-term foreign currency monetary items.

These standards will be applicable for the City in the 2017 fiscal year.

b. Other projects

Other significant projects that are in progress by the Public Sector Accounting Board:

- *Related Parties* – In September 2012, PSAB issued an exposure draft proposing a new PSA Handbook Section for Related Party Transactions. The exposure draft included guidance on the identification of related parties as well as the recognition and measurement of related party transactions. The Board considered responses to the exposure draft and issued a re-exposure draft in June 2013 with revised guidance to address concerns over key management personnel and measurement of related party transactions. PSAB amended the re-exposure draft issued in June 2013 to better reflect the different scope of the disclosure component and the recognition and measurement guidance. A re-exposure draft was issued in April 2014 that proposes standards with related party disclosures and inter-entity transactions, with a view to a final standard by the end of 2014. Our audit national public sector leader is the chair of the PSAB task force on this project.
- *Restructurings* – Restructurings may take many forms including amalgamations, transfers and reorganizations. This project aims to create a standard to define restructuring transactions and provide guidance on the recognition and measurement of assets and liabilities subject to restructuring as well as accounting for restructuring costs. A statement of principles was issued in February 2013, which proposes that restructurings involve the transfer of an integrated set of assets, liabilities and related responsibilities without the exchange of significant consideration based on the fair values of assets and liabilities transferred. Restructuring transactions are to be measured based on carrying values with limited adjustments. An exposure draft for a new standard is expected in June 2014.
- *Assets* – The objective of this project is to provide a standard that addresses the basic concepts and definition of assets, similar to the standard that already exists for liabilities (Section PS 3200). The first step in this project is a statement of principles that will define the essential characteristics of assets, contingent assets and contractual rights, provide recognition and derecognition criteria for assets and contingent assets, provide guidance on the measurement of assets and contingent assets (including impairments) and consider disclosure requirements. A draft statement of principles was issued in 2013. An exposure draft is expected to be issued in June 2014.

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- *Revenues* – This project is to develop additional principles for revenue recognition principles that apply to sources of revenue other than government transfers and tax revenue. It is a wide-reaching project seeking to address recognition, measurement and presentation of revenues that are common in the public sector. PSAB issued a statement of principles in August 2013. The statement of principles proposes a framework for addressing the accounting and reporting of many forms of public sector revenue. PSAB is deliberating comments received on its statement of principles and an exposure draft is expected to be in the developed stage in the second quarter of 2014.
 - *Asset Retirement Obligations* – This project will introduce guidance on accounting for asset retirement obligations into the PSA Handbook. The project is in early stages with a statement of principles expected before the end of 2014. A partner from our National Office sits on the PSAB task force for this project.
 - *Impairment of Non-Financial Assets* – This project will focus on addressing the impairment of tangible capital assets that provide service benefits. Deferred maintenance issues will also be considered. The project will define impairment, and provide guidance on assessment, recognition, measurement and disclosure of impairment losses. The project is in early stages with a statement of principles expected to be in the development stage at the end of 2014.

Appendix A: Draft auditor's report



June 17, 2014

Independent Auditor's Report

To the Members of Council, Inhabitants and Ratepayers of City of Greater Sudbury

We have audited the accompanying consolidated financial statements of the City of Greater Sudbury, which comprise the consolidated statement of financial position as at December 31, 2013 and the consolidated statements of operations and accumulated surplus, changes in net financial assets and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*PricewaterhouseCoopers LLP
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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the City of Greater Sudbury as at December 31, 2013 and the results of their operations, changes in its net financial assets and its cash flows and for the year then ended in accordance with Canadian public sector accounting standards.

Other matters

The accompanying financial statement schedules as at and for the year ended December 31, 2013 are presented as supplementary information only and are not a required part of the basic consolidated financial statements. The information in these schedules has been subject to audit procedures only to the extent necessary to express an opinion on the consolidated financial statements of the City of Greater Sudbury.

Chartered Professional Accountants, Licensed Public Accountants

Appendix B: Draft management representation letter

[Client Letterhead]

[Date]

PricewaterhouseCoopers LLP
PwC Centre
354 Davis Road, Suite 600
Oakville ON L6J 0C5

Attention: Mr. Michael Hawtin

Dear Sirs:

We are providing this letter in connection with your audit of the consolidated financial statements of the City of Greater Sudbury (the City) as at December 31, 2013 and for the year then ended (the financial statements) for the purpose of expressing an opinion as to whether such financial statements present fairly, in all material respects, the financial position, results of operations and the cash flows in accordance with Canadian public sector accounting standards.

Management's responsibilities

We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated February 8, 2012 and addendums dated March 28, 2013 and October 7, 2013. In particular, we confirm to you that:

- We are responsible for the preparation and fair presentation of the financial statements in accordance with Canadian public sector accounting standards;
- We are responsible for designing, implementing and maintaining an effective system of internal control over financial reporting to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error. In this regard, we are responsible for establishing policies and procedures that ensure financial statements are prepared in accordance with Canadian public sector accounting standards;
- We have provided you with all relevant information and access, as agreed in the terms of the audit engagement; and
- All transactions have been recorded in the accounting records and are reflected in the financial statements.

We confirm the following representations:

Preparation of financial statements

The financial statements include all disclosures necessary for fair presentation in accordance with Canadian public sector accounting standards and disclosures otherwise required to be included therein by the laws and regulations to which we are subject.

We have appropriately reconciled our books and records (e.g. general ledger accounts) underlying the financial statements to their related supporting information (e.g. sub ledger or third party data). All related reconciling items considered to be material were identified and included on the reconciliations and were appropriately adjusted in the financial statements. There were no material unreconciled differences or material general ledger suspense account items that should have been adjusted or reclassified to another account balance. There were no material general ledger suspense account items written off to a balance sheet account, which should have been written off to an operations account and vice versa. All consolidating entries have been properly recorded. All inter-governmental unit accounts

have been eliminated or appropriately measured and considered for disclosure in the financial statements.

Accounting policies

We confirm that we have reviewed our accounting policies and, having regard to the possible alternative policies, our selection and application of accounting policies and estimation techniques used for the preparation and presentation of the financial statements is appropriate in our particular circumstances to present fairly in all material respects its financial position, results of operations, and cash flows in accordance with Canadian public sector accounting standards.

Internal controls over financial reporting

We have designed disclosure controls and procedures to ensure material information relating to the City, including its consolidated subsidiaries, is made known to us by others within those entities.

We have designed internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with Canadian public sector accounting standards.

We have not identified any deficiency in the design or operation of disclosure controls and procedures and internal control over financial reporting identified as part of our assessment as at December 31, 2013.

Disclosure of information

We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements, such as records, documentation and other matters including:
 - Contracts and related data;
 - Information regarding significant transactions and arrangements that are outside of the normal course of business;
 - Minutes of the meetings of Council and related committees. The most recent meetings held were City Council on May 27, 2014 and Audit Committee on May 26, 2014.
- Additional information that you have requested from us for the purpose of the audit; and
- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

Completeness of transactions

All contractual arrangements entered into by us with third parties have been properly reflected in the accounting records and, where material (or potentially material) to the financial statements, have been disclosed to you. We have complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance.

Fraud

We have disclosed to you:

- The results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- All information in relation to fraud or suspected fraud of which we are aware affecting us involving management, employees who have significant roles in internal control or others where the fraud could have a material effect on the financial statements; and
- All information in relation to any allegations of fraud, or suspected fraud, affecting City's financial statements, communicated by employees, former employees or others.

Compliance with laws and regulations

We have disclosed to you all aspects of laws, regulations and contractual agreements that may affect the financial statements, including actual or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

We are not aware of any illegal or possibly illegal acts committed by the City's employees acting on the City's behalf.

Accounting estimates and fair value measurements

Significant assumptions used by us in making accounting estimates, including fair value accounting estimates, are reasonable.

For recorded or disclosed amounts in the financial statements that incorporate fair value measurements, we confirm that:

- The measurement methods are appropriate and consistently applied;
- The significant assumptions used in determining fair value measurements represent our best estimates, are reasonable and have been consistently applied;
- No subsequent event requires adjustment to the accounting estimates and disclosures included in the financial statements; and
- The significant assumptions used in determining fair value measurements are consistent with our planned courses of action. We have no plans or intentions that have not been disclosed to you, which may materially affect the recorded or disclosed fair values of assets or liabilities.

Significant estimates and measurement uncertainties known to management that are required to be disclosed in accordance with CPA Canada Public Sector Accounting Handbook Section PS 2130, Measurement Uncertainty, have been appropriately disclosed.

Related parties

We confirm the completeness of information provided to you regarding the identification of related parties as defined by Canadian Auditing Standard 550, Related Parties. We also confirm the completeness of information provided to you regarding the nature of our relationships with and transactions involving those entities.

The list of related parties summarized in note 1 of the financial statements of the City accurately and completely describes our related parties and the relationships with such parties.

Going concern

We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements (e.g. to dispose of the entity or to cease operations).

Assets and liabilities

We have satisfactory title or control over all assets. All liens or encumbrances on the City's assets and no assets are pledged as collateral.

Receivables recorded in the financial statements represent bona fide claims against debtors for sales or other charges arising on or before the balance sheet date and are not subject to discount except for normal cash discounts. Receivables classified as current do not include any material amounts that are collectible after one year. All receivables have been appropriately reduced to their estimated net realizable value.

We have recorded or disclosed, as appropriate, all liabilities, in accordance with Canadian public sector accounting standards. All liabilities and contingencies, including those associated with guarantees, in accordance with the CPA Canada Public Sector Accounting Handbook Section PS 3300, Contingent Liabilities, have been disclosed to you and are appropriately reflected in the financial statements.

Litigation and claims

All known actual or possible litigation and claims, which existed at the statement of financial position date or exist now, have been disclosed to you and accounted for and disclosed in accordance with Canadian public sector accounting standards, whether or not they have been discussed with legal counsel.

Misstatements detected during the audit

Certain representations in this letter are described as being limited to those matters that are material. Items are also considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.

We confirm that the consolidated financial statements are free of material misstatements, including omissions.

We confirm that we are not aware of any uncorrected misstatements. There is no adjusted misstatement identified during your audit.

Events after consolidated balance sheet date

We have identified all events that occurred between the statement of financial position date and the date of this letter that may require adjustment of, or disclosure in, the financial statements, and have effected such adjustment or disclosure.

Cash and banks

The books and records properly reflect and record all transactions affecting cash funds, bank accounts and bank indebtedness of the City.

All cash balances are under the control of the City, free from assignment or other charges, and unrestricted as to use, except as disclosed to you.

The amount shown for cash on hand or in bank accounts excludes trust or other amounts, which are not the property of the City.

All cash and bank accounts and all other properties and assets of the City of which we are aware are included in the financial statements as at December 31, 2013.

Restricted assets and revenues

All assets and revenues subject to restrictions are disclosed in the financial statements.

All externally restricted inflows have been recognized as revenue in the year in which the resources were used for the purposes specified. All externally restricted inflows received before this criterion has been met have been reported as liabilities until the resources are used for the purposes specified.

Accounts receivable

All amounts receivable by the City were recorded in the books and records.

Amounts receivable amounted to \$41.5 million and are considered to be fully collectible, except to the extent of \$1.5 million, in respect of which, a full allowance has been made in the accounts.

All receivables were free from hypothecation or assignment as security for advances to the City.

Receivables recorded in the financial statements represent bona fide claims against debtors' charges arising on or before the statement of financial position date. Receivables classified as current do not include any material amounts that are collectible after one year. All receivables have been appropriately reduced to their estimated net realizable value.

Financial assets (other than loans and receivables)

All securities which were owned by the City were recorded in the accounts.

All income earned on the financial assets has been recorded in the accounts, and any interest income has been accrued using the effective interest rate method.

We are not aware of any objective evidence of impairment that would result in the recognition of an impairment loss on any financial asset.

You have been informed of the acquisition of or the formation of all government units, business enterprises, partnerships, joint ventures or other participations during the year.

All transactions with governmental units, business enterprises, partnerships or joint ventures have been recorded in the accounts presented to you. All investments in and advances to governmental units, business enterprises, partnerships, joint ventures or other participations are appropriately recorded, and there is no evidence of impairment in value below the resulting balances shown in the financial statements.

There has been no activity in any dormant or inactive government units, business enterprises, partnerships, joint ventures or other participations, except as disclosed to you.

The modified equity method is used to account for the City's investment in the following government business enterprises; Sudbury Airport Community Development Corporation and Greater Sudbury Utilities Inc.

Tangible capital assets

All charges to tangible capital asset accounts represented the actual cost of additions to tangible capital assets.

All contributed tangible capital assets have been recorded at fair value at the date of the contribution.

No significant tangible capital asset additions were charged to repairs and maintenance or other expense accounts.

Book values of tangible capital assets sold, destroyed, abandoned or otherwise disposed of have been eliminated from the accounts.

Tangible capital assets owned by the City are being depreciated on a systematic basis over their estimated useful lives, and the provision for depreciation was calculated on a basis consistent with that of the previous date.

All lease agreements covering assets leased by or from the City have been disclosed to you and classified as leased tangible capital assets or operating leases.

Leased tangible capital assets are being amortized on a systematic basis over the period of expected use.

There have been no events, conditions or changes in circumstances that indicate that a tangible capital asset no longer contributes to the City's ability to provide goods and services, or that the value of future economic benefits associated with the tangible capital asset is less than its net book value. We believe that the carrying amount of the City's long-lived tangible capital assets is fully recoverable in accordance with CPA Canada Public Sector Accounting Handbook PS 3150.

We have reviewed our records and have recorded an appropriate value for all tangible capital assets (TCA) owned by the City. We believe all TCA's to which the future benefit accrues to the City are appropriately accounted for.

Long-term debt

All borrowings and financial obligations of the City of which we are aware are included in the financial statements as at December 31, 2013, as appropriate. We have fully disclosed to you all borrowing arrangements of which we are aware.

Deferred revenue

All material amounts of deferred revenue meet the definition of a liability and were appropriately recorded in the books and records.

Retirement benefits, post-employment benefits, compensated absences and termination benefits

All arrangements to provide retirement benefits, post-employment benefits, compensated absences and termination benefits have been identified to you and have been included in the actuarial valuation as required.

The details of all retirement benefits, post-employment benefits, compensated absences and termination benefits amendments since December 31, 2012, the date of the last actuarial valuation, have been identified to you.

The actuarial valuation dated December 31, 2012 incorporates management's best estimates, detailed as follows:

- a) The actuarial assumptions and methods used to measure liabilities and costs for financial accounting purposes for all post-retirement benefits are appropriate in the circumstances.
- b) The City does not plan to make frequent amendments to the post-retirement benefit plans.

All changes to the plan and the employee group and the fund's performance since the last actuarial valuation have been reviewed and considered in determining the post-retirement expense.

The City's actuaries have been provided with all information required to complete their valuation as at December 31, 2012 and where applicable, their extrapolation to December 31, 2013.

We confirm that the extrapolations are accurate and include the proper reflection of the effects of changes and events occurring subsequent to the most recent valuation that had a material effect on the extrapolation.

The employee future benefit costs, assets and obligations have been determined, accounted for and disclosed in accordance with CPA Canada Public Sector Accounting Handbook PS 3250, Retirement Benefits and CPA Canada Public Sector Accounting Handbook PS 3255, Post-employment Benefits, Compensated Absences and Termination Benefits. In particular:

- a) The significant accounting policies that the City has adopted in applying CPA Canada Public Sector Accounting Handbook Section PS 3250 and CPA Canada Public Sector Accounting Handbook Section PS 3255 are accurately and completely disclosed in the notes to the financial statements.
- b) Each of the best estimate assumptions used reflects management's judgment of the most likely outcomes of future events.
- c) The best estimate assumptions used are, as a whole, internally consistent, and consistent with the asset valuation method adopted.
- d) The discount rate used to determine the accrued benefit obligation was determined by reference to the City's borrowing rate, at the measurement date on high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments; or inherent in the amount at which the accrued benefit obligation could be settled.
- e) The assumptions included in the actuarial valuation are those that management instructed Mercer to use in computing amounts to be used by management in determining Post-employment Benefits, Compensated Absences and Termination Benefits and in making required disclosures in the above-named financial statements, in accordance with CPA Canada Public Sector Accounting Handbook Section PS 3250.
- f) In arriving at these assumptions, management has obtained the advice of a consulting actuary who assisted in reaching best estimates, but has retained the final responsibility for them.
- g) The source data and plan provisions provided to the actuary for preparation of the actuarial valuation are accurate and complete.
- h) The disclosure of the City's share of the risks and benefits under joint defined benefit plans, the total financial status of any joint plans, significant policies and a description of the unique nature and terms of any joint plans are accurate and complete.
- i) All changes to plan provisions or events occurring subsequent to the date of the actuarial valuation and up to the date of this letter have been considered in the determination of benefit costs and obligations and as such have been communicated to you as well as to the actuary.

Statements of operations and net financial assets

All transactions entered into by the City have been recorded in the books and records presented to you.

All amounts have been appropriately classified within the statements of operations and net financial assets.

The accounting principles and policies followed throughout the year were consistent with prior period practices (except as disclosed in the financial statements).

We provided you a complete listing of government transfer agreements as part of our assessment on the impact of adopting CPA Canada Public Sector Accounting Handbook Section PS 3410, Government Transfers.

Government transfers

Transfers without eligibility criteria or stipulations have been recognized as revenue once the transfer has been authorized.

Transfers with eligibility criteria but without stipulations have been recognized as revenue once the transfer has been authorized and all eligibility criteria have been met.

Transfers with or without eligibility criteria but with stipulations have been recognized as revenue in the year the transfer has been authorized and all eligibility criteria have been met, except when, and to the extent that, the transfer gives rise to an obligation that meets the definition of a liability for the recipient government in accordance with CPA Canada Public Sector Accounting Handbook PS 3200, Liabilities.

Environmental matters

There are no liabilities or contingencies arising from environmental matters that have not already been disclosed to the auditor. As part of adopting CPA Canada Public Sector Accounting Handbook Section PS 3260, Liability for Contaminated Sites, effective January 1, 2013, we provided you a listing of all locations which we believe are in the scope of this accounting standard.

Liabilities or contingencies related to environmental matters have been recognized, measured and disclosed, as appropriate, in the financial statements.

We have considered the effect of environmental matters and the carrying value of the relevant assets is recognized, measured and disclosed, as appropriate, in the financial statements.

All material commitments related to environmental matters have been measured and disclosed, as appropriate in the financial statements and, with respect to contaminated sites, have been measured and disclosed in accordance with CPA Canada Public Sector Accounting Handbook Section PS 3260.

Use of a specialist

We assume responsibility for the findings of other specialists in evaluating the employee benefit obligation and landfill closure and post-closure liabilities and have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.

Minutes

All matters requiring disclosure to or approval by City Council has been brought before them at appropriate meetings and are reflected in the minutes.

General

There are no proposals, arrangements or actions completed, in process, or contemplated that would result in the suspension or termination of any material part of the City's operations.

Information relative to any matters handled on behalf of the City by any legal counsel, including all correspondence and other files, has been made available to you.

Segment disclosures

Pursuant to CPA Canada Public Sector Accounting Handbook PS 2700, Segment Disclosures, in identifying segments, management has considered the definition of a segment and other factors, including:

- the objectives of disclosing financial information by segment;
- the expectations of members of the community and their elected or appointed representatives regarding the key activities and accountabilities of the government;
- the qualitative characteristics of financial reporting as set out in CPA Canada Public Sector Accounting Handbook PS 1000, Financial Statement Concepts;
- the homogeneous nature of the activities, service delivery, or recipients of the services;
- whether the activities relate to the achievement of common outcomes or services as reflected in government performance reports and plans;
- whether discrete financial information is reported or available; and
- the nature of the relationship between the government and its organizations (within the reporting entity).

Management has identified following operating segments: General government, Transportation Services, Protection Services, Environmental Services, Health and Social Services, Recreation and cultural services and Planning and development Services.

The financial statements disclose all the relevant factors used to identify the City's reportable segments.

There has been no change in accounting policies related specifically to segment reporting.

Events after the balance sheet date

We have identified all events that occurred between the statement of financial position date and the date of this letter that may require adjustment of, or disclosure in, the financial statements, and have effected such adjustment or disclosure.

Yours truly,

City of Greater Sudbury

DRAFT

Doug Nadorozny, Chief Administration Officer

Lorella Hayes, Chief Financial Officer/ Treasurer

Appendix C: Independence letter



June 3, 2014

Members of the Audit Committee
City of Greater Sudbury
200 Brady Street
Sudbury ON P3A 5P3

Dear Members of the Audit Committee:

We have been engaged to audit the consolidated financial statements of the City of Greater Sudbury (the City) for the year ended December 31, 2013.

Canadian generally accepted auditing standards require that we communicate at least annually with you regarding all relationships between the City, its management and us that may reasonably be thought to bear on our independence.

In determining which relationships to report, these standards require us to consider relevant rules and related interpretations prescribed by the Chartered Professional Accountants of Ontario and applicable legislation covering such matters as:

- a. holding a financial interest, either directly or indirectly, in a client;
- b. serving as an officer or director of a client;
- c. performance of management functions for an assurance client;
- d. personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client or its management;
- e. economic dependence on a client;
- f. long association of senior personnel with a listed entity audit client;
- g. audit committee approval of services to a listed entity audit client; and
- h. provision of services in addition to the audit engagement.

We have prepared the following comments to facilitate our discussion with you regarding independence matters arising since June 6, 2013, the date of our last letter.

We are not aware of any relationships between the City or its management and PricewaterhouseCoopers LLP that may reasonably be thought to bear on our independence that have occurred from June 6, 2013 to June 3, 2014.

We hereby confirm that we are independent with respect to the City within the meaning of the Rules of Professional Conduct of the Chartered Professional Accountants of Ontario as of June 3, 2014.

PricewaterhouseCoopers LLP
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PwC refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



This report is intended solely for the use of the Audit Committee, Council, management and others within the City and should not be used for any other purpose.

We look forward to discussing with you the matters addressed in this letter at our upcoming meeting on June 17, 2014.

Yours very truly,

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Appendix D: Internal control recommendations

Internal Control Recommendations

City of Greater Sudbury

*Year ended
December 31, 2013*





June 3, 2014

Ms. Lorella Hayes
Chief Financial Officer /Treasurer
City of Greater Sudbury
200 Brady Street
Sudbury ON P3A 5P3

Dear Ms. Hayes:

**Management Letter
2013 Audit of the City of Greater Sudbury**

We have substantially completed our audit examination of the consolidated financial statements of the City of Greater Sudbury (the City). Our audit was directed at providing the basis for our opinion on the consolidated financial statements for the year ended December 31, 2013. In prior years, we had noted several areas where we believed that controls and procedures could be improved and accordingly we had provided management with recommendations designed to address those matters. We summarize the remediation status in the appendix attached to this letter.

Our examination was designed in accordance with Canadian generally accepted auditing standards to enable us to express an opinion on the consolidated financial statements as a whole and our work involved evaluating only those systems and internal controls in your organization upon which we intend to rely. The objective of an audit is to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. Therefore, this memorandum does not necessarily include all matters that may be of interest to management, which a more extensive or special internal controls examination might develop. It is not designed to identify and cannot necessarily be expected to uncover fraud, defalcations and other irregularities.

The responsibility for the maintenance of an adequate system of internal control, as well as for the prevention and detection of irregularities rests with management.

This communication is prepared solely for the information of management and is not intended for any other purpose. We accept no responsibility to a third party who uses this communication.

*PricewaterhouseCoopers LLP
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We would like to take this opportunity to thank the management and staff of City of Greater Sudbury for the co-operation that we received during the course of our audit. Please do not hesitate to contact us if there are any matters in this letter that you would like to discuss further.

Yours truly,

PricewaterhouseCoopers LLP

Michael Hawtin
Partner
Audit and Assurance Group

Encl.

Contents

The following tables summarize the status of the 9 Information Technology Internal Control Recommendations (ICR) reported in 2012 with their status based on our observations in 2013. For ICRs which were not remediated in 2013, we have summarized the progress made by management.

ICR remediated

Information Technology Internal Control Recommendations	Status Update
High Risk	
1. User termination	Remediated
2. Access to new users	Remediated
3. Access to production servers	Remediated
4. Local server password setting	Remediated
5. Use of generic super user access	Remediated
6. Change management process	Remediated
Medium Risk	
7. Audit logging at the local server (Operating System) level	Observation related to PeopleSoft Financial system was remediated in 2012. Remediation for PeopleSoft HR system was completed in 2013.
Low Risk	
8. Password configurations within the Database	Remediated

ICR not yet remediated

Low Risk	
9. Formal policies and procedures re: logical security, change management and IT operations processes.	Remediation in progress

Low Risk

Formal policies and procedures re: logical security, change management and IT operations processes

Observation

It was noted during our examination of the City's information technology policies and procedures that logical security policies and incident management policies were drafted; however these policies are not yet finalized and are subject to management review and approval. We also note that there was no change management policy document.

Impact

There is a risk that the policies and procedures in this area cannot be implemented and enforced as they are not approved by the appropriate level of management.

Recommendation

We recommend management approve the policies and procedures for logical security, change management and IT operations processes.

Management's response

The IT division has developed these policies, which are in draft form and currently being reviewed. The City's legal division is reviewing the proposed policies. Once completed, the policies will be submitted to Human Resources, and then the Senior Management Team for review and approval.

Presented To:	Audit Committee
Presented:	Tuesday, Jun 17, 2014
Report Date	Monday, Jun 09, 2014
Type:	Presentations

Request for Decision

2013 Annual Financial Statements

Recommendation

THAT the Consolidated Financial Statements for the City of Greater Sudbury and the City of Greater Sudbury Trust Funds, for the year ended December 31, 2013 as presented be accepted and recommended for Council approval.

Background

Find attached the City of Greater Sudbury Annual Financial Report for the year ended December 31, 2013. The Annual Financial Report includes the Consolidated Financial Statements of the City of Greater Sudbury and the City of Greater Sudbury Trust funds for the year ended December 31, 2013. These financial statements have been audited and the Audit report expresses an unqualified audit opinion.

At a later date, you will receive a comprehensive package that includes the following financial reports for the year ended December 31, 2013:

- Annual Financial Report including the Consolidated Financial Statements of the City of Greater Sudbury
- Consolidated Financial Information Return for the City of Greater Sudbury
- Financial Statements of the City of Greater Sudbury Trust Funds
- Financial Statements of the Sudbury Airport Community Development Corporation
- Consolidated Financial Statements of Greater Sudbury Utilities Inc./Services Publics du Grand Sudbury Inc.
- Financial Statements of Downtown Sudbury
- Financial Statements of the Sudbury and District Health Unit
- Financial Statements of the Greater Sudbury Housing Corporation
- Financial Statements of the City of Greater Sudbury Community Development Corporation

Signed By

Report Prepared By

Christina Dempsey
Co-ordinator of Accounting
Digitally Signed Jun 9, 14

Division Review

Paddy Buchanan
Manager of Accounting
Digitally Signed Jun 9, 14

Recommended by the Department

Lorella Hayes
Chief Financial Officer/City Treasurer
Digitally Signed Jun 10, 14

Recommended by the C.A.O.

Doug Nadorozny
Chief Administrative Officer
Digitally Signed Jun 10, 14

Prepared by the Finance Department
City of Greater Sudbury



2013

City of Greater Sudbury Annual Financial Report

For the year ended December 31, 2013



2013

City of Greater Sudbury Annual Financial Report

For the year ended December 31, 2013

PO Box 5000, STN 'A',
200 Brady Street
Sudbury, ON, P3A 5P3

Dial 3-1-1 or (705) 671-2489
www.greatersudbury.ca



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About Greater Sudbury



The City of Greater Sudbury was formed on January 1, 2001 and represents the amalgamation of the towns and cities which comprised the former Regional Municipality of Sudbury (Sudbury, Capreol, Nickel Centre, Onaping Falls, Rayside-Balfour, Valley East and Walden), as well as several unincorporated townships (Fraleck, Parkin, Aylmer, Mackelcan, Rathbun, Scadding, Dryden, Cleland and Dill).

The City of Greater Sudbury is centrally located in Northeastern Ontario at the convergence of three major highways. It is situated on the Canadian Shield in the Great Lakes Basin and is composed of a rich mix of urban, suburban, rural and wilderness environments. Greater Sudbury is 3,267 square kilometres in area, making it the geographically largest municipality in Ontario and second largest in Canada. Greater Sudbury is considered a city of lakes, containing 330 lakes and the largest lake contained within a city, Lake Wanapitei.

In 2013, Greater Sudbury was home to approximately 161,900 people. It is a multicultural and truly bilingual community. Over 27 per cent of people living in the City reported French as their mother tongue in 2006. Almost 39 per cent of people identify themselves as being bilingual. Italian, Finnish, German, Ukrainian and Polish are the top five non official languages spoken in the City. More than 6 per cent of people living in the City are First Nations.

Greater Sudbury is a world class mining centre. The city's mining companies employ approximately 6,000 people and support a 300-company mining supply and service sector cluster that employs a further 10,000 people. The city is also a regional centre in financial and business services, tourism, health care and research, education and government for Northeastern Ontario - an area that stretches from the Quebec border west to the eastern shore of Lake Superior and north to the James and Hudson's Bay coastlines - a market of 555,000.

Greater Sudbury is a regional hub for many Ontario residents who live in nearby communities. These visitors come to the city to visit with family and friends, for cultural and educational experiences, for health care, for entertainment, for shopping and for conducting business.

Greater Sudbury at a Glance



MUNICIPAL STATISTICS

Population

161,900

Households

74,405

EMPLOYEES

Full time employees

2,019

SERVICE INFORMATION

Building Permit Values

\$287,333,000

Average monthly social assistance case load

3,548

Kilometers of roads

3,617

Annual volume of treated waste water

(megalitres)

32,847

Annual volume of treated drinking water

(megalitres)

20,877

Annual disposal of solid waste (tonnes)

105,509

Annual diversion of solid waste (tonnes)

36,424

Regular service passenger transit trips

4,362,000

TAXABLE ASSESSMENT (\$ millions)

Residential, multi-residential, and
miscellaneous assessment

\$12,009

Commercial assessment

\$1,635

Industrial and large industrial assessment

\$446

BENCHMARK INFORMATION

% of paved lane km where condition
is rated good to very good

51.0%

of conventional transit passenger
trips per person in service area per year

31.6

of waste water main backups per 100 km
of waste water main per year

8.9

% of waste water estimated to have
bypassed treatment

1.4%

of water main breaks per 100 km
of water distribution pipe per year

11.1

% of residential solid waste
diverted for recycling

37.8%

Message from Mayor



Our city made significant progress on a number of fronts in 2013. The massive rebuild of the intersection of Notre Dame Avenue and Lasalle Blvd. has been mostly completed on time and on budget this fall and work has begun on the Biosolids Management Facility, one of the most complicated projects the city has ever undertaken.

These projects, which have been on the drawing board for several years each, would not have been possible without real cross-departmental collaboration.

These projects are high on the list of "significant municipal investments" – but they're far from the only ones the City of Greater Sudbury tackled in 2013.

- Greater Sudbury became one of the first municipalities in Ontario to make our parks and outdoor facilities smoke-free environments to protect users and improve cleanliness.
- Two new fully accessible play structures at Ridgcrest and Robinson playgrounds were added to the city's parks network, thanks to the vision of local playground associations and city councillors. These new play structures allow all children to participate in the fun, regardless of ability.
- After extensive public consultation, the city has completed an Arena Renewal Strategy, and City Council has committed \$2.3 million to the refurbishment of the Chelmsford Community Arena. We have also taken the first steps toward building a new OHL-ready arena and entertainment centre in Greater Sudbury.
- The city formed a Transit Safety Task Force to protect workers and customers on Greater Sudbury Transit and enforce the policy of zero-tolerance for violence in the workplace.

- The Downtown Market successfully began a new chapter at its new home at the historic CP Rail property on Elgin Street and plans for the Elgin Greenway and a Rock of Fame have been advanced – all part of our Council-approved Downtown Master Plan.
- The Official Plan review process continued gathering steam, with Rural Consents, Second Units, Cultural Heritage, Population, Employment and Land Supply Policy papers presented to council. As well, the Transportation Background Study has begun.

As well, last year, two city projects – Greater Sudbury's Brownfield Strategy and Community Improvement Plan, and the Biosolids Management Facility – were recognized nationally for their innovative approach to solving a local problem.

It's no coincidence, Greater Sudbury has a history of pioneering innovations in exploration, productivity, environmental expertise and occupational health and safety.

This concentration of innovation and entrepreneurship, of research and intelligence in Greater Sudbury underpins our reputation as a world-class city that is open for business.

In Greater Sudbury, we have built a city that prides itself on sound financial performance, economic prosperity and outstanding municipal services – all supported by a quality of life that is second to none in Canada.

In the coming year, watch for the City of Greater Sudbury to build on the brilliance and resilience of Greater Sudburians as we market ourselves to the world.

This is an unprecedented time of opportunity for our city and I am proud of the successes we have delivered and the foundations for the future we have laid.

Mayor Marianne Matichuk

Message from Chief Administrative Officer



There was much to be proud of and to celebrate in 2013 for the City of Greater Sudbury. The success over the last year is a direct reflection of our Vision, Mission and Values along with Council's desire to ensure a sustainable future for our community.

The City of Greater Sudbury is led by our Strategic Plan (2012-2014), which guides us towards key priorities surrounding Infrastructure, Growth and Jobs, Image, Tourism and Healthy Community. The strategic plan contributes to greater outcomes for citizens and the community as a whole.

With a population of more than 160,000 citizens, in an area of more than 3,267 square kilometers, providing excellence in service is a priority. The City is committed to managing our resources efficiently while maintaining a high level of service across one of the largest geographic areas of any municipality in Ontario.

In 2013, the City managed an operating budget of \$497 million, which is dedicated to day-to-day operations, including programs and services in more than 30 diverse sectors. Within that amount, the City's also managed a capital budget of \$109 million which is dedicated to expenditures and projects such as road construction, recreation facilities, building upgrades, equipment renewal and replacements. Approximately 24% of the municipal tax levy is spent on Roads. Public Safety, including Police, Fire and Emergency Medical Services accounts for another

31% of the total. Other services such as health and social services, leisure and recreation, growth and development, libraries, transit and garbage and recycling account for the remaining 45%.

Infrastructure projects continued to make headlines in 2013. Construction began on the Biosolids Management Facility, in which the City, and our partner N-Viro, have been recognized by the Canadian Council for Public-Private Partnerships (CCPPP) with the Chuck Wills Award for Innovation & Excellence in Municipal Public-Private Partnerships. The annual CCCPP awards recognize outstanding Canadian public-private partnerships (P3) in the areas of project financing, service delivery, and infrastructure. The Biosolids Management Facility will provide a leading edge sustainable solution to the management and disposal of biosolids while at the same time providing effective use of taxpayer dollars.

In September 2013, our City received national recognition when we welcomed the first new Canadian school of architecture in 40 years when Laurentian Architecture Laurentienne (LAL) opened its doors in the heart of our downtown. The school is expected to support our downtown revitalization plan as well as bring economic and cultural benefits to our community.

While it has been an exciting year, as we continue to achieve goals and build on our Strategic Plan, I believe there is still much more that needs to be done. We are committed to planning for the future to ensure our community continues to be a great place to grow, live, work and play.

Doug Nadorozny
Chief Administrative Officer

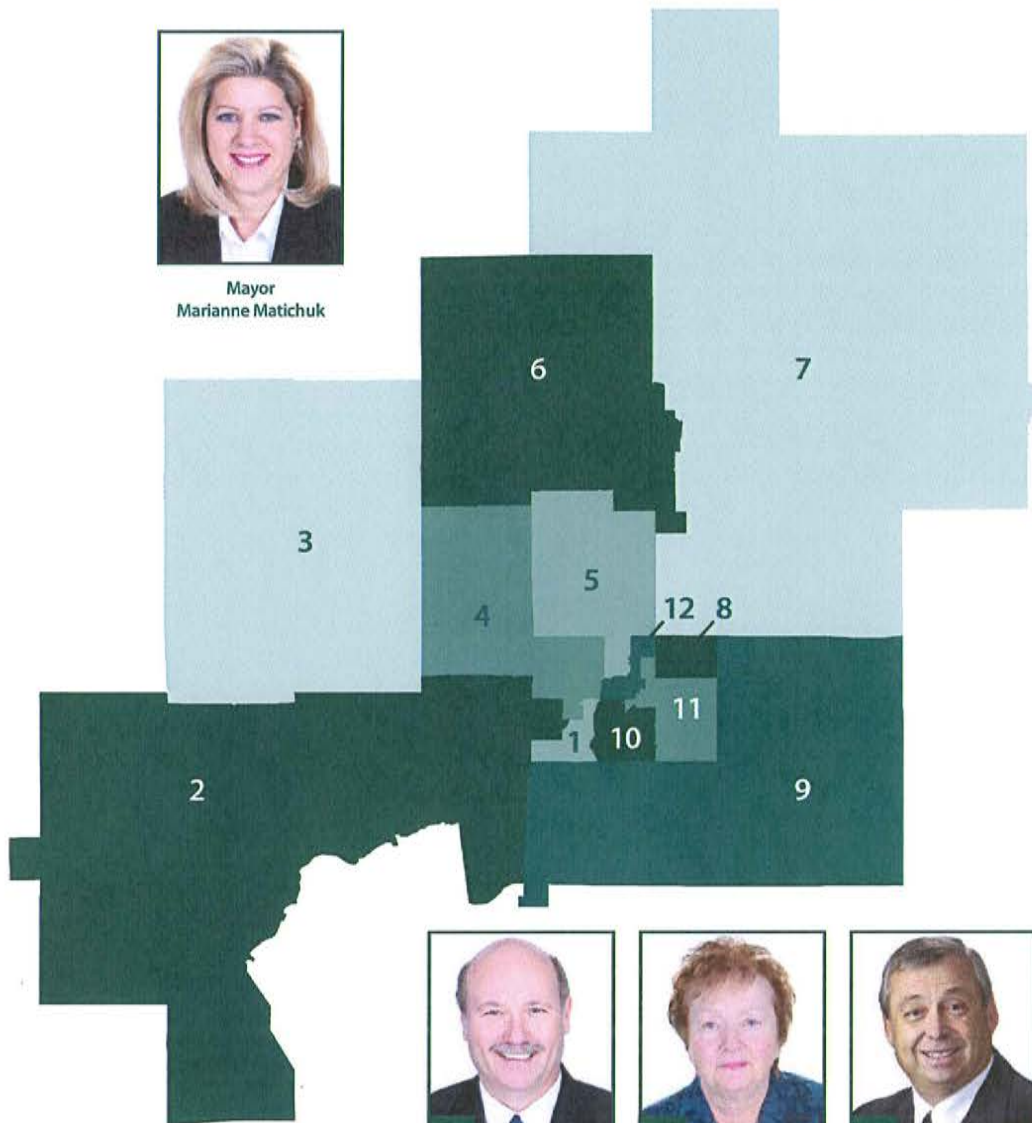
City Council

The Council of the City of Greater Sudbury is composed of a Mayor, who represents the City as a whole and twelve Councillors, each of who represents a specific ward, or geographic area, of the community.

Council is elected for a four year term, with the current term of office being to November 30, 2014. The decisions of Council impact on how municipal services are provided to you our citizens. Council is also the decision making body for the City of Greater Sudbury as an organization.



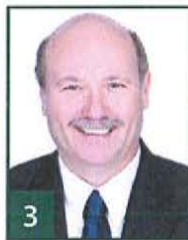
Mayor
Marianne Matichuk



Joe Cimino
Ward 1



Jacques Barbeau
Ward 2



Claude Berthiaume
Ward 3



Evelyn Dutrisac
Ward 4



Ron Dupuis
Ward 5



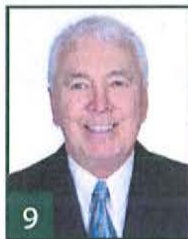
André Rivest
Ward 6



Dave Kilgour
Ward 7



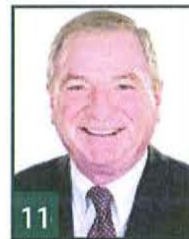
Fabio Belli
Ward 8



Doug Craig
Ward 9



Frances Caldarelli
Ward 10



Terry Kett
Ward 11



Joscelyne
Landry-Altmann
Ward 12

Executive Team

Greater Sudbury's operations are overseen by the Office of the CAO and managed through the following departments: Community Development, Infrastructure Services, Growth and Development, Emergency Services, Human Resources and Organizational Development, Administrative Services

and Financial Services. These departments work together to ensure that citizens needs are met in a professional, timely manner to achieve the goals of Council and provide excellent service and delivery of programs and services to our community.



Chief Administrative Officer
Doug Nadorozny

- Corporate Communications and French Language Services
- Strategic Initiatives



Administrative Services
Executive Director/City Clerk
Caroline Hallsworth

- Court Services (POA)
- Legal Services
- Clerk's Services
- Information Technology
- Corporate Security



Human Resources and Organizational Development
Director
Kevin Fowke

- Organizational Development, Safety and Wellness
- Compensation
- Benefits & Rehabilitation



Financial Services
Chief Financial Officer / Treasurer
Lorella Hayes

- Accounting
- Financial Planning and Budgeting
- Purchasing
- Taxation
- Financial Support
- Payroll



Community Development
General Manager
Catherine Matheson

- Housing Services
- Pioneer Manor
- Citizen Services
- Social Services
- Leisure Services



Growth and Development
Acting General Manager
Paul Baskcomb

- Assets
- Environmental Services
- Economic Development
- Building Services
- Planning Services



Emergency Services
Chief
Tim Beadman

- Emergency Medical Services
- Emergency Management
- Fire Services



Infrastructure Services
General Manager
Tony Cecutti

- Roads, Transportation and Drainage
- Water and Wastewater
- Transit & Fleet
- Engineering & Construction Services



Vision, Mission, Values

Vision

The City of Greater Sudbury is a growing, world-class community bringing talent, technology and a great northern lifestyle together.

Mission

We provide excellent access to quality municipal services and leadership in the social, environmental and economic development of the City of Greater Sudbury.

Values

In fulfilling our roles we commit ourselves to:

- providing high quality service with a citizen focus
- managing the resources in our trust efficiently, responsibly and effectively
- encouraging innovation and accepting risks
- maintaining honest and open communication
- creating a climate of trust and a collegial working environment
- acting today in the interests of tomorrow.



Strategic Goals and Strategies

The strategic plan 2012-2014 reflects the vision, mission and values of the City of Greater Sudbury. Taking advantage of emerging opportunities will ensure great things happen in Greater Sudbury. The focus and intention of Council and the City toward key priorities will contribute to great outcomes for citizens and the community as a whole.

The 2012-2014 Priorities of City of Greater Sudbury Council are:

1. Infrastructure
2. Growth and Jobs
3. Image
4. Tourism
5. Healthy Community

These broad strategic goals help the City of Greater Sudbury in managing an annual operating budget of in excess of \$497 million.

Message from Chief Financial Officer/City Treasurer



It is my pleasure to submit the 2013 Annual Financial Report for the City of Greater Sudbury. In addition to the consolidated financial results for the year ended December 31, 2013, this report highlights the Finance Department's Strategic Plan, key

financial policies, the annual budget process and other information regarding financial performance related to the delivery of the City's programs and services.

Finance Strategic Plan

The Finance Department's Strategic Plan outlines the vision, mission and the following strategic goals:

1. Focus on fiscal sustainability and long term financial planning.
2. Provide support to operating departments and provide timely and accurate financial statements (internal and external) to assist in decision making.
3. Perform the controllership function for the City by providing and enforcing sound financial policies and internal controls.
4. Maximize the capabilities and opportunities provided by the financial information systems.
5. Maintain a positive work environment and strong employee engagement within the Finance Department.

These goals were established in early 2010. The Strategic Plan highlights the significant accomplishments from 2010 to 2012 and the planned actions for 2013 to 2014 to achieve the vision, mission and strategic goals. This document can be found on the City's website and contains examples of the significant accomplishments from 2010 to 2012 and planned actions for 2013 and 2014 (Finance Strategic Plan).

Financial Reporting

ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENT

The City of Greater Sudbury's management is responsible for all information contained in the Annual Report. This report provides the annual consolidated financial results for the City of Greater Sudbury for the year ending December 31, 2013 prepared in accordance with legislation and in accordance with generally accepted accounting principles for public sector entities as defined in the Public Sector Accounting Handbook. The consolidated financial statements enclosed include all boards and entities which are under the control of Council.

Some entities are fully consolidated, which means that the financial statements reflect the assets, liabilities, revenues and expenses of the reporting entity. Government business enterprises are recorded using the modified equity method which means that the entity's accounting principles are not adjusted to conform to those of the City and inter-entity transactions and balances are not eliminated.

Fully consolidated entities include:

- Greater Sudbury Housing Corporation
- Greater Sudbury Police Services Board
- Downtown Sudbury
- Flour Mill Business Improvement Area
- Greater Sudbury Public Library Board.

Government Business Enterprises include:

- Greater Sudbury Airport Community Development Corporation
- Greater Sudbury Utilities Inc.

The budget presented in the 2013 audited financial statements has been restated to conform to the Public Sector Accounting Standards. The standards require that all interfund transfers, capital expenditures, and debt principal repayments be removed and amortization, employee future benefits and landfill closure and post closure costs be included. Note 18 to the financial statements reconciles the 2013 operating and capital budgets, as approved by Council, adding the approved consolidated board budgets, in year budget adjustments in accordance with the Operating Budget Policy and adjusted for the items noted above.

EXTERNAL AUDITORS

The City's external auditors are PricewaterhouseCoopers LLP, Chartered Accountants (PwC). The role of the external auditor is to express an opinion on the annual consolidated financial statements based on their audit. The auditors express their opinion in their Independent Auditor's Report that is attached to the consolidated financial statements. Their opinion confirms that the consolidated financial statements are free from material misstatement. The external auditors are also responsible to advise management and Council of any internal control issues identified during their audit.

For the year ended December 31, 2013, PwC issued an unqualified audit opinion, meaning that in all material respects, the financial position of the City of Greater Sudbury and the results of its operations for the year ended are free from material misstatements.

AUDIT COMMITTEE

The mandate of the Audit Committee is to provide oversight to the Auditor General and to the External Auditors and consists of full Council. The Committee's responsibilities are to review internal and external reports including reviewing the Auditor General's reports, work plans and the approval of the External Auditors Annual Audit Plan, review the annual audited consolidated financial statements and external audit finding reports.



FINANCIAL ACCOUNTABILITY

The City participates in two comprehensive benchmarking initiatives. Both the Municipal Performance Measurement Program (MPMP) and Ontario Municipal CAOs Benchmarking Initiative (OMBI) are based upon well-developed methodologies.

The City of Greater Sudbury focuses its corporate performance measurement efforts on these two programs which are mostly focused on Ontario municipalities. In addition, the City belongs to several industry-specific organizations, which collaboratively compile and analyze benchmarking data to determine where service improvements can be made.

Additional information relating to Performance Measurement can be found on the City's website.

Financial Management

The City of Greater Sudbury maintains appropriate systems of internal controls to ensure effective financial management, reliable and relevant financial information, and that assets are safeguarded. Management systems, policies and by-laws are in place for financial management, accounting, budgeting and other policies as required to ensure that transactions are appropriately authorized and recorded, and the integrity and completeness of financial records are assured. Key policies and by-laws include but are not limited to the City's Delegation By-Law, Purchasing By-Law, Operating Budget Policy, Capital Budget Policy, Purchasing Authority Policy, Reserve and Reserve Fund By-Law, and Investment Policy.

LONG TERM FINANCIAL PLAN

In 2002, Council adopted the Long Term Financial Plan (LTFP) and related policies and principles. These policies and principles are used in managing the financial affairs of the City. The nine principles are:

1. Ensure long term financial sustainability
2. Deliver services in a cost-effective and efficient manner
3. Ensure operating revenues are sustainable and consider community-wide and Individual benefits (Taxes versus user fees)
4. Meet social equity objectives through specific programs
5. Manage the City's capital assets to maximize long term community benefit
6. Recognize that funding from senior levels of government is a crucial element of fiscal sustainability
7. Use debt financing where appropriate
8. Maintain Reserve and Reserve Funds at appropriate levels
9. Identify and quantify long term liabilities.

The LTFP principles are designed to be flexible and adaptable. This key planning document guides the strategic thinking of the City and promotes a healthy and sustainable service delivery model for our community.

With the LTFP, the City recognized the need to adopt a new budgeting process with a new approach to



financial management, one that shifts the emphasis from bottom line financial concerns to service delivery within a longer term financial planning horizon.

The City of Greater Sudbury, like other municipalities, must continually realign budgets, refocus activities, and streamline operational priorities and procedures, to ensure value for property taxes are maximized.

The LTFP principles formed the foundation for the 'Toward Fiscal Sustainability Plan' which was developed in 2010.

TOWARD FISCAL SUSTAINABILITY PLAN

The Toward Fiscal Sustainability Plan was designed to ensure that the City is fiscally sustainable and has sufficient resources to provide the services that the community expects over the long term. The Plan laid out priorities and action items to manage fiscal challenges and opportunities facing our City. The goal is to build a self sustaining community, with sound infrastructure, and an excellent quality of life.

The LTFP financial principles and policies and the Toward Fiscal Sustainability Plan have been designed to ensure the City attains financial sustainability and has sufficient resources to provide the services that the community expects.

LONG TERM DEBT

One of the principles in the Long term financial plan, states that debt financing should be used, where appropriate. More specifically, debt financing should only be considered for new, non-recurring infrastructure requirements, programs and facilities which are self-supporting and projects where the cost of deferring expenses exceeds debt servicing costs.

DEBT MANAGEMENT POLICY

In August 2013, City Council approved a Debt Management policy demonstrating its commitment to long-term capital and financial planning. This policy allow the City to debt finance major projects previously approved by Council. As, well it provides Council the ability to undertake additional capital projects through debt financing in an effort to close the City's current infrastructure gap. Council set a limit for annual debt repayment at 5 percent of the City's own source revenue (as defined by the Province), which is considerably lower than the 25% maximum allowed by the Province. In 2013, City's debt repayment is \$6.2 million or approximately 1 percent of the City's own source revenues.

RESERVE AND RESERVE FUNDS

The City maintains reserve and reserve funds in accordance with the Reserve and Reserve Fund By-law. They are a critical component of a municipality's long-term financing plan. The purpose of maintaining reserves is to:

- Provide stability of tax rates in the face of variable and uncontrollable factors (consumption, interest rates, unemployment rates, changes in subsidies)
- Provide financing for one-time or short term requirements without permanently impacting tax and utility rates
- Make provisions for replacements/acquisitions of assets/infrastructure that are currently being consumed and depreciated
- Avoid spikes in funding requirements of the capital budget by reducing their reliance on long-term debt borrowings
- Provide a source of internal financing
- Ensure adequate cash flows
- Provide flexibility to manage debt levels and protect the municipality's financial position
- Provide for future liabilities incurred in the current year but paid for in the future.

Reserves offer liquidity which enhances the municipality's flexibility, both in addressing unplanned operating requirements and in permitting the municipality to temporarily fund capital projects internally. The level of reserves and reserve funds is a key measure of the financial health of a municipality.



DEVELOPMENT CHARGES

Development charges are collected by municipalities to recover a portion of the growth-related costs associated with the capital infrastructure needed to service new development. Each year, Finance, in consultation with Project Managers review the Capital Budget to determine if there are any growth related projects that are eligible for recovery from development charges. Generally, the City finances the growth related portion of capital projects. At the end of each year, the capital projects are reviewed, and the growth related portion of the capital costs are identified. The actual development charges revenues collected during the year are then applied to fund any growth related portion of the project as identified in the current Development Charges Background Study. During 2014, the City will be updating the Development Charges background study and By-law.

2013 Budget

The annual budget process is guided by City Council, through the Finance and Administration Committee. Seven departments are responsible for overseeing numerous programs and services that keep the City running every day, and provide a great northern lifestyle to residents.

The City of Greater Sudbury's municipal budget rests on building blocks for fiscal sustainability: revenues to match expenses, capital renewal, preservation of municipal services, and moderate levels of property taxation.

BUDGET PROCESS

Council annually approves two budgets: an operating budget and a capital budget. The operating budget is prepared using the modified cash basis and provides for operational expenses such as salaries and benefits, materials, grants etc. The capital budget is a five year plan for the acquisition and rehabilitation of tangible capital assets.

The first stage of the budget process commences in May of each year, and includes the preparation of a Three Year Budget Forecast. This forecast is presented to Council for review and acceptance.

The second stage of the budget process is prepared in accordance with the Base Budget Preparation Policy. An analysis is prepared of inflationary pressures such as wage adjustments in accordance with collective bargaining agreements, contract and material price increases.

Operating departments and Finance staff review projected year end actuals against budgets to identify variances such as overruns, areas that need more resources to maintain service levels or items that can be cut or reduced while still maintaining service levels. Also, a review of historical trend analysis is performed to verify the accuracy of the budget. Any adjustments are in accordance with the Base Budget Preparation Policy. The budget also reflects any known funding approvals from senior levels of government or partnerships. Any requests for additional permanent staff must be approved by Council. The program support allocations and internal recoveries are in accordance with OMBI methodology.

A review is also conducted of mandatory pressures, such as, provincially mandated programs and service contracts, costs to service growth, as well as annualization pressures of prior year Council decisions and commitments.



Assessment growth is applied to total pressures to reduce the impact on tax levy requirements. The 2013 base budget increase maintained existing service levels and standards, with an inflation based increase.

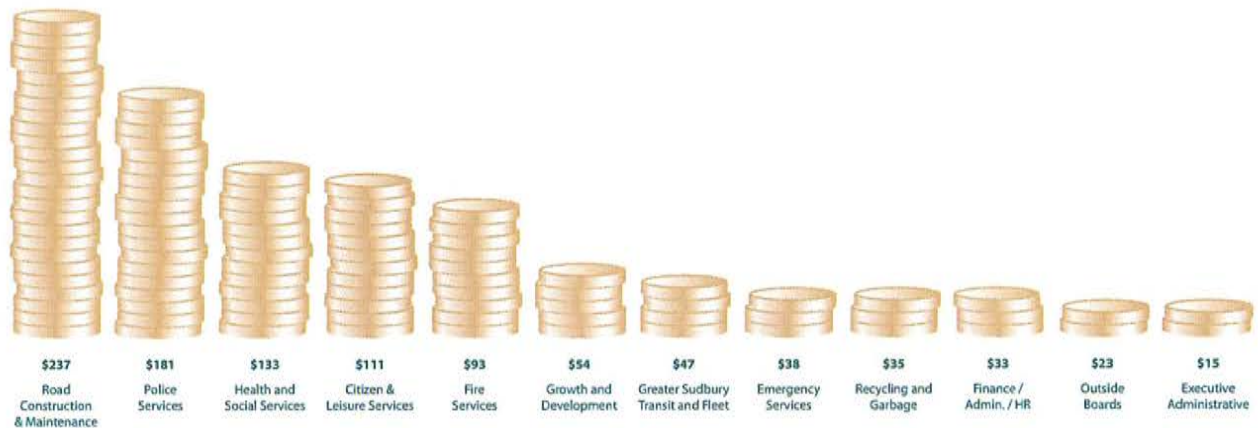
The final stage of budget review addressed enhancement requests. All enhancement requests, if approved by the CAO, are presented to a Standing Committee for review and referred to the Finance and Administration Committee for approval. Council provides the final approval of the operating and capital budgets. Monitoring and or amendments to the Council Approved Budgets are only made in accordance with Operating Budget Policy and the Capital Budget Policy.

The Council approved budgets are monitored on a daily and monthly basis by departments in accordance with the Operating Budget Policy and the Capital Budget Policy. These policies provide fiscal control and accountability related to the approved budgets and provides for monitoring of the budgets. On a quarterly basis the Finance and Administration Committee review variance reports; this includes a year-end projection of revenues and expenditures. The variance report provides Council with an overview of potential year-end variances by division or section. Also on a quarterly basis, the Finance and Administration Committee review a Capital Variance Report for completed projects.

The City of Greater Sudbury is constantly looking at ways to improve its financial sustainability through a balanced approach to financial management in order to create a sustainable financial position today, and for the future.

Municipal Services received for \$1,000 in 2013

The following chart illustrates the distribution of the municipal property tax revenues across service areas. Municipal Services per \$1000 in property taxes:



Roads Construction and maintenance: end-to-end, the 3,560 lane kilometres which make up the City of Greater Sudbury's road network. (\$237)

Police Services: providing quality service and policing in partnership with the community. (\$181)

Health and Social Services: includes support for Pioneer Manor, affordable housing services, social assistance, licensed child care spaces, employment support services, shelters and homelessness initiatives. (\$133)

Citizen and Leisure Services: Citizen Services include responsibility for public libraries, Citizen Service Centres, 3-1-1 service, museums and cemeteries. Leisure services include community arenas, indoor pools, supervised beaches, ski hills, outdoor rinks, fitness centres, playgrounds/tot lots, baseball fields, soccer fields, tennis courts, basketball courts, passive/linear parks and trails. (\$111)

Fire Services: approximately 108 career firefighters and 335 volunteer firefighters (\$93)

Growth and Development: includes tourism, physician recruitment, arts and culture, business development, youth strategy, by-law and compliance, real estate matters and community/strategic/environmental planning services and initiatives. (\$54)

Greater Sudbury Transit and Fleet: provides transportation to approximately 5 million passengers, covering a total distance of more than 3.4 million kilometers, each year. (\$47)

Emergency Services: includes paramedics, career and volunteer firefighters and dedicated staff for Emergency Preparedness. (\$38)

Recycling and Garbage: includes responsibility for transfer/landfill sites, weekly garbage, recycling, organics, leaf/yard waste collection, household hazardous waste disposal and litter abatement initiatives. (\$35)

Finance, Administration, Human Resources: includes support for finance, budgets, purchasing, Clerks, Provincial Offenses Office, compensation, labour relations, training and safety and wellness (\$33)

Outside boards: includes Nickel District Conservation Authority and Sudbury and District Health Unit. (\$23)

Executive and Administrative Services: oversees and manages a variety of administrative and legislative functions, provides support to Council and includes the Auditor General's Office. (\$15)

Source: 2013 Budget at a Glance

2013 Financial Results

Consolidated Statement of Financial Position

Financial assets summary

The City's financial assets are mostly comprised of cash and investments, investments in Government Business Enterprises (GBE) and accounts receivable. Financial assets have increased by 2% from \$407 million to \$418 million.

The City's short and long term investments are consistent with the previous year at \$267 million in 2013.

Investments in GBEs are the City's investments in the Sudbury Airport Community Development Corporation and Greater Sudbury Utilities Inc. The investment is comprised of notes receivable and the accumulated surplus of the two corporations.

Financial liabilities summary

The City's financial liabilities are mostly comprised of accounts payable, employee benefit obligations and long term liabilities. Financial liabilities have increased by 6% from \$218 million to \$232 million.

Accounts payable and accrued liabilities increased by 14% or \$11 million and are amounts owing to suppliers, employees and other vendors.

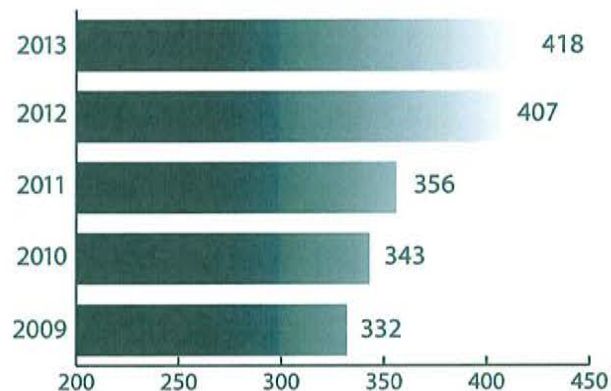
Employee benefit obligations have increased by 4% from 2012. These obligations are for post-employment benefits, vacation pay accrued, sick leave and WSIB.

Long term liabilities for 2013 are \$37 million, a decrease of 14% from 2012 and are comprised of long term debt to acquire tangible capital assets and accrued obligations for Health Sciences North and Northern Ontario School of Architecture among others.

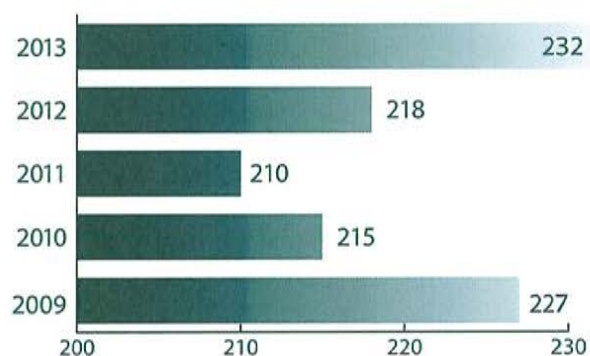
Accumulated surplus breakdown

Accumulated Surplus is comprised of the City's investments in Tangible Capital Assets (TCA), Government Business Enterprises (GBE), committed capital projects, unfunded liabilities and reserves and reserve funds.

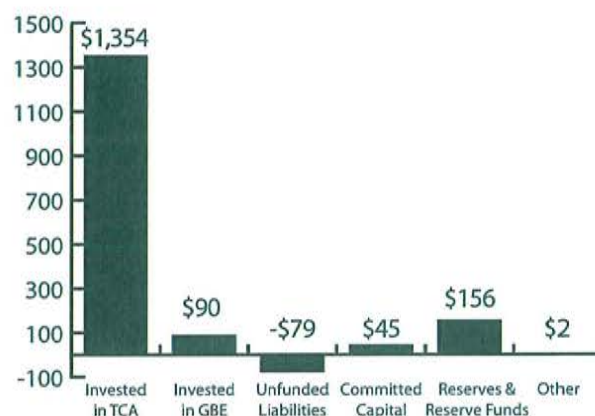
2013 Financial assets (in millions \$)



2013 Financial Liabilities (in millions \$)



2013 Accumulated surplus breakdown (in millions \$)



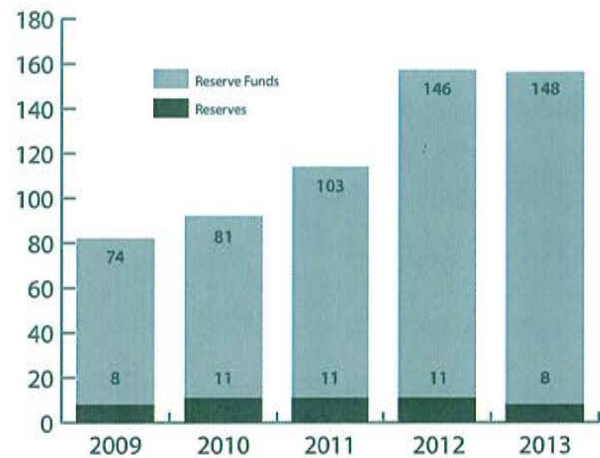
Reserves and Reserve Funds

The City maintains reserve and reserve funds in accordance with the Reserve and Reserve Fund Bylaw. The purpose of the reserve and reserve funds is to provide stability of tax rates, financing of one time requirements, capital replacement and acquisition, internal financing and provide for future liabilities.

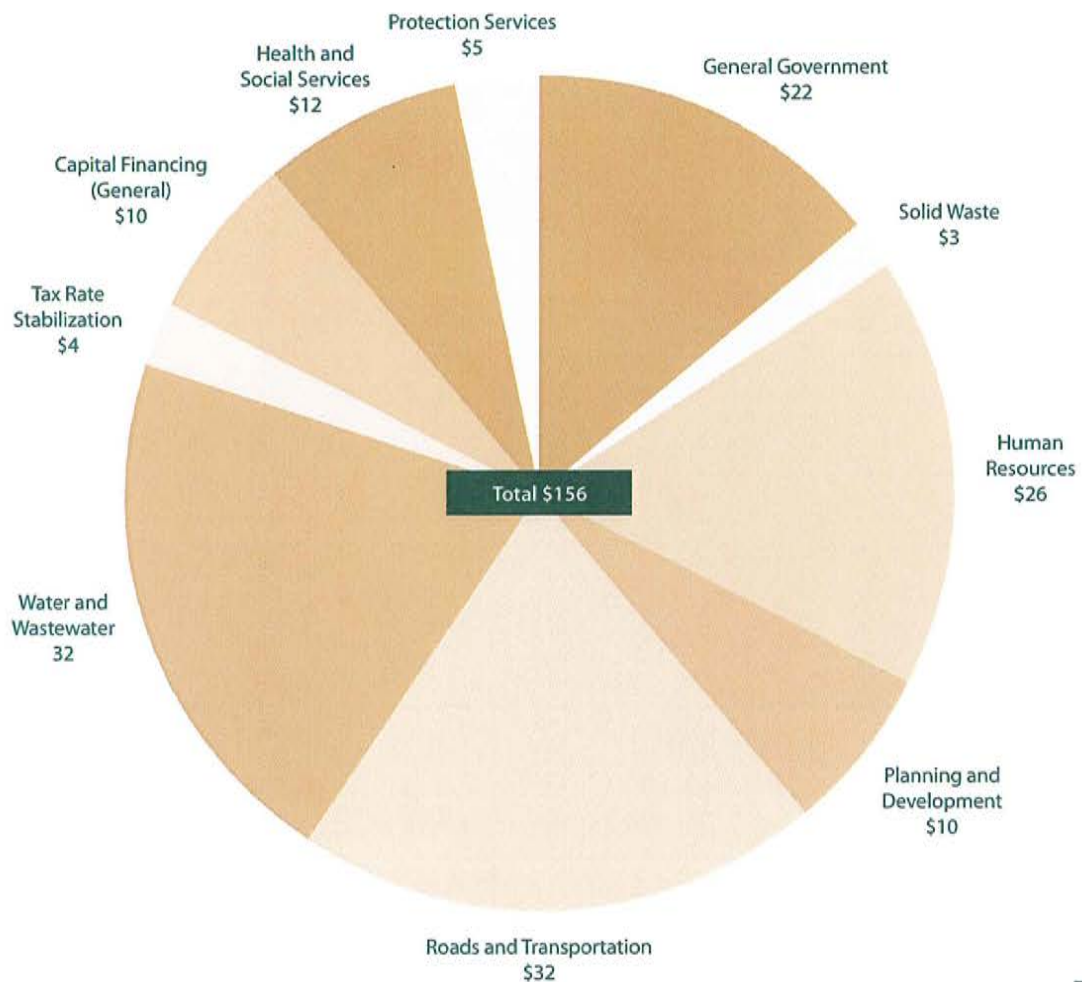
Reserves offer liquidity which enhances the municipality's flexibility, both in addressing unplanned operating requirements and in permitting the municipality to temporarily fund capital projects internally. The level of reserves and reserve funds is a key measure of the financial health of a municipality.

Reserves and Reserve funds total \$156 million and this is comparable to 2012. Of the total balance of \$156 million, approximately \$95M of the total relates to reserve funds set aside for capital purchases either previously committed by City Council or available for future capital projects.

2013 Reserves and reserve funds (in millions \$)



2013 Reserves and Reserve Funds
(in millions \$)



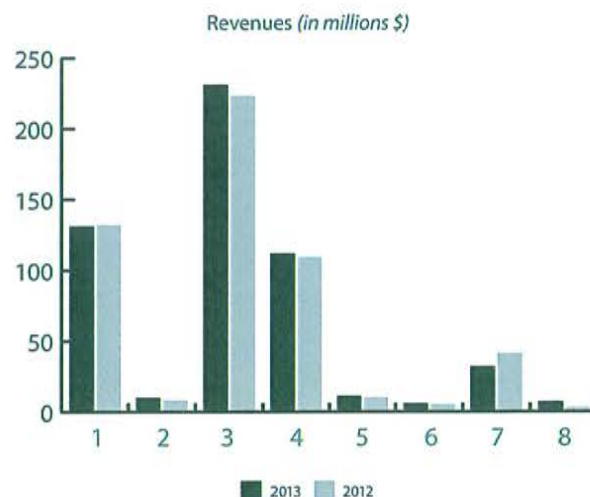
Consolidated Statement of Operations

Revenues increased in 2013 by 1.3% from \$532 in 2012 to \$539 million. Revenues were utilized to finance operations and the acquisition of tangible capital assets. Revenues are comprised of government transfers, taxation, user charges, donated tangible capital assets and miscellaneous recoveries.

The main reasons for the increase in revenues can be attributed to the tax increase of 2.9%, assessment growth of 1% and the increase in the user fees by an average of 3%.

- | | |
|-------------------------------------|------------------------|
| 1. Government Transfers, Provincial | 5. Investment Income |
| 2. Government Transfers, Federal | 6. Fines and Penalties |
| 3. Taxation | 7. Other |
| 4. User Charges | 8. GBE Net Earnings |

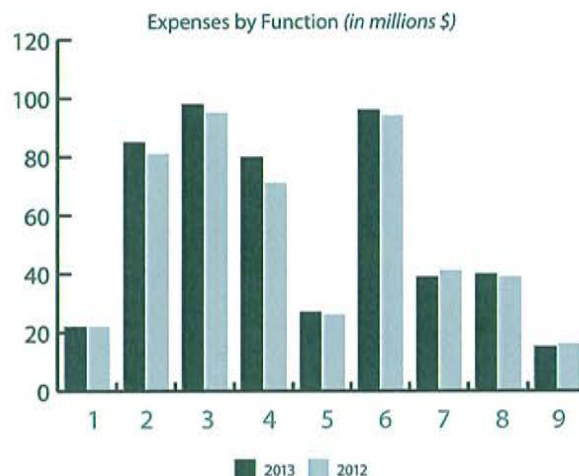
Revenues



Expenses

Expenses increased in 2013 by 3.5% from \$485 in 2012 to \$502 million. Social services, roads, water/wastewater and policing form the largest portion of the expenses.

- | | |
|---------------------------------------|-------------------------------------|
| 1. General Government | 6. Social and Family Services |
| 2. Protection to Persons and Property | 7. Social Housing |
| 3. Transportation Services | 8. Recreation and Cultural Services |
| 4. Environmental Services | 9. Planning and Development |
| 5. Health Services | |

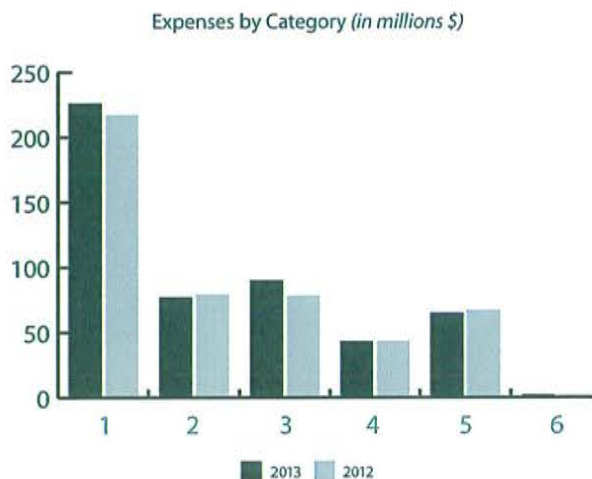


Expenses by Category

Expenses can also be broken down by major expense categories: salaries, wages and benefits, materials, contract services, grants and transfer payments, amortization and other.

Salaries, wages and benefits have increased \$9 million due to employee benefit obligation adjustments, labour pay adjustments and increased benefit costs.

- | | |
|---------------------------------------|---------------------------------|
| 1. Salaries wages & employee benefits | 4. Grants and Transfer Payments |
| 2. Materials | 5. Amortization |
| 3. Contract Services | 6. Other |



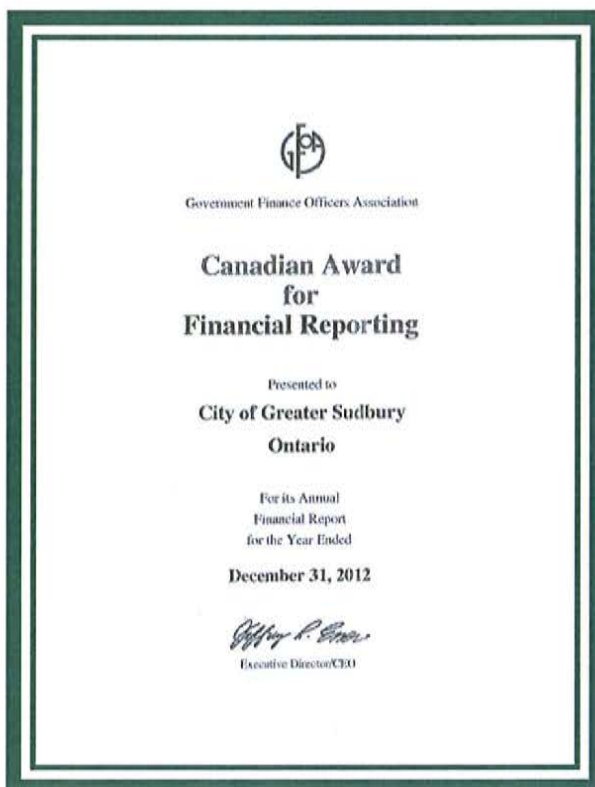
Awards

Government Finance Officers Association Award for Financial Reporting

The City of Greater Sudbury's Annual Financial Report 2012 has won the Government Finance Officers Association Award for Financial Reporting. This award program encourages innovative financial reporting and maintains a high quality standard that is recognized amongst peers.

Chuck Willis Award from the Canadian Council for Public-Private Partnerships

The City was acknowledged with the Chuck Willis Award from the Canadian Council for Public-Private Partnerships for the Sudbury Biosolids Management Facility. The Chuck Willis Award is presented to outstanding municipal public-private partnership projects in the areas of project financing, service delivery, and infrastructure.



Lorella Hayes
Lorella Hayes
Chief Financial Officer / Treasurer

Consolidated Financial Statements of

CITY OF GREATER SUDBURY

Year ended December 31, 2013

Management's Responsibility for the Consolidated Financial Statements

The accompanying consolidated financial statements of the City of Greater Sudbury (the "City") are the responsibility of the City's management and have been prepared in compliance with legislation, and in accordance with generally accepted accounting principles for local governments established by the Public Sector Accounting Board of The Canadian Institute of Chartered Accountants. A summary of the significant accounting policies is described in Note 1 to the consolidated financial statements. The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods.

The City's management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded in compliance with legislative and regulatory requirements, and reliable financial information is available on a timely basis for preparation of the consolidated financial statements. These systems are monitored and evaluated by Management.

Council meets with Management and the external auditors to review the consolidated financial statements and discuss any significant financial reporting or internal control matters prior to their approval of the consolidated financial statements.

The consolidated financial statements have been audited by PricewaterhouseCoopers LLP, independent external auditors appointed by the City. The accompanying Auditor's Report outlines their responsibilities, the scope of their examination and their opinion on the City's consolidated financial statements.



Doug Nadorozny
Chief Administrative Officer



Lorella Hayes
Chief Financial Officer and Treasurer



June 17, 2014

Independent Auditor's Report

**To the Members of Council, Inhabitants and Ratepayers of
City of Greater Sudbury**

We have audited the accompanying consolidated financial statements of the City of Greater Sudbury, which comprise the consolidated statement of financial position as at December 31, 2013 and the consolidated statements of operations and accumulated surplus, changes in net financial assets and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers LLP
PwC Centre, 354 Davis Road, Suite 600, Oakville, Ontario, Canada L6J 0C5
T: +1 905 815 6300, F: +1 905 815 6499, www.pwc.com/ca

PwC refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the City of Greater Sudbury as at December 31, 2013 and the results of their operations, changes in its net financial assets and its cash flows and for the year then ended in accordance with Canadian public sector accounting standards.

Other matters

The accompanying financial statement schedules as at and for the year ended December 31, 2013 are presented as supplementary information only and are not a required part of the basic consolidated financial statements. The information in these schedules has been subject to audit procedures only to the extent necessary to express an opinion on the consolidated financial statements of the City of Greater Sudbury.

Chartered Professional Accountants, Licensed Public Accountants

CITY OF GREATER SUDBURY

Consolidated Statement of Financial Position
(in thousands of dollars)
December 31, 2013, with comparative figures for 2012

	2013	2012
Financial assets		
Cash	\$ 10,797	\$ 10,104
Taxes receivable (note 4)	7,939	7,334
Accounts receivable (note 5)	39,961	38,072
Inventory held for resale	1,616	1,435
Investment in Government Business Enterprises (note 6 (a))	89,755	82,702
Investments (note 7)	267,842	267,017
	417,910	406,664
Financial liabilities		
Accounts payable and accrued liabilities	88,783	78,074
Employee benefit obligations (note 11)	52,639	50,354
Deferred revenue - obligatory reserve funds (note 9)	38,796	29,538
Deferred revenue - other (note 10)	2,896	5,461
Solid waste management facility liability (note 12)	11,359	11,375
Long-term liabilities (note 13)	37,345	43,542
	231,818	218,344
Net financial assets	\$ 186,092	\$ 188,320
Non-financial assets		
Tangible capital assets (note 15)	1,375,254	1,336,882
Inventory of supplies	2,316	2,640
Prepaid expenses	4,756	3,642
	1,382,326	1,343,164
Contractual obligations and commitments (note 16)		
Accumulated Surplus (note 17)	\$ 1,568,418	\$ 1,531,484

The accompanying notes are an integral part of these consolidated financial statements.

CITY OF GREATER SUDBURY

Consolidated Statement of Operations and Accumulated Surplus

(in thousands of dollars)

December 31, 2013, with comparative figures for 2012

	2013 Budget (note 18)	2013 Actual	2012 Actual
Revenues			
Government transfers - Provincial	\$ 133,436	\$ 130,617	\$ 132,334
- Federal	11,168	9,750	8,329
Taxation (note 19)	230,877	231,004	222,639
User charges	111,932	112,073	108,934
Investment income	10,948	10,567	10,381
Fines and penalties	5,619	6,226	5,190
Other revenues (note 20)	30,640	31,631	41,260
Government Business Enterprises net earnings (note 6 (c))	860	7,053	2,737
	535,480	538,921	531,804
Expenses			
General government	23,045	22,052	22,023
Protection to persons and property	83,875	85,142	81,273
Transportation services	97,727	98,467	94,621
Environmental services	81,480	79,814	70,798
Health services	26,497	27,113	25,992
Social and family services	100,330	95,877	93,839
Social housing	36,949	38,680	41,340
Recreation and cultural services	39,539	40,226	39,490
Planning and development	14,734	14,616	15,957
	504,176	501,987	485,333
Annual Surplus	31,304	36,934	46,471
Accumulated surplus, beginning of the year	1,531,484	1,531,484	1,485,013
Accumulated surplus, end of the year	\$ 1,562,788	\$ 1,568,418	\$ 1,531,484

The accompanying notes are an integral part of these consolidated financial statements.

CITY OF GREATER SUDBURY

Consolidated Statement of Change in Net Financial Assets
(in thousands of dollars)

December 31, 2013, with comparative figures for 2012

	2013 Budget (note 18)	2013 Actual	2012 Actual
Annual Surplus	\$ 31,304	36,934	\$ 46,471
Acquisition of tangible capital assets	(111,218)	(106,649)	(74,247)
Amortization of tangible capital assets	67,611	65,178	66,707
Loss (gain) on sale of tangible capital assets		3,000	(98)
Proceeds on sale of tangible capital assets		99	3,541
	(12,303)	(1,438)	42,374
Acquisition of inventory of supplies	-	324	(145)
Prepaid expenses	-	(1,114)	(43)
Change in net financial assets	\$ (12,303)	\$ (2,228)	\$ 42,186
Net financial assets, beginning of the year	188,320	188,320	146,134
Net financial assets, end of the year	\$ 176,017	\$ 186,092	\$ 188,320

The accompanying notes are an integral part of these consolidated financial statements.

CITY OF GREATER SUDBURY

Consolidated Statement of Cash Flows

(in thousands of dollars)

December 31, 2013, with comparative figures for 2012

	2013	2012
Cash flows from operating activities		
Annual Surplus	\$ 36,934	\$ 46,471
Items not involving cash:		
Amortization of tangible capital assets	65,178	66,707
Loss (gain) on sale of tangible capital assets	3,000	(98)
Developer contributions of tangible capital assets	(7,993)	(9,744)
Change in employee benefit obligations	2,285	2,646
Change in solid waste management facility liability	(16)	222
Equity income in Government Business Enterprises	(7,053)	(2,737)
Change in non-cash working capital:		
Increase in inventory held for resale	(181)	(182)
Increase in deferred revenue obligatory reserve funds	9,258	2,432
Decrease in deferred revenue other	(2,565)	(1,507)
Increase in accounts and taxes receivable	(2,494)	(2,898)
Decrease (Increase) in inventory of supplies	324	(145)
Increase in prepaid expenses	(1,114)	(43)
Increase in accounts payable and accrued liabilities	10,709	7,228
	106,272	108,352
Cash flows from financing activities		
Debt principal repayments	(5,945)	(2,368)
Financial obligations	(90)	(30)
Capital lease obligations	(162)	(153)
	(6,197)	(2,551)
Cash flow from capital activities		
Proceeds on sale of tangible capital assets	99	3,541
Cash used to acquire tangible capital assets	(98,656)	(64,503)
	(98,557)	(60,962)
Cash flows from investing activities		
Purchase of investments	(825)	(43,435)
Net increase in cash	693	1,404
Cash, beginning of the year	10,104	8,700
Cash, end of the year	\$ 10,797	\$ 10,104
Supplementary Information		
Interest received	\$ 5,260	\$ 5,010
Interest paid	\$ 1,220	\$ 1,306

The accompanying notes are an integral part of these consolidated financial statements.

CITY OF GREATER SUDBURY

Notes to Consolidated Financial Statements
(in thousands of dollars)
Year ended December 31, 2013

The City of Greater Sudbury is a municipality in the Province of Ontario, Canada. It conducts its operations guided by the provisions of provincial statutes including the Municipal Act 2001, Provincial Offences Act and other related legislation.

1. Significant accounting policies

The consolidated financial statements of the City of Greater Sudbury (the "City") are prepared by management in accordance with Canadian generally accepted accounting principles established by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants. The accrual basis of accounting records revenue as it is earned and measurable. Expenses are recognized as they are incurred and measurable based upon receipt of goods or services and/or the legal obligation to pay.

(a) Reporting entity

(i) Consolidated Entities

These consolidated financial statements reflect the assets, liabilities, revenues and expenses of the reporting entity. The reporting entity is comprised of all organizations, committees and local boards accountable for the administration of their financial affairs and resources to the City and which are owned or controlled by the City. These boards, organizations and entities include:

Greater Sudbury Housing Corporation
Greater Sudbury Police Services Board
Downtown Sudbury
Flour Mill Business Improvement Area
Greater Sudbury Public Library Board

All interdepartmental and inter-organizational assets and liabilities and revenue and expenses have been eliminated.

(ii) Related Entities

These consolidated financial statements do not reflect the assets, liabilities, sources of financing, expenses and the activities of the following boards, organizations and entities which are not under the control of Council:

Nickel District Conservation Authority
Sudbury & District Health Unit
City of Greater Sudbury Community Development Corporation

CITY OF GREATER SUDBURY

Notes to Consolidated Financial Statements
(in thousands of dollars)
Year ended December 31, 2013

1. Significant accounting policies (continued)

(a) Reporting entity (continued)

(ii) Related Entities (continued)

The following contributions were made by the City to these entities

	2013	2012
Nickel District Conservation Authority	\$ 618	\$ 601
Sudbury & District Health Unit	5,578	5,596
City of Greater Sudbury Community Development Corporation	1,437	1,419
	<u>\$ 7,633</u>	<u>\$ 7,616</u>

(iii) Investment in Government Business Enterprises

Government Business Enterprises comprised of the Greater Sudbury Utilities Inc./Services Publics du Grand Sudbury Inc. (GSU), and the Sudbury Airport Community Development Corporation (SACDC), are accounted for by the modified equity method.

Under the modified equity method, the business enterprise's accounting principles are not adjusted to conform with those of the City and inter-organization transactions and balances are not eliminated.

(iv) Accounting for School Board Transactions

The taxation, other revenues, expenses, assets and liabilities of Le Conseil Scolaire de District Catholique du Nouvel-Ontario, Sudbury Catholic District School Board, Rainbow District School Board and Conseil Scolaire Du District Du Grand Nord De L'Ontario are not reflected in these consolidated financial statements.

(b) Revenue recognition

Government Transfers

Government transfers are transfers from senior levels of government that are not the result of an exchange transaction and are not expected to be repaid in the future. Government transfers without eligibility criteria or stipulations are recognized as revenue when the transfer is authorized. A transfer with eligibility criteria is recognized as revenue when the transfer is authorized and all eligibility criteria have been met. A transfer with or without eligibility criteria but with stipulations is recognized as revenue in the period the transfer is authorized and all eligibility criteria have been met, except where and to the extent that the transfer gives rise to an obligation that meets the definition of a liability for the City.

CITY OF GREATER SUDBURY

Notes to Consolidated Financial Statements
(in thousands of dollars)
Year ended December 31, 2013

1. Significant accounting policies (continued)

(b) Revenue recognition (continued)

Taxation and related revenues

Annually, the City bills and collects property tax revenues for municipal purposes as well as provincial education taxes on behalf of the Province of Ontario (the "Province") for education purposes. The authority to levy and collect property taxes is established under the Municipal Act, 2001, the Assessment Act, the Education Act, and other legislation.

The amount of the total annual municipal property tax levy is determined each year through Council's approval of the annual operating budget. Municipal tax rates are set annually by Council for each class or type of property, in accordance with legislation and Council approved policies, in order to raise the revenues required to meet operating budget requirements. Education tax rates are established by the Province each year in order to fund the cost of education on a Province wide basis.

Property assessments, on which property taxes are based, are established by the Municipal Property Assessment Corporation (MPAC), a not-for-profit corporation funded by all of Ontario's Municipalities. The current value assessment (CVA) of a property represents an estimated market value of a property as of a fixed date. Assessed values for all properties within the municipality are provided to the City in the returned assessment roll in December of each year.

The amount of property tax levied on an individual property is the product of the CVA of the property (assessed by MPAC), the municipal tax rate for the class (approved by Council) and the education rates (approved by the Province), together with any adjustments that reflect Council approved mitigation or other tax policy measures, rebate programs, etc.

Property taxes are billed by the City twice annually. The interim billing, issued in February is based on approximately 50% of the total property taxes in the previous year, and provides for the cash requirements of the City for the initial part of the year. Final bills are issued in May.

Taxation revenues are recorded at the time tax billings are issued. Additional property tax revenue can be added throughout the year, related to new properties that become occupied, or that become subject to property tax, after the return of the annual assessment roll used for billing purposes. The City may receive up to four supplementary assessment rolls over the course of the year from MPAC, identifying new or omitted assessments. Property taxes for these supplementary and/or omitted amounts are then billed according to the approved tax rate for the property class and on the supplementary/omitted due dates approved by Council.

CITY OF GREATER SUDBURY

Notes to Consolidated Financial Statements
(in thousands of dollars)
Year ended December 31, 2013

1. Significant accounting policies (continued)

(b) Revenue recognition (continued)

Taxation and related revenues (continued)

Taxation revenues in any year may also be reduced by reductions in assessment values resulting from assessment and/or property tax appeals. Each year, an amount is identified within the annual operating budget and accrued in the consolidated financial statements to cover the estimated amount of revenue loss attributable to assessment appeals, tax appeals or other deficiencies in tax revenues (i.e. uncollectible amounts, write offs, etc.)

In the City of Greater Sudbury, annual property tax increases for properties within the commercial, industrial and multi-residential tax classes have been subject to limitations on the maximum allowable year-over-year increase since 1998, in order to mitigate dramatic tax increases due to changes in assessed values.

User Charges

User charges relate to various programs, and fees imposed based on specific activities, such as: transit fees, leisure services, water, wastewater and solid waste. Revenue is recognized when the activity is performed or when the services are rendered.

Fines and Penalties

Fines and penalties revenue is primarily generated from the Provincial Offences Administration (POA) office.

The POA is a procedural law for administering and prosecuting provincial offences, including those committed under the Highway Traffic Act, Compulsory Automobile Insurance Act, Trespass to Property Act, Liquor License Act, Municipal By-Laws and minor federal offences. The POA governs all aspects of legal process from serving notice to a defendant, to conducting trials, including sentencing and appeals.

Balances arising from operation of the POA office have been consolidated with these financial statements. The City cannot reliably estimate the collections of this revenue, accordingly, revenue is recognized on the cash basis.

Other Revenue

Other revenues are recognized in the year that the events giving rise to the revenues occur and the revenues are earned. Amounts received which relate to revenues that will be earned in a subsequent year, are deferred and reported as liabilities.

CITY OF GREATER SUDBURY

Notes to Consolidated Financial Statements
(in thousands of dollars)
Year ended December 31, 2013

1. Significant accounting policies (continued)

(c) Investments and Investment Income

Investments are recorded at cost less any amounts written off to reflect a permanent decline in value.

Investment income is reported as revenue in the period earned. Investment income earned on reserve funds that are set aside for specific purposes by legislation, regulation or agreement, is added to the fund balance and forms part of the respective deferred revenue balances.

(d) Inventory held for resale

Inventory held for resale consisting of surplus land and cemetery plots, is recorded at the lower of cost and net realizable value. Cost includes amounts for improvements to prepare the land for sale or servicing.

(e) Pensions and Employee Benefits

The City makes contributions to the Ontario Municipal Employees' Retirement System plan (OMERS), a multi-employer pension plan, on behalf of most of its employees. The plan is a defined benefit plan that specifies the amount of the retirement benefit to be received by the employees based on length of service and rates of pay. Employees and employers contribute jointly to the plan.

Because OMERS is a multi-employer pension plan, the City does not recognize any share of the pension plan deficit, as this is a joint responsibility of all Ontario municipalities and their employees. Employer's contributions for current and past service are included as an expense on the consolidated statement of operations and accumulated surplus.

The City matches contributions made by the employees to OMERS, which is a multi-employer plan. This plan is a defined benefit plan, which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay.

The amount contributed to OMERS and expensed in 2013 was \$15,313 (2012 - \$13,504).

Vacation entitlements are accrued for as entitlements are earned.

Sick leave benefits are accrued when they are vested and subject to pay out when an eligible employee leaves the City's employ.

Other post-employment benefits are accrued in accordance with the projected benefit method prorated on service and management's best estimate of salary escalation and retirement ages of employees. The discount rate used to determine the accrued benefit obligation was determined with reference to the City's cost of borrowing at the measurement date taking into account the cash flows that match the timing and amount of expected benefit payments.

Actuarial gains (losses) on the accrued benefit obligation arise from the difference between actual and expected experiences and from changes in actuarial assumptions used to determine the accrued benefit obligation. These gains (losses) are amortized over the average remaining service period of active employees.

CITY OF GREATER SUDBURY

Notes to Consolidated Financial Statements
(in thousands of dollars)
Year ended December 31, 2013

1. Significant accounting policies (continued)

(f) Deferred Revenue - Obligatory Reserve Funds

The City receives certain sub-divider contributions and other revenues under the authority of federal and provincial legislation and City by-laws. These funds, by their nature, are restricted in their use and, until applied to specific expenses, are recorded as deferred revenue. Amounts applied to qualifying expenses are recorded as revenue in the fiscal period they are expended.

(g) Deferred Revenue – Other

The City receives certain amounts pursuant to funding agreements that may only be used in the conduct of certain programs or in the delivery of specific services and transactions. These amounts are recorded as deferred revenue and are recognized as revenue in the fiscal year the eligibility criteria has been met (i.e. related expenses are incurred, services are performed) except when stipulations are present and to the extent that the transfer give rise to an obligation that meets the definition of a liability.

(h) Non-financial assets

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations.

(i) Tangible Capital Assets

Tangible capital assets are recorded at cost which includes amounts that are directly attributable to the acquisition, construction, development or betterment of the asset. The cost, less residual value, of the tangible capital assets, excluding land and landfill sites, are amortized on a straight-line basis over their estimated useful lives as follows:

Asset	Useful Life - Years
General Capital	
Landfill and land improvements	15 - 75 years
Buildings	15 - 60 years
Machinery, furniture and equipment	2 - 50 years
Vehicles	2 - 20 years
Infrastructure	
Land improvements	50 - 100 years
Plants and facilities	10 - 60 years
Roads infrastructure	10 - 75 years
Water and wastewater infrastructure	40 - 100 years

Landfill sites are amortized using the units of production method based upon the capacity used during the year.

Amortization is charged from the date of acquisition to the date of disposal. Assets under construction are not amortized until the asset is put into service.

CITY OF GREATER SUDBURY

Notes to Consolidated Financial Statements
(in thousands of dollars)
Year ended December 31, 2013

1. Significant accounting policies (continued)

(h) Non-financial assets (continued)

(ii) Contributions of tangible capital assets

Tangible capital assets received as contributions are recorded at their fair value at the date of receipt and are also recorded as revenue.

(iii) Capital interest

Interest is capitalized whenever external debt is issued to finance the construction of tangible capital assets.

(iv) Leased tangible capital assets

Leases which transfer substantially all of the benefits and risks incidental to ownership of property are accounted for as leased tangible capital assets. All other leases are accounted for as operating leases and the related payments are charged to expenses as incurred.

(v) Inventory

Inventories of supplies held for consumption are recorded at the lower of cost and replacement cost.

(vi) Tangible capital assets disclosed at nominal values

Where an estimate of fair value could not be made or where there was no future benefit related to the asset, the tangible capital asset was recognized at a nominal value. Land, buildings and machinery and equipment are the categories where nominal values were assigned.

(vii) Works of art and historical treasures

The City manages and controls various works of art and non-operational historical cultural assets including buildings, artifacts, paintings and sculptures located at City sites and public display areas. These assets are not recorded as tangible capital assets and are not amortized.

(i) Landfill closure and post closure liability

The costs to close existing landfill sites and to maintain closed solid waste landfill sites are based on estimated future expenditures in perpetuity in current dollars, adjusted for estimated inflation. The estimated liability for active sites is recognized as the landfills site capacity is used. These costs are reported as a liability on the consolidated statement of financial position.

CITY OF GREATER SUDBURY

Notes to Consolidated Financial Statements
(in thousands of dollars)
Year ended December 31, 2013

1. Significant accounting policies (continued)

(j) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods.

Significant items subject to such estimates and assumptions include valuation allowances for taxes receivable, accounts receivable, solid waste management facility liability and post-employment benefits. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the year in which they become known.

In addition, the City's implementation of the Public Sector Accounting Handbook PS 3150 in 2009 has required management to make estimates of historical cost and useful lives of tangible capital assets.

Actual results could differ from these estimates.

2. Adoption of account standards during the year

a) Government Transfers

PS 3410 was effective for fiscal years beginning on or after April 1, 2012. In accordance with the transitional provisions, the City has adopted this revised standard on January 1, 2013 on a prospective basis. This section provides guidance on recognition of government transfers. The adoption of this standard did not have a material impact to the consolidated financial statements.

b) Tax Revenue

PS 3510 was effective for fiscal years beginning on or after April 1, 2012. The City has adopted this new standard on January 1, 2013. This section establishes standards on how to account for and report tax revenue in government financial statements. The adoption of this standard did not have a material impact to the consolidated financial statements.

c) Liability for Contaminated Sites

PS 3260 is effective for fiscal years beginning on or after April 1, 2014. This section establishes standards for reporting a liability associated with the remediation of contaminated sites. The City has early adopted this standard, effective January 1, 2013. The adoption of this standard did not have a material impact to the consolidated financial statements. The City will continue to review contaminated sites on an annual basis that may result in liabilities based on newly identified sites, or changes in the assessment or intended use. These liabilities will be accrued by the City in the year in which they become known.

CITY OF GREATER SUDBURY

Notes to Consolidated Financial Statements
(in thousands of dollars)
Year ended December 31, 2013

3. Accounting Standards issued but not yet adopted

Financial Instruments, PS 3450, Foreign Currency Translation, PS 2601, and Financial Statement Presentation, PS 1201 are effective for fiscal years beginning on or after April 1, 2016. While early adoption is permitted, all three of the standards must be adopted in the same year. PS 3450 provides guidance on the recognition, measurement, presentation and disclosure of financial instruments including derivative instruments. PS 2601 Foreign Currency Translation includes guidance on deferral and amortization of unrealized gains and losses, hedge accounting and separation of realized and unrealized foreign exchange gains and losses. PS 1201 Financial Statement Presentation includes the addition of a new statement outlining re-measurement gains and losses. The City has not yet adopted these standards or determined the effect on the consolidated financial statements.

4. Taxes receivable

	2013	2012
Current taxes and grants in lieu of taxes	\$ 7,135	\$ 6,589
Taxes in arrears	8,479	8,420
	15,614	15,009
Less: allowance for doubtful accounts	(7,675)	(7,675)
Net taxes receivable	\$ 7,939	\$ 7,334

5. Accounts receivable

Accounts receivable consist of the following:

	2013	2012
Government of Canada	\$ 3,833	\$ 4,224
Province of Ontario	4,519	2,888
Other municipalities	133	144
School boards	122	58
Other receivables	32,914	32,362
	\$ 41,521	\$ 39,676
Less: allowance for doubtful accounts	(1,560)	(1,604)
Net accounts receivable	\$ 39,961	\$ 38,072

CITY OF GREATER SUDBURY

Notes to Consolidated Financial Statements
(in thousands of dollars)
Year ended December 31, 2013

6. Investment in Government Business Enterprises

The SACDC and GSU are owned and controlled by the City of Greater Sudbury. These corporations are business enterprises of the City and are accounted for on a modified equity basis in these consolidated financial statements.

(a) The investment in Government Business Enterprises consist of the following:

	SACDC	GSU	2013 Total	2012 Total
Balance, beginning of year	\$ 8,594	\$ 74,108	\$ 82,702	\$ 79,965
City's share of operating income for the year	665	6,388	7,053	2,737
Balance, end of year	\$ 9,259	\$ 80,496	\$ 89,755	\$ 82,702

(b) The following tables provide condensed supplementary financial information for the year ending December 31, 2013:

	SACDC	GSU	2013 Total	2012 Total
Financial position				
Current assets	\$ 1,272	\$ 31,474	\$ 32,746	\$ 32,577
Capital assets	17,761	95,742	113,503	105,961
Other assets	-	12,842	12,842	18,910
Total assets	19,033	140,058	159,091	157,448
Current liabilities	417	20,028	20,445	21,888
Note payable to the City of Greater Sudbury	-	52,340	52,340	52,398
Long term liabilities	9,358	39,534	48,892	52,801
Total liabilities	9,775	111,902	121,677	127,087
Net assets	\$ 9,258	\$ 28,156	\$ 37,414	\$ 30,361

CITY OF GREATER SUDBURY

Notes to Consolidated Financial Statements
(in thousands of dollars)
Year ended December 31, 2013

6. Investment in Government Business Enterprises (continued)

(c) The following tables provide condensed supplementary financial information for the year ended December 31, 2013 (continued):

	SACDC	GSU	2013 Total	2012 Total
Results of operations				
Revenue	\$ 6,401	\$ 134,663	\$ 141,064	\$ 129,051
Expenses	(5,736)	(124,481)	(130,217)	(122,546)
Gain on sale of assets	-	1	1	19
Interest paid to the City of Greater Sudbury	-	(3,795)	(3,795)	(3,787)
Net income	\$ 665	\$ 6,388	\$ 7,053	\$ 2,737
Budgeted net income (loss) for 2013	\$ 1,113	\$ (252)	\$ 861	

(d) Related party transactions between the City and its government business enterprises are as follows:

- (i) The investment includes a promissory note of \$52,341 (2012 - \$52,341) from the GSU which is unsecured and bears interest at a rate of 7.25% per annum. The note is repayable in full upon six months written notice of the City.

The investment includes a promissory note of \$3,784 (2012 - \$2,881) from SACDC that accrues interest at the City's average monthly rate of return on investments plus 1% and has no specified terms of repayment.

- (ii) At December 31, 2013, the City has the following amounts included in the consolidated statement of financial position:

A receivable of \$1,583 (2012 - \$2,165) for water billings collected by GSU.

A payable of \$186 (2012 - \$136) for electricity and water bill payments collected by the City of Greater Sudbury on behalf of GSU.

CITY OF GREATER SUDBURY

Notes to Consolidated Financial Statements
(in thousands of dollars)
Year ended December 31, 2013

6. Investment in Government Business Enterprises (continued)

(d) Related party transactions between the City and its government business enterprises are as follows (continued):

(iii) Revenues included in the Consolidated Statement of Operations and Accumulated Surplus of the City are:

	2013	2012
Property taxes	\$ 188	\$ 278
Interest on promissory note receivable	3,810	3,779
	<u>\$ 3,998</u>	<u>\$ 4,057</u>

(iv) Expenses included in the Consolidated Statement of Operations and Accumulated Surplus of the City are:

	2013	2012
Billing and collection services for water and wastewater	\$ 1,145	\$ 842
Streetlighting maintenance services	504	741
Streetlighting infrastructure	1,552	802
Electricity	6,046	5,144
Telecommunications	428	395
	<u>\$ 9,675</u>	<u>\$ 7,924</u>

(v) There is an amount of \$3,937 (2012 – \$2,938) held in the Trust funds administered by the City for SACDC which are not included in these consolidated financial statements.

Transactions with related parties are in the normal course of operations and are recorded at the exchange amount, which is the amount agreed to by the related parties. It is management's opinion that the exchange amount represents fair market value for these services.

CITY OF GREATER SUDBURY

Notes to Consolidated Financial Statements

(in thousands of dollars)

Year ended December 31, 2013

7. Investments

		2013		2012
	Market	Cost	Market	Cost
Short term investments	\$ 158,322	157,817	\$ 183,928	183,185
Long term investments	111,824	110,025	89,576	83,832
	<u>\$ 270,146</u>	<u>267,842</u>	<u>\$ 273,504</u>	<u>267,017</u>

The investments consisting of term deposits, treasury bills, ONE Fund Money Market and Bond Market funds and bonds earn rates of return ranging from 0.5% to 6.73% per annum and are recorded at cost adjusted for amortization of discounts and premiums. Maturity dates on long term investments range from 2014 to 2033 (2012 – 2014 to 2031).

8. Bank indebtedness

The City has an unsecured demand revolving credit facility in the amount of \$10,000 (2012 - \$10,000) bearing interest at the bank's prime rate less 0.5% for Bankers' Acceptance and 0.9% on loans with an effective rate of 2.5% (2012 – 2.5%) per annum. No amounts were drawn against the facility at December 31, 2013 and 2012.

9. Deferred revenue - obligatory reserve funds

Deferred revenue - obligatory reserve funds consist of the following:

	December	Externally	Revenue	December
	31, 2012	restricted	earned	31, 2013
		inflows		
Sub-divider contribution	\$ 6,751	2,073	(882)	\$ 7,942
Development Charges Act	539	5,578	(5,389)	728
Recreational Land (Planning Act)	818	238	(224)	832
Gasoline Tax - Provincial	1,097	3,264	(3,044)	1,317
Gasoline Tax - Federal	12,514	9,983	(8,464)	14,033
Building Permit Revenues (Bill 124)	7,819	181	(422)	7,578
Children's Services	-	6,793	(427)	6,366
	<u>\$ 29,538</u>	<u>28,110</u>	<u>(18,852)</u>	<u>\$ 38,796</u>

CITY OF GREATER SUDBURY

Notes to Consolidated Financial Statements

(in thousands of dollars)

Year ended December 31, 2013

10. Deferred revenue – other

Deferred revenue - other consist of the following:

	December 31, 2012	Externally restricted inflows	Revenue earned	December 31, 2013
Federal government	\$ 9	25	(16)	\$ 18
Provincial government	4,754	3,454	(6,044)	2,164
Municipal government	-	15	(2)	13
Other	497	160	(157)	500
Consolidated entities	201	-	-	201
	\$ 5,461	3,654	(6,219)	\$ 2,896

11. Employee benefit obligations

Employee benefit obligations consist of the following:

	2013	2012
Future payments required for:		
WSIB obligations	\$ 2,198	\$ 1,633
Accumulated sick leave benefits	6,714	6,344
Other post-employment benefits	29,363	28,379
Vacation pay	14,364	13,998
	\$ 52,639	\$ 50,354

The City has established reserve funds in the amount of \$12,382 (2012 - \$10,210) to mitigate the future impact of these obligations.

The City is a Schedule 2 employer under the provisions of the Workplace Safety and Insurance Board Act, and as such, remits payments to the WSIB as required to fund disability payments.

Accumulated sick leave benefits accrue to certain employees of the City and are paid out either on approved retirement or upon termination or death.

Other post-employment benefits represent the City's share of the cost to provide certain employees with extended benefits upon early retirement.

CITY OF GREATER SUDBURY

Notes to Consolidated Financial Statements
(in thousands of dollars)

Year ended December 31, 2013

11. Employee benefit obligations (continued)

The following table sets out the results as determined by the actuarial valuations completed for the year ended December 31, 2013 for each of the plans.

	WSIB	Sick leave	Other Post- Employment Benefits	2013 Total	2012 Total
Accrued benefit liability, beginning of year	\$ 2,962	6,613	29,926	39,501	\$ 39,684
Benefit cost	819	351	1,221	2,391	2,450
Interest cost	150	299	1,327	1,776	1,988
Benefit payments	(730)	(281)	(2,066)	(3,077)	(3,287)
Actuarial gain (loss)	(507)	213	(2,293)	(2,587)	(1,334)
Accrued benefit liability, end of year	2,694	7,195	28,115	38,004	39,501
Unamortized actuarial gain (loss)	(496)	(481)	1,248	271	(3,145)
	\$ 2,198	6,714	29,363	38,275	\$ 36,356

The total expense related to these employee benefits include the following components:

	WSIB	Sick Leave	Other Post- Employment Benefits	2013 Total	2012 Total
Current period benefit cost	\$ 819	351	1,221	2,391	\$ 2,450
Prior period cost of plan amendment incurred during the year	-	-	-	-	84
Amortization of actuarial loss	327	1	502	830	890
Benefit interest expense	150	299	1,327	1,776	1,988
Total benefit expense	\$ 1,296	651	3,050	4,997	\$ 5,412

CITY OF GREATER SUDBURY

Notes to Consolidated Financial Statements
(in thousands of dollars)
Year ended December 31, 2013

11. Employee benefit obligations (continued)

The actuarial valuations of the plans were based upon a number of assumptions about future events, which reflect management's best estimates. The following represents the more significant assumptions made:

	WSIB	Sick Leave	Other Post-Employment Benefits
Expected inflation rate	2.1%	2.1%	2.1%
Expected level of salary increases	N/A	2.1%	2.1%
Discount rate	4.5%	4.5%	4.5%

For other post employment benefits, as at December 31, 2013, the initial health care trend rate is 7.79% (2012 – 8.03%) and the ultimate trend rate is 4.5% (2012 – 4.5%) which is expected to be reached in 2029 (2012 – 2029).

12. Solid waste management facility liability

The Environmental Protection Act sets out the regulatory requirements to properly close and maintain all active and inactive landfill sites. Under environmental law, there is a requirement for closure and post-closure care of solid waste landfill sites. This requirement is to be provided for over the estimated remaining life of the landfill site based on usage.

Solid waste closure and post-closure care requirements have been defined in accordance with industry standards and include final covering and landscaping of the landfill, pumping of ground water and leachates from the site, and ongoing environmental monitoring, site inspection and maintenance. The reported liability, which is prepared by an engineering firm, is based on estimates and assumptions with respect to events extending over a twenty-five year period using the best information available to management. Future events may result in significant changes to the estimated total expenses; capacity used or total capacity, useful life and the estimated liability, and would be recognized prospectively, as a change in estimate, when applicable.

The City has three active and three inactive landfill sites. Estimated total expenses for these six sites represent the sum of the discounted future cash flows for closure and post-closure care activities discounted using an average borrowing rate of 4.85% (2012 - 4.85%) minus an inflation rate of 1.71% (2012 - 1.80%) (10-year average of CPI from 2003 to 2013). The estimated total landfill closure and post-closure care expenses are calculated to be \$19,104 (2012 - \$19,534). The estimated liability for the active sites is recognized as the landfill site's capacity is used. At December 31, 2013 an amount of \$11,359 (2012 - \$11,375) with respect to landfill closure and post-closure liabilities has been accrued.

CITY OF GREATER SUDBURY

Notes to Consolidated Financial Statements

(in thousands of dollars)

Year ended December 31, 2013

12. Solid waste management facility liability (continued)

Active sites

The estimated remaining capacity of the Sudbury landfill site is 52% (4,012,000 cubic meters) (2012 - 52%) of its total estimated capacity and its estimated remaining life is 37 years (2012 - 36 years), after which the period for post-closure care is estimated to be 25 years.

The estimated remaining capacity of the Valley East landfill site is 35% (691,000 cubic meters) (2012 - 36%) of its total estimated capacity and its estimated remaining life is 22 years (2012 - 23 years), after which the period for post-closure care is estimated to be 25 years.

The estimated remaining capacity of the Rayside-Balfour landfill site is 53% (781,000 cubic meters) (2012 - 56%) of its total estimated capacity and its estimated remaining life is 35 years (2012 - 33 years), after which the period for post-closure care is estimated to be 25 years.

13. Long-term liabilities

(a) Long-term liabilities consist of the following:

	2013	2012
Debentures (i)	\$ 17,207	\$ 18,478
Capital lease obligations (ii)	401	563
Other loans (iii)	3,290	3,465
Accrued financial obligations (iv)	16,447	21,036
	<u>\$ 37,345</u>	<u>\$ 43,542</u>

(i) The debentures bear interest at rates of 5.386% to 5.734%, repayable in aggregate blended monthly payments of \$189, maturing in March, 2023 to December, 2024.

(ii) The capital lease obligations bear interest at a rate of 5.75%, repayable in aggregate blended monthly payments of \$16, maturing in March, 2016.

(iii) The other loans bear interest at rates of 5.47% to 5.49%, repayable in aggregate blended annual payments of \$354, maturing in April 2025 to November, 2029.

CITY OF GREATER SUDBURY

Notes to Consolidated Financial Statements
(in thousands of dollars)
Year ended December 31, 2013

13. Long-term liabilities (continued)

Long-term liabilities reported on the consolidated statement of financial position consist of the following (continued):

(iv) Accrued financial obligations consist of the following:

	Last Year of Obligation	2013	2012
Health Sciences North	2023	\$ 7,471	\$ 7,471
Northeastern Ontario Regional Cancer Centre	2023	3,229	3,229
Laurentian University (School of Architecture)	2019	5,500	10,000
Physician Service Agreements	2015	247	336
		\$ 16,447	\$ 21,036

(b) The principal payments on long-term liabilities are due as follows:

2014	\$ 4,886
2015	3,826
2016	3,754
2017	3,794
2018	3,896
Thereafter	17,189
	\$ 37,345

(c) The City's long-term liabilities are to be recovered from the following sources:

General municipal revenues	\$ 34,054
Water/wastewater user fees	3,291
	\$ 37,345

The City expensed \$1,205 in 2013 (2012 - \$ 1,296) in interest on these borrowings.

14. Operations of school boards

Further to note 1(a) (iv), taxation and other revenues generated from the operations of the school board excluded from reported revenues are comprised of the following:

	2013	2012
Taxation	\$ 51,713	\$ 49,690
Payments in lieu of taxes	139	138
	\$ 51,852	\$ 49,828

CITY OF GREATER SUDBURY

Notes to Consolidated Financial Statements
(in thousands of dollars)

Year ended December 31, 2013

15 Tangible capital assets

Cost	Balance December 31, 2012	Additions	Disposals	Balance at December 31, 2013
General Capital:				
Land	\$ 63,761	\$ 3,444	(149)	\$ 67,056
Landfill and land improvements	30,062	2,818	-	32,880
Buildings	299,378	6,776	(2,635)	303,519
Machinery, furniture and equipment	94,279	4,668	(2,061)	96,886
Vehicles	70,537	5,738	(3,841)	72,434
Infrastructure:				
Land improvements	22,405	273	-	22,678
Plants and facilities	325,710	2,956	(625)	328,041
Roads infrastructure	1,113,489	21,918	(7,202)	1,128,205
Water and sewer infrastructure	464,190	17,057	(665)	480,582
Assets under construction	44,657	41,001	-	85,658
Total	\$ 2,528,468	\$ 106,649	\$ (17,178)	\$ 2,617,939

Accumulated amortization	Balance December 31, 2012	Amortization expense	Disposals	Balance at December 31, 2013
General Capital:				
Land	\$ -	\$ -	-	\$ -
Landfill and land improvements	12,373	1,084	-	13,457
Buildings	130,523	8,570	(2,229)	136,864
Machinery, furniture and equipment	57,760	6,515	(2,022)	62,253
Vehicles	38,902	4,727	(3,717)	39,912
Infrastructure:				
Land improvements	2,038	314	-	2,352
Plants and facilities	166,429	9,314	(279)	175,464
Roads infrastructure	644,387	28,095	(5,363)	667,119
Water and sewer infrastructure	139,174	6,559	(468)	145,265
Assets under construction	-	-	-	-
Total	\$ 1,191,586	\$ 65,178	\$ (14,078)	\$ 1,242,686

	Net book value December 31, 2012	Net book value December 31, 2013
General Capital:		
Land	\$ 63,761	\$ 67,056
Landfill and land improvements	17,689	19,423
Buildings	168,855	166,655
Machinery, furniture and equipment	36,519	34,633
Vehicles	31,635	32,522
Infrastructure:		
Land improvements	20,367	20,326
Plants and facilities	159,281	152,577
Roads infrastructure	469,102	461,087
Water and sewer infrastructure	325,016	335,317
Assets under construction	44,657	85,658
Total	\$ 1,336,882	\$ 1,375,254

CITY OF GREATER SUDBURY

Notes to Consolidated Financial Statements

(in thousands of dollars)

Year ended December 31, 2013

15 Tangible capital assets (continued):

Cost	Balance December 31, 2011	Additions	Disposals	Balance at December 31, 2012
General Capital:				
Land	\$ 62,936	\$ 1,688	\$ (863)	\$ 63,761
Landfill and land improvements	29,599	854	(391)	30,062
Buildings	291,157	11,143	(2,922)	299,378
Machinery, furniture and equipment	91,206	5,292	(2,219)	94,279
Vehicles	70,039	2,193	(1,695)	70,537
Infrastructure:				
Land improvements	20,096	2,309	-	22,405
Plants and facilities	317,270	8,985	(545)	325,710
Roads infrastructure	1,100,577	15,841	(2,929)	1,113,489
Water and sewer infrastructure	456,273	8,240	(323)	464,190
Assets under construction	26,955	17,702	-	44,657
Total	\$ 2,466,108	\$ 74,247	\$ (11,887)	\$ 2,528,468

Accumulated amortization	Balance December 31, 2011	Amortization expense	Disposals	Balance at December 31, 2012
General Capital:				
Land	\$ -	\$ -	\$ -	\$ -
Landfill and land improvements	11,577	1,017	(221)	12,373
Buildings	123,188	8,357	(1,022)	130,523
Machinery, furniture and equipment	53,108	6,867	(2,215)	57,760
Vehicles	35,847	4,751	(1,696)	38,902
Infrastructure:				
Land improvements	1,746	292	-	2,038
Plants and facilities	157,590	9,055	(216)	166,429
Roads infrastructure	617,207	29,968	(2,788)	644,387
Water and sewer infrastructure	133,060	6,400	(286)	139,174
Assets under construction	-	-	-	-
Total	\$ 1,133,323	\$ 66,707	\$ (8,444)	\$ 1,191,586

	Net book value December 31, 2011	Net book value December 31, 2012
General Capital:		
Land	\$ 62,936	\$ 63,761
Landfill and land improvements	18,022	17,689
Buildings	167,969	168,855
Machinery, furniture and equipment	38,098	36,519
Vehicles	34,192	31,635
Infrastructure:		
Land improvements	18,350	20,367
Plants and facilities	159,680	159,281
Roads infrastructure	483,370	469,102
Water and sewer infrastructure	323,213	325,016
Assets under construction	26,955	44,657
Total	\$ 1,332,785	\$ 1,336,882

CITY OF GREATER SUDBURY

Notes to Consolidated Financial Statements
(in thousands of dollars)
Year ended December 31, 2013

15. Tangible capital assets (continued)

a) Assets under construction

Assets under construction having a value of \$85,658 (2012 - \$44,657) have not been amortized. Amortization of these assets will commence when the asset is put into service.

During the year, the City added \$51,335 (2012 - \$27,766) to assets under construction and transferred \$10,334 (2012 - \$10,064) from assets under construction to tangible capital assets.

b) Developer contributions of tangible capital assets

Contributed capital assets have been recognized at fair market value at the date of contribution. The value of contributed assets received during the year is \$7,993 (2012 - \$9,744) comprised of the following:

	2013	2012
General Capital		
Land	\$ 461	\$ 76
Land improvements	-	905
Machinery and equipment	212	544
Infrastructure		
Land improvements	205	96
Roads network	3,265	4,347
Water and wastewater network	3,850	3,776
Total	\$ 7,993	\$ 9,744

16. Contractual obligations and commitments

(a) Contracts for capital projects

The balance of capital works uncompleted under contracts in progress at December 31, 2013 amounts to approximately \$86,528 (2012 - \$23,603). The proposed financing of these obligations is \$83,234 (2012 - \$18,730) from surplus funds and \$3,294 (2012 - \$4,874) from external sources.

(b) Contracts for services

The City has entered into contracts with third parties to provide services to the City. The minimum anticipated payments under these contracts are as follows:

2014	\$ 11,691
2015	12,021
2016	7,791
2017	1,331
2018	1,122
	\$ 33,956

CITY OF GREATER SUDBURY

Notes to Consolidated Financial Statements

(in thousands of dollars)

Year ended December 31, 2013

(c) Contingent liabilities

As at December 31, 2013, certain legal actions are pending against the City. An estimate of the contingency cannot be made since the outcome of these matters is indeterminable. Should any loss result from the resolution of these matters, such loss would be charged to operations in the year of disposition.

17. Accumulated surplus

Accumulated surplus consists of the following:

	2013	2012
Surplus:		
Invested in tangible capital assets	\$ 1,354,145	\$ 1,314,151
Invested in government business enterprise	89,755	82,702
Other	1,823	1,629
Committed capital:		
Capital projects not completed	79,451	75,462
Unfinanced capital projects to be recovered through taxation or user charges	(34,099)	(20,330)
Unfunded:		
Landfill closure costs	(11,359)	(11,375)
Employee benefits	(52,639)	(50,354)
Accrued financial obligations	(15,200)	(17,200)
	1,411,877	1,374,685
Reserves	8,345	10,966
Reserve funds	148,196	145,833
	\$ 1,568,418	\$ 1,531,484

CITY OF GREATER SUDBURY

Notes to Consolidated Financial Statements
(in thousands of dollars)
Year ended December 31, 2013

18. Budget data

Budget data presented in these consolidated financial statements are based on the 2013 operating and capital budgets approved by Council. The chart below reconciles the approved budget with the budget figures as presented in these consolidated financial statements.

	2013
Revenues	
Approved budget:	
Operating	\$ 485,626
Capital	108,879
Consolidated Boards	<u>19,733</u>
	614,238
Adjustments:	
Transfer from reserves to operating	(5,322)
Recognize revenues from obligatory reserve funds	8,457
In year budget adjustments	8,608
Operating transfer to capital and future years funding	(95,753)
Contributed tangible assets	7,994
Reclassification of taxation bad debt expense	<u>(2,742)</u>
Total revenues	<u>\$ 535,480</u>
Expenses	
Approved budget:	
Operating	485,626
Capital	108,879
Consolidated Boards (A)	<u>18,872</u>
	613,377
Adjustments:	
Amortization of Tangible Capital Assets	67,611
Transfer to reserves and capital	(75,062)
Reduction due to Tangible Capital Assets (TCA)	(111,218)
Post employment benefit expense	1,432
Landfill closure and post closure expense	277
In year budget adjustments	3,595
Reclassification of taxation	(2,742)
Debt principal repayments	(3,445)
Operating expenses budgeted in capital expensed in current year	<u>10,351</u>
Total expenses	<u>\$ 504,176</u>
Annual surplus	<u>\$ 31,304</u>

The budget data above does not include amounts for the cost of contributed tangible capital assets (TCA) and the related revenue and gain or loss on the sale of TCA as management cannot estimate the value of these transactions from year to year.

Budget figures have been reclassified for purposes of these consolidated financial statements to comply with PSAB reporting requirements and are not audited.

(A) The approved budget of the Consolidated Boards includes amortization. Their budget also provides figures for the acquisition of tangible capital assets.

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CITY OF GREATER SUDBURY

Notes to Consolidated Financial Statements

(in thousands of dollars)

Year ended December 31, 2013

19. Taxation

	2013 (Budget)	2013 (Actual)	2012 (Actual)
Municipal tax levy	\$ 222,512	\$ 222,512	\$ 213,894
Supplementary taxation	2,900	2,644	2,859
Payment in lieu of property taxes	7,710	7,685	7,613
Local improvements	522	528	695
	233,644	233,369	225,061
Rebates and Tax Concessions	(2,767)	(2,365)	(2,422)
Net municipal taxation	\$ 230,877	\$ 231,004	\$ 222,639

20. Other revenues

Other revenues consist of:

	2013	2012
Gaming and Casino Revenues	\$ 2,360	\$ 2,507
Gain (loss) on sale of Land and Tangible Capital Assets	(2,889)	290
Donated Tangible Capital Assets	7,993	9,744
Donations	2,227	1,274
Development Charges Earned	5,389	4,688
Subdivider Contributions	1,731	1,985
Miscellaneous Recoveries/Revenues	14,820	20,772
	\$ 31,631	\$ 41,260

21. Trust funds

Trust funds amounting to \$15,911 (2012 - \$15,626) administered by the City are not included in the consolidated financial statement of financial position nor have their operations been included in the consolidated statement of operations and accumulated surplus.

22. Segmented disclosure

The City of Greater Sudbury is a diversified municipal government institution that provides a wide range of services to more than 160,000 citizens. Services include water, roads, fire, police, emergency medical services, waste management, public transit, recreation programs, economic development, land use planning and health and social services. For management reporting purposes the Government's operations and activities are organized and reported by Fund. Funds were created for the purpose of recording specific activities to attain certain objectives in accordance with special regulations, restrictions or limitations.

City services are provided by departments and their activities are reported in these funds. Certain departments have been separately disclosed in the segmented information, along with the services they provide, and are as follows:

CITY OF GREATER SUDBURY

Notes to Consolidated Financial Statements

(in thousands of dollars)

Year ended December 31, 2013

General Government

General Government consists of Office of the Mayor, Council expenses, Administrative Services (including Clerks, Elections, Communications, Legal and Information Technology Services), Human Resources, Auditor General and Finance Departments. Areas within the General Government respond to the needs of external and internal clients by providing high quality, supportive and responsive services. This area supports the operating departments in implementing priorities of Council and provides strategic leadership on issues, relating to governance, strategic planning and service delivery.

Transportation Services

This area is responsible for management of Roadways including traffic and winter control, Transit services, and the administration and operation of City-owned parking lots. This section also provides employee services to the SACDC.

Protection Services

This section consists of Fire, Police, contribution to the Nickel District Conservation Authority, Animal Control, Building Services, Emergency measures and management of Provincial Offences Act. Police Services ensures the safety of the lives and property of citizens; preserves peace and order; prevents crimes from occurring; detect offenders and enforce the law. Fire Services is responsible to provide fire suppression service; fire prevention programs; training and education related to prevention, detection and extinguishment of fires. The Building Services Division processes permit applications and ensure compliance with the Ontario Building Code and with By-Laws enacted by Council.

Environmental Services

In addition to the management of Waterworks, Sanitary and Storm Sewer systems, this area is responsible for Waste Collection, Waste Disposal and Recycling facilities and programs. This section is responsible for providing clean, potable water meeting all regulatory requirements and responsible for repairing breaks and leaks in the water and sewer system. This section produces quality effluents meeting regulatory requirements and minimizing environmental degradation.

Health and Social Services

This section consists of Ambulance Services, Social Services including Housing Services, Childcare, Assistance to aged persons, Cemetery Services as well as the City's contribution to the Health Unit and Hospital. The Social Services division is responsible for the administration and delivery of the Ontario Works Act. Ontario Works is an employment based, provincially mandated program, cost-shared with the Ministry of Community and Social Services. To enable low-income families to pursue employment and educational opportunities, Children Services deliver child care services and assist with costs of child care via the provision of subsidies. Pioneer Manor is a Long-Term Care facility providing 24-hour care and services to 433 residents. Housing Services reflects the cost of administering and delivering social housing programs downloaded from the Province.

CITY OF GREATER SUDBURY

Notes to Consolidated Financial Statements

(in thousands of dollars)

Year ended December 31, 2013

22. Segmented disclosure (continued)

Recreation and Cultural Services

This section provides public services that contribute to neighbourhood development and sustainability through the provision of recreation and leisure services such as fitness and aquatic programs and provides management of arenas and leisure facilities. This section also contributes to the information needs of the City's citizens through the provision of library and cultural services and by preserving local history and managing archived data.

Planning and Development Services

The goal of this section is to offer coordinated development services in order to maximize economic development opportunities. The Planning and Development Division ensures that the City of Greater Sudbury is planned and developed in accordance with the Ontario Planning Act, Provincial policies and good planning principles so that Sudbury is an enjoyable and beautiful community to live, work, play and shop. This section also provides leadership in matters relating to landscape restoration, ecosystem health, biological integrity, energy conservation, air and lake water quality.

Certain allocation methodologies are employed in the preparation of segmented financial information. Taxation, certain government grants and other revenue are apportioned to services based on a percentage of operations.

CITY OF GREATER SUDBURY

Notes to Consolidated Financial Statements
(in thousands of dollars)

Year ended December 31, 2013

22 Segmented Disclosure (continued)

December 31, 2013	General Government	Protection Services	Transportation Services	Environmental Services	Health and Social Services	Recreation and Cultural Services	Planning and Development	Government Business Enterprises	Total
Revenues									
Transfer payments	\$ 2,472	13,547	19,053	2,532	94,209	5,186	3,367	-	\$ 140,367
Taxation	16,576	70,083	65,765	-	43,018	26,897	8,663	-	231,004
User charges	5,020	5,173	9,774	65,262	17,494	8,404	946	-	112,074
Other	1,203	9,986	16,673	6,388	5,897	4,975	3,304	7,053	55,477
	25,271	98,788	111,266	74,182	160,618	45,462	16,281	7,053	538,921
Expenses									
Salaries, wages and benefits	25,169	68,537	30,582	17,766	56,969	19,016	7,847	-	225,886
Materials	4,397	7,398	19,544	11,375	21,521	9,939	2,107	-	76,280
Contract services	4,891	2,112	14,420	31,471	31,465	2,864	2,383	-	89,604
Grants and transfer payments	178	664	50	50	39,495	1,269	1,266	-	42,972
Amortization	873	2,934	32,003	17,416	6,894	4,751	507	-	65,178
Other	733	371	109	256	466	104	27	-	2,066
Allocation of shared expenses	(14,188)	3,127	1,760	1,479	5,060	2,283	478	-	0
	22,052	85,142	98,467	79,814	161,670	40,226	14,616	-	501,987
Annual surplus	\$ 3,218	13,646	12,799	(5,631)	(1,052)	5,236	1,665	7,053	\$ 36,934

CITY OF GREATER SUDBURY

Notes to Consolidated Financial Statements
(in thousands of dollars)
Year ended December 31, 2013

22 Segmented Disclosure (continued)

December 31, 2012	General Government	Protection Services	Transportation Services	Environmental Services	Health and Social Services	Recreation and Cultural Services	Planning and Development	Government Business Enterprises	Total
Revenues									
Transfer payments	\$ 2,398	12,241	15,439	1,515	99,809	4,557	4,704	\$ 140,663	
Taxation	17,368	68,059	54,495	-	45,284	26,398	11,035	222,639	
User charges	4,187	4,841	10,188	63,042	17,358	8,339	979	108,934	
Other	1,565	9,807	25,487	7,256	5,791	5,522	1,403	2,737	59,568
	25,518	94,948	105,609	71,813	168,242	44,816	18,121	2,737	531,804
Expenses									
Salaries, wages and benefits	24,828	65,365	28,599	16,839	55,367	18,383	7,534	216,915	
Materials	5,569	6,704	18,809	11,661	22,888	10,426	2,574	78,631	
Contract services	4,381	1,643	11,539	23,690	31,909	2,566	2,464	78,192	
Grants and transfer payments	144	650	25	52	38,576	691	2,516	42,654	
Amortization	855	3,285	33,885	16,901	6,673	4,610	498	66,707	
Other	780	343	161	267	479	168	36	2,234	
Allocation of shared expenses	(14,534)	3,283	1,603	1,388	5,279	2,646	335	-	
	22,023	81,273	94,621	70,798	161,171	39,490	15,957	-	485,333
Annual surplus	\$ 3,495	13,675	10,988	1,015	7,071	5,326	2,164	2,737	\$ 46,471

CITY OF GREATER SUDBURY

Notes to Consolidated Financial Statements

(in thousands of dollars)

Year ended December 31, 2013

23. Supplementary financial information

i) Schedule of Revenues and Expenses - Library

		2013	2012
Revenues:			
Government transfers (note 1)	- Provincial	\$ 421	\$ 412
	- Federal	-	-
Fines and fees		146	145
Other		11	17
		578	574
Expenses:			
Salaries, wages and benefits		\$ 4,431	\$ 4,482
Materials and contract services		1,582	1,596
		6,013	6,078
Excess of expenses over revenues		\$ (5,435)	\$ (5,504)

1. The government transfers are comprised of the following:

Provincial

Ministry of Tourism and Culture - Operating	\$ 403	\$ 403
Ministry of Tourism and Culture - Other	5	7
Ontario Library Service - North	2	2
Southern Ontario Library Service	11	-
	\$ 421	\$ 412

CITY OF GREATER SUDBURY

Notes to Consolidated Financial Statements

(in thousands of dollars)

Year ended December 31, 2013

23. Supplementary financial information (continued)

ii) Schedule of Revenues and Expenses - Children's Services

	REVENUES (1)			
	Ministry of Education	Legislated Cost Share (Calculated)	Total	
Full Flexibility				
Core Services Delivery (100%)	1,538	0%	0	1,538
Core Services Delivery - (80/20)	6,159	20%	1,540	7,699
Core Service Delivery - (50/50)	355	50%	355	710
Language	1,806	0%	0	1,806
Aboriginal	58	0%	0	58
Cost of Living	254	0%	0	254
Rural/Remote	300	0%	0	300
FDK Transition	393	0%	0	393
Repairs and Maintenance	23	0%	0	23
Utilization Adjustment	0	0%	0	0
Capping Adjustment	4,649	0%	0	4,649
Total (full flexibility)	15,535		1,895	17,430
Transformation	78	0%	0	78
Limited Flexibility				
Capacity Building	53	0%	0	53
Capital Retrofits	92	0%	0	92
Small Water Works	0	0%	0	0
Total (limited flexibility)	145		0	145
No Flexibility				
Territory Without Municipal Organization	0	0%	0	0
TOTAL	15,758		1,895	17,653

(1) Most recent Amended Service agreement

CITY OF GREATER SUDBURY

Notes to Consolidated Financial Statements
(in thousands of dollars)
Year ended December 31, 2013

23. Supplementary financial information (continued)

ii) Schedule of Revenues and Expenses - Children's Services

Year ended December 31, 2013	EXPENSES		
	Gross Expenditures	Other Offsetting Revenues	Adjusted Gross Expenditure
Full Flexibility			
General Operating	5,067	-	5,067
Regular Fee Subsidy	8,956	(1,264)	7,692
Extended Day Fee Subsidy	395	(54)	341
Recreation Fee Subsidy	227	(13)	214
Ontario Works Formal	1,712	(250)	1,462
Ontario Works Informal	16	-	16
Pay Equity Memorandum	225	-	225
Special needs Resourcing	1,457	-	1,457
Administration	1,558	-	1,558
Repairs and Maintenance	78	-	78
Play-based Material	-	-	-
Total (full flexibility)	19,691	(1,581)	18,110
Transformation	-	-	-
Limited Flexibility			
Capacity Building	52	-	52
Capital Retrofits	240	(65)	175
Small Water Works	-	-	-
Total (limited flexibility)	292	(65)	227
No Flexibility			
Territory Without Municipal Organization	-	-	-
Total	19,983	(1,646)	18,337

24. Comparative figures

Certain comparative figures have been reclassified to conform to the consolidated financial statement presentation adopted in the current year.

Financial Statements of

**CITY OF GREATER SUDBURY
TRUST FUNDS**

Year ended December 31, 2013



June 17, 2014

Independent Auditor's Report

To the Members of Council, Inhabitants and Ratepayers of the City of Greater Sudbury

We have audited the accompanying financial statements of the City of Greater Sudbury Trust Funds, which comprise the statement of financial position as at December 31, 2013 and the statement of changes in fund balances for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers LLP

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PwC refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the City of Greater Sudbury Trust Funds as at December 31, 2013 and the results of their operations for the year then ended in accordance with Canadian public sector accounting standards.

DRAFT

Chartered Professional Accountants, Licensed Public Accountants

CITY OF GREATER SUDBURY**TRUST FUNDS**

Statement of Financial Position

(in thousands of dollars)

As at December 31, 2013, with comparative figures for 2012

	Home for The Aged Residents' Fund	Subdividers' Deposits	Miscellaneous	Fednor Project - Business Planning Initiative (note 4)	Cemetery Pre-Need	Cemetery Care and Maintenance	2013 Total	2012 Total
Assets								
Cash	\$ 258	1,223					1,481	1,444
Due from City of Greater Sudbury (note 3)		6,212	20	-	1,065	7,133	14,430	14,182
Loans receivable				117			117	117
Allowance for doubtful loans				(117)			(117)	(117)
	\$ 258	7,435	20	-	1,065	7,133	15,911	15,626
Liabilities and Fund Balances								
Accounts Payable	112						112	90
Fund balances	\$ 146	7,435	20	-	1,065	7,133	15,799	15,536
	\$ 258	7,435	20	-	1,065	7,133	15,911	15,626

The accompanying notes are an integral part of these financial statements.

CITY OF GREATER SUDBURY **TRUST FUNDS**

Statement of Changes in Fund Balances

(In thousands of dollars)

Year ended December 31, 2013, with comparative figures for 2012

	Home for The Aged Residents' Fund	Subdividers' Deposits	Miscellaneous	Fedor Project - Business Planning Initiative (note 4)	Cemetery Pre-Need	Cemetery Care and Maintenance	2013 Total	2012 Total
Fund balance, beginning of year	\$ 140	7,518	19	-	1,015	6,844	15,536	12,111
Revenue:								
Pilot sales							393	412
Receipts from or on behalf of others	1,360		3		104	289	1,363	1,359
Interest earned	3	15			25	205	248	190
Subdividers' deposits		988				988	988	3,611
	1,363	1,003	3	-	129	494	3,012	5,572
Expenditure:								
Disbursements to or on behalf of residents	1,377						1,377	1,363
Refunds		1,086					1,086	584
Write-off of loan receivable					79	205	-	-
Transfer to City of Greater Sudbury			2	-			286	220
	1,377	1,086	2	-	79	205	2,749	2,147
Change in fund balance in the year	6	(83)	1	-	50	289	263	3,425
Fund balance, end of year	\$ 146	7,435	20	-	1,065	7,133	15,798	15,536

The accompanying notes are an integral part of these financial statements.

CITY OF GREATER SUDBURY

TRUST FUNDS

Notes to Financial Statements

Year ended December 31, 2013
(in thousands of dollars)

1. Organization:

The City of Greater Sudbury Trust Funds (the "Funds") consists of various trust funds administered by the City of Greater Sudbury.

The Funds are not subject to income taxes under Section 149 (1) of the Income Tax Act (Canada).

2. Significant accounting policies:

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles for local governments established by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants.

These financial statements include trust funds administered by the City as well as those within organizations that are accountable for the administration of their financial affairs and resources to City Council and are owned or controlled by the City. The City of Greater Sudbury Trust Funds financial statements are the responsibility of management and have been prepared in accordance with the accounting policy set out below.

Revenue and Expenses:

The Funds financial statements are reported on the accrual basis of accounting. The accrual basis of accounting recognizes revenues as they become available and measurable. Expenditures are recognized as they are incurred and measurable as a result of receipt of goods or services and the creation of a legal obligation to pay.

3. Due From City of Greater Sudbury:

At December 31, 2013, the Funds have amounts due from the City of \$14,430 [2012 - \$14,182] that arose as a result of investment and banking transactions due to the City maintaining bank accounts or holding investments on behalf of the Funds. These amounts are non interest bearing other than \$1,065 and \$7,133 which bear interest at the rates of 2.30% and 3.80% respectively (2012 - 2.23% and 2.23%) and are due on demand.

4. Fednor Project Business Planning Initiative:

Fednor has advanced \$110 to be used by the Regional Business Centre, a division of the City of Greater Sudbury, to aid small businesses. The advance is non-interest bearing. The funds were subsequently loaned to small businesses. The loans are non-interest bearing and have been fully provided for. The Regional Business Centre may be asked by Fednor to repay this advance or the advance may be forgiven. To date Fednor has not asked for repayment or forgiven the advance.

Statistical Information

Consolidated Statement of Financial Position

(in thousands of dollars)

	2013	2012	2011 (restated)	2010	2009
Financial Assets					
Cash	10,797	10,104	8,700	21,034	14,723
Taxes receivable	7,939	7,334	6,611	10,920	10,032
Accounts receivable	39,961	38,072	35,897	50,405	50,661
Inventory held for resale	1,616	1,435	1,253	930	976
Investment in GBE	89,755	82,702	79,965	79,811	78,360
Investments	267,842	267,017	223,582	179,539	177,317
	417,910	406,664	356,008	342,639	332,069
Financial Liabilities					
Accounts payable and accrued liabilities	88,783	78,074	70,846	73,553	71,559
Employee benefit obligations	52,639	50,354	47,708	46,276	44,838
Deferred revenue - obligatory reserve funds	38,796	29,538	27,106	30,359	31,568
Deferred revenue - other	2,896	5,461	6,968	12,297	22,754
Solid waste management facility liability	11,359	11,375	11,153	14,106	13,829
Long-term liabilities	37,345	43,542	46,093	38,583	42,280
	231,818	218,344	209,874	215,174	226,828
Net financial assets	186,092	188,320	146,134	127,465	105,241
Non-financial assets					
Tangible capital assets	1,375,254	1,336,882	1,332,785	1,318,739	1,283,392
Other	7,072	6,282	6,094	5,035	4,235
	1,382,326	1,343,164	1,338,879	1,323,774	1,287,627
Accumulated Surplus	1,568,418	1,531,484	1,485,013	1,451,239	1,392,868

Statistical Information

Consolidated Statement of Operations and Accumulated Surplus (in thousands of dollars)

	2013	2012	2011	2010 (restated)	2009
Analysis of Revenues	\$	\$	\$	\$	
Government Transfers, Provincial	130,617	132,334	141,645	231,195	210,037
Government Transfers, Federal	9,750	8,329	12,398	15,825	17,536
Taxation	231,004	222,639	214,772	206,257	196,576
User Charges	112,073	108,934	103,155	99,027	96,556
Investment Income	10,567	10,381	12,243	11,083	9,547
Fines and Penalties	6,226	5,190	5,133	5,243	4,863
Other	31,631	41,260	27,052	17,838	32,620
GBE net earnings	7,053	2,737	154	5,635	1,206
TOTAL REVENUES	538,921	531,804	516,552	592,103	568,941
Analysis of Expenses by Object					
Salaries wages & employee benefits	225,886	216,915	209,415	199,162	191,110
Materials	76,280	78,631	86,570	70,944	77,984
Contract Services	89,604	78,192	77,211	78,989	88,190
Grants and Transfer Payments	42,972	42,654	42,129	113,328	100,770
Amortization	65,178	66,707	66,911	67,587	63,995
Other	2,066	2,234	2,832	3,327	3,862
TOTAL EXPENSES	501,987	485,333	485,068	533,337	525,911
ANNUAL SURPLUS	36,934	46,471	31,484	58,766	43,030
ACCUMULATED SURPLUS, BEGINNING OF YEAR	1,531,484	1,485,013	1,453,529	1,394,763	1,349,838
ACCUMULATED SURPLUS, END OF YEAR	1,568,418	1,531,484	1,485,013	1,453,529	1,392,868
NET FINANCIAL ASSETS	186,092	188,320	146,134	127,465	105,241
NET DEBT PER CAPITA	231	269	288	243	263
Analysis of Expenses by Function	2013	2012	2011	2010	2009
General Government	22,052	22,023	20,651	21,657	23,801
Protection to Persons and Property	85,142	81,273	79,541	76,801	71,710
Transportation Services	98,467	94,621	92,577	86,116	90,655
Environmental Services	79,814	70,798	68,967	73,487	79,108
Health Services	27,113	25,992	25,345	24,732	23,935
Social and Family Services	95,877	93,839	93,621	153,980	146,644
Social Housing	38,680	41,340	41,118	44,858	40,655
Recreation and Cultural Services	40,226	39,490	47,938	38,896	36,777
Planning and Development	14,616	15,957	15,310	12,810	12,626
TOTAL EXPENSES	501,987	485,333	485,068	533,337	525,911

Statistical Information

Four Year Financial Review Reserves and Reserve Funds (In thousands of dollars)

RESERVES	2013	2012	2011	2010	2009
Working funds	1,813	2,056	2,168	2,542	3,569
General levy stabilization	4,165	4,619	4,051	3,303	853
Health and social services	641	1,694	1,421	1,510	1,275
Other reserves	1,728	2,597	3,531	3,536	2,093
TOTAL RESERVES	8,347	10,966	11,171	10,891	7,790
RESERVE FUNDS	2013	2012	2011	2010	2009
Equipment Replacement	5,968	9,986	10,104	8,692	9,173
Sick leave	5,308	5,055	4,728	4,750	4,476
Insurance	1,663	1,502	1,270	1,043	1,371
Workers' compensation	6,490	4,584	3,253	1,942	716
Protection services	5,321	7,900	5,311	3,178	4,465
Roads and transportation	31,793	27,241	14,953	9,709	5,304
Wastewater system	15,929	18,502	7,141	2,520	694
Stormwater system	-	1,050	836	519	318
Waterworks system	15,901	14,451	8,670	5,248	5,013
Solid waste disposal	2,292	3,576	2,674	2,608	3,038
Health and social services	11,507	11,222	9,794	9,515	11,947
Planning and development	9,709	6,447	5,605	6,403	4,868
Other	36,314	34,316	28,773	24,621	22,491
TOTAL RESERVE FUNDS	148,195	145,832	103,112	80,748	73,874

Statistical Information

Four Year Financial Review Additional Information

Municipal Statistics	2013	2012	2011	2010	2009
Population	161,900	161,900	160,300	158,900	160,700
Households	74,405	74,069	73,312	72,536	71,854
Employees					
Full time employees	2,019	2,008	2,006	1,944	1,915
Service Information					
Building Permit Values (in 1000's)	287,333	247,525	324,755	285,664	405,243
Average monthly social assistance case load	3,548	3,407	3,438	3,466	3,058
Kilometers of roads	3,617	3,613	3,609	3,592	3,589
Annual volume of treated waste water*	32,847	27,727	29,071	25,602	32,140
Annual volume of treated drinking water*	20,877	19,791	20,691	20,341	19,908
Annual disposal of solid waste (tonnes)	105,509	100,753	99,545	96,435	107,056
Annual diversion of solid waste (tonnes)	36,424	34,482	34,090	34,898	35,297
Regular service passenger Transit trips	4,362,000	4,444,719	4,468,760	4,265,928	4,250,142
Tax collection rate	2.8%	2.7%	2.6%	4.3%	4.1%
*(megalitres)					
TAXABLE ASSESSMENT (\$ millions)					
Residential assessment	12,009	11,173	10,021	8,890	7,855
Commercial assessment	1,635	1,539	1,441	1,340	1,245
Industrial assessment	446	424	409	362	350
BENCHMARK INFORMATION					
% of paved lane km where condition is rated good to very good	51.0%	51.0%	51.3%	51.3%	51.4%
# of conventional transit passenger trips per person in service area per year	31.6	32.2	32.4	31.2	31.1
# of waste water main backups per 100 km of waste water main per year	8.9	6.0	3.9	3.8	3.1
% of waste water estimated to have bypassed treatment	1.4%	0.5%	1.1%	0.6%	3.5%
# of water main breaks per 100 km of water distribution pipe per year	11.1	8.4	13.9	9.8	13.8
% of residential solid waste diverted for recycling	37.8%	45.0%	44.5%	45.0%	45.0%

Request for Decision

Auditor General's 2014 Audit Work Plan

Presented To:	Audit Committee
Presented:	Tuesday, Jun 17, 2014
Report Date	Wednesday, Jun 11, 2014
Type:	Presentations

Recommendation

THAT the City of Greater Sudbury receive the Auditor General's Audit Work Plan for 2014 as outlined in the report dated June 11, 2014.

Signed By

Auditor General

Brian Bigger

Auditor General

Digitally Signed Jun 11, 14

Summary

The purpose of this report is to provide City Council with details of the Auditor General's 2014 Audit Work Plan.

Financial Impact

The recommendation in this report has no financial impact beyond the amount provided in the Auditor General's 2014 budget request.

The Planning Context

The Auditor General reports to council and is responsible for assisting the council in holding itself and its administrators accountable for the quality of stewardship over public funds and for achievement of value for money in municipal operations. In doing so, the Auditor General's Office is guided by the definition of internal auditing provided by the Institute of Internal Auditors, and the International Professional Practices Framework.

• "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes."

• International Professional Practices Framework ("The Red Book")
2110 – Governance

The internal audit activity must assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:

- Promoting appropriate ethics and values within the organization;
- Ensuring effective organizational performance management and accountability;
- Communicating risk and control information to appropriate areas of the organization; and
- Coordinating the activities of and communicating information among the board, external and internal

auditors, and management.

2110.A1 – The internal audit activity must evaluate the design, implementation, and effectiveness of the organization's ethics-related objectives, programs, and activities.

2110.A2 – The internal audit activity must assess whether the information technology governance of the organization supports the organization's strategies and objectives.

2120 – Risk Management

The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes.

2120.A1 – The internal audit activity must evaluate risk exposures relating to the organization's governance, operations, and information systems regarding the:

- Achievement of the organization's strategic objectives;
- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations and programs;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures, and contracts.

2130 – Control

The internal audit activity must assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.

2130.A1 – The internal audit activity must evaluate the adequacy and effectiveness of controls in responding to risks within the organization's governance, operations, and information systems regarding the:

- Achievement of the organization's strategic objectives;
- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations and programs;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures, and contracts.

AG Audit Activities Regarding 2110.A1 (Employee Code Of Conduct)

As noted above, the internal audit activity must evaluate the design, implementation, and effectiveness of the organization's ethics-related objectives, programs, and activities.

During our first audit in 2010, the auditors observed that the City did not have a formal code of conduct for employees.

Through our audit, it came to our attention that the City of Greater Sudbury did not have a comprehensive formal Code of Conduct that was reviewed and/or updated annually with its employees. As a result, we issued a memo to City Administrators, encouraging the development of a formal Code Of Conduct document. (We also provided management with a copy of the City of Ottawa's Code of Conduct as an example)

Our memo stated that, "A formal Code of Conduct is a necessary element of good governance which provides ethical guidelines for employees. It also increases transparency, integrity, objectivity, fosters public trust and citizen confidence in the administration of government and government officials and gives employees some guidance if they should find themselves in situations where there is no obvious "right" way to act. Adopting a comprehensive Code of Conduct demonstrates that the City is promoting and maintaining the highest standards of business conduct.

Members from all levels within the City should be involved in creating a Code of Conduct. Therefore, the final result is representative of the moral and ethical character of the group. A Code of Conduct is simply a formal statement of the policies and principles of conduct the City has always embraced. It should bring

together the principles contained in various City documents, departmental policies and plans. The Code of Conduct is a dynamic document and should also be continuously reviewed in order to determine if additional provisions need to be clarified, rewritten or eliminated.

Upon amalgamation, the City did establish an Employee Handbook. Section D of this document outlines employment rules and policies; however the document had not been updated since 2003. In our rapidly changing environment, we would recommend that the Code of Conduct be a dynamic document and should also be continuously reviewed in order to determine if additional provisions need to be clarified, rewritten or eliminated to provide employees guidance on emerging subjects.

The Code of Conduct should be clear and objective and outline a fair process by which to determine whether a violation has occurred. It should allow anonymous communications while also providing protection for any person reporting questionable behavior.

Suspected violations should be investigated promptly by the appropriate department (e.g. legal, human resources, internal audit).

Review, investigation and resolution of code violations should be delegated to a group within the organization with enough authority to enforce conclusions reached, and provide a safe outlet for any municipal employee to raise concerns without losing confidentiality.

Currently, there is no established process that allows for anonymous communication of suspected violations nor is there a formal process for investigating these allegations. We would recommend that a formal reporting and investigation process be established to investigate alleged violations to the Code of Conduct.

The Code of Conduct should be disseminated to all levels of employees. It should be reviewed with all employees annually as well as reviewed with all new employees on commencement of employment. Situations change during the course of one's employment and conflicts of interest can arise. We recommend that every employee sign and disclose any conflict of interests annually. This information can be collected electronically."

Audit Consultants

In 2013, City Council directed the CFO and CAO to engage experts to review the external peer review for the office of the Auditor General conducted by the Institute Of Internal Auditors in March 2012. Two specific matters for consideration were to "Re-evaluate the audit approach, and "Enhance Audit Committee oversight".

In his report, Mr. Key observed that; "The Municipal Act addresses the responsibility of council to governance and risk management in Section 224.d.1: " ... ensure the accountability and transparency of the operations of the municipality, including the activities of the senior management of the municipality.", and,

"The effectiveness, maturity, and value of any internal audit assurance function is in large part dependent on the maturity of the governance and risk management structures and processes of any organization. Governance and its component risk management form the foundation of an internal audit process that is risk-based and which adds value to any enterprise.", and,

"grounded in good governance, risk management, and audit oversight principles; stakeholders will be assured that city resources will be managed more efficiently and more effectively toward CGS's objectives of environmental sustainability, infrastructure renewal, positive economic environment, and a healthy community."

AG Shenandoah Report Related Activities In 2013

The AG 2013 audit work plan was provided to Council on Tuesday, April 16, 2013 and included the following: "In 2013, City Council directed Administrators to provide a review of the audit activity to guide Council in determining the future direction of audit oversight at the City. Stakeholders should note that the Auditor General's work plan may be significantly impacted by the observations, conclusions and recommendations of Mr. James Key of The Shenandoah Group, in a report to Council expected May 2013."

In response to recommendations of the Shenandoah Report, I have networked with my peers, and reviewed the applicability of the COSO Integrated Framework Of Internal Control for government. I have found that the COSO framework is viewed as best practice by many local government audit peers. COSO has been adapted and adopted for government use through the "Green Book" standards developed by the GAO (Government Accountability Office) in the United States.

In a May 2013 presentation to the Audit Committee, Mr. James key included the following comments.

Opinion of Stakeholders

- Positive about value of effective IA process to add value and improve operations
- Positive values of public service - "Integrity, transparency, competence, improve community, honesty, trust, credibility
- Strong desire to improve IA process to be strategically focused and risk based

• Process must be collegial

• Reports must be timely and include management responses

Mr. Key also noted that issues between Auditors and Administration needed to be resolved before bringing the Auditor General's reports forward to the Audit Committee, and the public. (The process must be collegial, and reports must be timely and include management responses.)

Administration's interpretation of the above has resulted in extended delays in provision of access to information, extended delays in provision of management responses and repeated deferrals of Audit Committee meetings. The Administration has adopted their own audit response protocol which closely resembles the Freedom Of Information request process applied to information requests submitted by the public.

AG Audit Activities In 2013

- Recruited a full time Senior Auditor. (hired mid March 2013)
- North American Recognition from the Association Of Local Government Auditors, with a Knighton Award (Silver), for Small Audit Shop Audit Report referring to our 2012 audit of Changes To Road Design.
- Developed and presented an Audit Protocol for Council's information.
- Redesigned our audit reports to a more compact format.
- Completed and presented our audit of the Transit and Community Arena Advertising Contract. (Received positive feedback from Council on the new format.)
- Redesigned our approach to the monitoring (follow up) of audit results.
- Provided eight follow up reports to Council.
- Provided two detailed Progress Assessment Reviews to Council.
- Obtained Council's authorization to award a three year contract (with the possibility of renewal) to aid in the recruitment of a Senior Auditor.
- Recruited and hired a temporary Senior Auditor to assist on the competitive procurement audit during October & November.
- Completed extensive planning and fieldwork on our largest audit project so far. An audit of competitive procurement.
- Reviewed and investigated various Integrated Internal Control Frameworks. The widely recognized and recently updated COSO model was used as a point of reference for the Competitive Procurement Audit.
- Two investigations of complaints received by the Auditor General were initiated.
- Recruited a full time Senior Auditor (start date mid February 2014)

The Planning Process

In the past, like many other internal audit functions, the Auditor General's office performed a risk assessment and rated the various elements in the audit universe (e.g., locations, business units, processes, and projects) based on an audit assessment of risk. The elements with the higher risk ratings were then prioritized for audit, and the scope of each audit was defined based on the higher risk areas within that area.

This is a very common approach to internal audit planning, but, there is an underlying assumption that sufficient audit resources will be available to support this risk based audit approach.

With limited audit resources, the Auditor General office's approach today is different. Instead of starting with an assessment of the entire audit universe, we start with the risks to the enterprise as a whole. We are concerned with the risks that may impact the achievement of the broad array of City objectives. We are focused on the importance and satisfaction ratings that taxpayers have provided in the past for various services. As a result, risks (and audits) are tied to the City's Mission, Vision, Values, business plans, goals and service delivery objectives.

The more significant risks have included: our implementation of a new functionality to the enterprise resource planning (ERP) system; major construction or re-construction of a City assets, or transparency and fairness of competitive procurement.

The goal is to provide assurance on how well management's processes are able to manage significant risks. The audit plan includes projects to identify and assess the controls, processes, and assumptions that management is relying upon to manage the ERP implementation, construction project or procurement process.

So instead of using risk assessment to determine which audit universe elements we will include in the audit plan, we are auditing the processes and controls relied upon to manage the more significant risks to the enterprise.

Comments On The 2014 Audit Workplan

The 2014 Audit Work Plan is attached below and is provided to the Audit Committee as a combination of audits in progress and audits planned for the remainder of 2014 and beyond. The plan outlines the Auditor General's expected order of completion for the proposed audits.

The 2014 Audit Work Plan provides City Council with an overview of how resources allocated to the Auditor General's Office may be used. The Audit Work Plan is intended to be flexible and may be amended by the Auditor General as required. The bylaw establishing the Auditor General's Office provides that once established, "no deletions or amendments to the annual audit plan shall be made except by the Auditor General, however, Council may add to the annual audit plan by a two-third majority vote." As always, these projects have been identified on the basis of risk, where audit or review procedures are expected to present the greatest organizational value for the time committed.

The Audit Committee will note that this year, the Auditor General's plans have been significantly impacted by recommendations found within the Shanendoah Reort, and the related requirements of the Institue Of Internal Auditors.

AG Duties

2. Plan, conduct, evaluate and monitor results of financial, compliance and performance (value for money) audits (except the annual attest audit) of all programs, activities and functions of CGS, including departments, agencies, boards and commissions, and the offices of the Mayor and members of Council.

As in the past year, our audit work plan will also include monitoring of the results and status of completion of management's action plans to ensure that the intended results are achieved.

AUDITOR GENERAL'S OFFICE

AUDIT WORK PLAN 2014

Audit Focus	Projects identified where audit or review procedures are expected to present the greatest organizational value for the time committed	Proposed Order of Audits
Value For Money	Finance Services - Competitive Procurement	1
Quality Of Safeguarding Of Assets	Infrastructure Services, Finance Services, Administrative Services, HR Services - Confirming Minimum Training Requirements Of Contractors	2
Value For Money	Planning & Development - Environmental Services Waste Collection Contracts	3
Value For Money	Infrastructure Services, Finance Services - Payments For Construction Work & Materials	4
Value For Money	Planning & Development - Building Services, Committee Of Adjustments - Building Permits and Inspections	5
Value For Money	Community Development - Greater Sudbury Housing Corporation	6
	<u>FUTURE AUDITS</u>	
Quality Of Safeguarding Of Assets	Administrative Services, Clerks - Freedom of Information Request Process	
Quality Of Safeguarding Of Assets	Administrative Services, Technology - Document Management and Record Retention	
Quality Of Safeguarding Of Assets	Administrative Services - Information Technology - GRC Review	
Quality Of Safeguarding Of Assets	Executive, Departmental, Divisional & Program Management – City of Greater Sudbury - GRC Review	
Quality Of Safeguarding Of Assets	Administrative Services - CGS Citizen Interface (311 System)	
Value For Money	Corporate Wide, Finance Services - Pricing and Discount Agreements (Procurement Phase 2)	

Value For Money	HR Administration, Finance Services - Position Management	
Quality Of Safeguarding Of Assets	Executive - Healthy Community and Executive Office Expense Review	
Quality Of Safeguarding Of Assets	Executive - Corporate Grants, Donations and Contributions	
Value For Money	Infrastructure Services - Storm Water Drainage Systems	
Value For Money	Administrative Services - Information Technology	

Contact

Auditor General's Office

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Presented To:	Audit Committee
Presented:	Tuesday, Jun 17, 2014
Report Date	Thursday, Jun 12, 2014
Type:	Presentations

Request for Decision

Audit Report - Competitive Procurement

Recommendation

THAT the City of Greater Sudbury received the report dated June 11, 2014 for information only;

AND THAT the action plans identified in this report be recommended for approval.

Signed By

Auditor General
 Brian Bigger
 Auditor General
Digitally Signed Jun 12, 14

SUMMARY

Objectives

The objectives of this audit were to evaluate if:

- a) Competitive Procurement activities are being administered in accordance with Finance Services strategy, plans and objectives.
- b) Current internal controls and independent monitoring provided by Supplies and Services are effectively designed and operating to provide assurance that Procurement Objectives outlined in the Purchasing By-Law (2006-270) are achieved by Operating Departments; and
- c) Risks to the City arising from contracts, agreements and commitments are being managed and maintained at acceptable levels.

Background

The City's procurement objectives stated in the Purchasing By-Law (2006-270) are:

- a) *To encourage competition among suppliers;*
- b) *To maximize savings for taxpayers;*
- c) *To ensure service and product delivery, quality, efficiency and effectiveness;*
- d) *To ensure fairness among bidders; and*
- e) *To ensure openness, accountability and transparency while protecting the financial best interests of the City of Greater Sudbury.*

In 2001 the City acquired and rolled out the PeopleSoft finance system. However, thirteen years later, the Auditors found that only 12% of the procurement transactions over \$1500, (25% of the dollar value), are being processed using PeopleSoft. Such underutilization of automated features of a system designed to facilitate compliance with By-Laws, management and monitoring of purchases increases the risk of inadequate monitoring and failure to initiate timely corrective action.

Finance Services strategies, objectives and goals continue to refer to the need for the CGS-wide development and use of PeopleSoft finance system functionality and foundational elements.

Finance Services has identified areas where improvements to internal controls and business processes are required, which are aligned with the Auditor General's opportunities noted in this audit. Action Plans to address these improvements have been reflected in the Finance Strategic Plan and other reports to City Council. For example, Council recently approved a new Purchasing By-Law in February 2014, and in September 2013, a Procurement Contract Administration Policy was approved. These two key policy documents, coupled with management's plans to expand the use of the PeopleSoft system, will improve the framework of internal controls, once implemented over the next few years.

Finance Services have been working on the foundational pieces to improve the City's procure to pay cycle. These foundational pieces include: Purchasing By-Law, business process review / policy development and expansion of PeopleSoft functionality. Once the foundational pieces are complete, and resources are identified in operating departments, Finance had stated that they do plan to amend City policies to make the use of electronic purchase orders mandatory. This strategy has been verbally communicated to the AG, documented in various reports to City Council, and in the Finance Strategic Plan.

Scope

The scope of the audit included:

- PeopleSoft transaction records for the period January 2011 to August 2013 and covered Procurement systems and practices, Policies and Procedures, Purchase Orders issued, Contract Management processes, Vendor Management practices, Blanket Orders, and payments. Records relating to public communication of RFQ, RFI, RFT, RFP, Pre-qualifications, and their results were also included in the review.
- Competitive procurement processes encompassing activities leading to, and pertaining to the acquisition of Materials, Operating Expenses, Equipment Expenses, Purchased/Contract Services. Our focus was on the management and monitoring of competitive procurement activities relating to contracts and agreements provided by Supplies and Services (Purchasing) Division of the Finance Services Department.
- Reviewing records and interviewing select personnel from Accounts Payable, Information Technology and other operating departments.
- Evaluation and assessment of internal control structure (policies and procedures, staff skills, internal reporting and performance measures) with procurement objectives identified by management with the Purchasing By-Law 2006-270.
- Comparison of CGS procurement practices against principles established within the COSO Internal Control – Integrated Framework^[1].
- Our professional standards also required us to consider the possibility of fraud or abuse. Accordingly, we assessed existence and control weaknesses for fraud or abuse.
- We conducted our review in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we adequately plan for the audit; properly supervise audit staff; obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions; and prepare audit documentation related to the planning, conducting, and reporting for each audit. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit.

Report Highlights

In conducting the audit, the Auditor General's office has referenced widely accepted frameworks such as the IIA'S "Three Lines Of Defense" for evaluations of governance, risk management and control, and COSO's "Integrated Framework Of Internal Control".

The line of defense most likely to benefit from CGS-wide development and use of PeopleSoft finance system functionality would be centralized finance oversight and monitoring of procurement activities.

According to COSO, "Internal control is broadly defined as a process, effected by an entity's board of directors^[2], management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following three categories: effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations." COSO considers these categories to be overlapping, yet distinct. The effectiveness of an internal control system is measured by its capacity to provide reasonable assurance to the City Council and management that these three objectives have been met.

COSO identified five interrelated components of internal control.

- 1) The control environment, which includes the integrity, ethical values, and competence of an organization's people.
- 2) Risk assessment.
- 3) Control activities.
- 4) Information and communication, which encompasses the methods for identifying, capturing, and communicating pertinent information in a time frame that enables people to carry out their responsibilities, and
- 5) Monitoring, and oversight.

These components combine to form an integrated system of controls.

To conclude that internal control is effective in any category of objectives; Operations, Financial Reporting, or Compliance, all five components must be present and functioning effectively.

The Auditor General noted:

- A risk of continued slippage in the completion of the planned roll out of foundational pieces to improve the City's procure to pay cycle.
- The need to clean up and improve the administration of Blanket Purchase Order Agreements.
- The need to improve methods used to estimate and report on the value of awarded contracts on the City's website.
- The need to improve use of functionality, features and automated controls in PeopleSoft by replacing manual controls currently being used Citywide.
- The need to improve oversight and monitoring of all purchases through independent spend analysis.
- The need to improve accountability through performance measures in relation to procurement.
- The need to improve the current staffing approach to provide for succession planning and staffing key positions in purchasing.

The full audit report is attached to this agenda. For further information regarding this report, please contact Brian Bigger at extension 4402 or via email at brian.bigger@greatersudbury.ca

Authored By:

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Senior Auditor

Brian Bigger, CPA, CGA, CRMA
Auditor General
brian.bigger@greatersudbury.ca

Competitive Procurement

June 12, 2014
FINAL REPORT



SUMMARY

Objectives

The objectives of this audit were to evaluate if:

- a) Competitive Procurement activities are being administered in accordance with Finance Services strategy, plans and objectives.
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Background

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In 2001 the City acquired and rolled out the PeopleSoft finance system. However, thirteen years later, the Auditors found that only 12% of the procurement transactions over \$1500, (25% of the dollar value), are being processed using PeopleSoft. Such underutilization of automated features of a system designed to facilitate compliance with By-Laws, management and monitoring of purchases increases the risk of inadequate monitoring and failure to initiate timely corrective action.

Finance Services strategies, objectives and goals continue to refer to the need for the CGS-wide development and use of PeopleSoft finance system functionality and foundational elements.

Finance Services has identified areas where improvements to internal controls and business processes are required, which are aligned with the Auditor General's opportunities noted in this audit. Action Plans to address these improvements have been reflected in the Finance Strategic Plan and other reports to City Council. For example, Council recently approved a new Purchasing By-Law in February 2014, and in September 2013, a Procurement Contract Administration Policy was approved. These two key policy documents, coupled with management's plans to expand the use of the PeopleSoft system, will improve the framework of internal controls, once implemented over the next few years.

Finance Services have been working on the foundational pieces to improve the City's procure to pay cycle. These foundational pieces include: Purchasing By-Law, business process review / policy development and expansion of PeopleSoft functionality. Once the foundational pieces are complete, and resources are identified in operating departments, Finance had stated that they do plan to amend City policies to make the use of electronic purchase orders mandatory. This strategy has been verbally communicated to the AG, documented in various reports to City Council, and in the Finance Strategic Plan.

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- Competitive procurement processes encompassing activities leading to, and pertaining to the acquisition of Materials, Operating Expenses, Equipment Expenses, Purchased/Contract Services. Our focus was on the management and monitoring of competitive procurement activities relating to contracts and agreements provided by Supplies and Services (Purchasing) Division of the Finance Services Department.
- Reviewing records and interviewing select personnel from Accounts Payable, Information Technology and other operating departments.
- Evaluation and assessment of internal control structure (policies and procedures, staff skills, internal reporting and performance measures) with procurement objectives identified by management with the Purchasing By-Law 2006-270.
- Comparison of CGS procurement practices against principles established within the COSO Internal Control – Integrated Framework¹.
- Our professional standards also required us to consider the possibility of fraud or abuse. Accordingly, we assessed existence and control weaknesses for fraud or abuse.
- We conducted our review in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we adequately plan for the audit; properly supervise audit staff; obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions; and prepare audit documentation related to the planning, conducting, and reporting for each audit. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit.

Report Highlights

In conducting the audit, the Auditor General's office has referenced widely accepted frameworks such as the IIA'S "Three Lines Of Defense" for evaluations of governance, risk management and control, and COSO's "Integrated Framework Of Internal Control".

The line of defense most likely to benefit from CGS-wide development and use of PeopleSoft finance system functionality would be centralized finance oversight and monitoring of procurement activities.

According to COSO, "Internal control is broadly defined as a process, effected by an entity's board of directors², management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following three categories: effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations." COSO considers these categories to be overlapping, yet distinct. The effectiveness of an internal control system is

¹ Committee Of Sponsoring Organizations for The Treadway Commission. (COSO 2013 - Internal Control — Integrated Framework)

² In the City's case, the Council

measured by its capacity to provide reasonable assurance to the City Council and management that these three objectives have been met.

COSO identified five interrelated components of internal control. 1) The control environment, which includes the integrity, ethical values, and competence of an organization's people. 2) Risk assessment. 3) Control activities. 4) Information and communication, which encompasses the methods for identifying, capturing, and communicating pertinent information in a time frame that enables people to carry out their responsibilities, and 5) Monitoring, and oversight. These components combine to form an integrated system of controls.

To conclude that internal control is effective in any category of objectives; Operations, Financial Reporting, or Compliance, all five components must be present and functioning effectively.

The Auditor General noted:

- A risk of continued slippage in the completion of the planned roll out of foundational pieces to improve the City's procure to pay cycle.
- The need to clean up and improve the administration of Blanket Purchase Order Agreements.
- The need to improve methods used to estimate and report on the value of awarded contracts on the City's website.
- The need to improve use of functionality, features and automated controls in PeopleSoft by replacing manual controls currently being used Citywide.
- The need to improve oversight and monitoring of all purchases through independent spend analysis.
- The need to improve accountability through performance measures in relation to procurement.
- The need to improve the current staffing approach to provide for succession planning and staffing key positions in purchasing.

For further information regarding this report, please contact Brian Bigger at extension 4402 or via email at brian.bigger@greatersudbury.ca

Authored By: Lal Balkaran, FCGA, FCMA, CGMA, CIA and Brian Bigger, CGA, CRMA

OBSERVATIONS AND ACTION PLANS - 1

Achievement Of Purposes, Goals, And Objectives Of The Purchasing By-Law 2006-270

Observation

The auditors noted significant opportunities to improve competitive procurement oversight, monitoring and purchasing practices in the achievement of purposes, goals and objectives of the Purchasing By-Law 2006-270.

1.1 Blanket Purchase Orders

“BLANKET PURCHASE ORDERS (By-Law 2006-270)

12 (2) The Agent shall establish and maintain Blanket Purchase Orders.”

- Administration of Blanket Purchase Agreements is important, as they generally contain negotiated discounts and pricing specific to the City.
- During the audit, we noted that in 2012, and again in 2013 Finance staff had initiated a detailed review of Blanket Purchase Orders that needed further review and updating.
- At the first meeting in October 2013 between the auditors and management, management acknowledged that subsequent to their “clean up” in 2012, Finance had identified further blanket orders that required renewal and further clean up of their central records of blanket purchase orders.
- The audit confirmed existence of numerous agreements in Supplies and Service’s record of Blanket Purchase Order Agreements that were outdated and requiring maintenance and update.
- The status of the joint Finance, Senior Management Team and Operating Department Blanket Agreement Clean-up was provided to the auditors by Finance in October 2013.

A summary of management’s spreadsheets indicated the following:

Action	Number of records	Percent
Population of Blanket Purchase Orders	<u>318</u>	<u>100%</u>
Records removed/deleted	93	29%
Recommended for renewal	76	24%
Recommended for re-tendering	12	4%
Records Requiring Update	10	3%
Still under review (October 2013)	127	40%

- Additional audit testing of City expenditures indicated that an analysis of Operating Division Management’s spending would likely result in a significant increase to the above identified number of Blanket Purchase Orders.

1.2 Independent monitoring of expiry dates of Purchase Contracts

Finance Services does not maintain a centralized list of contracts with their expiration dates. Instead, reliance is placed on the operating departments. Maintenance of Contract records hold the key to

ensuring that competitive bid solicitations are initiated, and communicated to prospective bidders well before the expiration of the contract.

By placing reliance on manual systems and processes, there is a risk that existing vendors and suppliers may enjoy extension of contracts and continue to provide goods and services, contrary to City's procurement objectives.

Example – Illustrating An Impact Of Contracts Expired in 2011:

The Purchasing By-Law (2006-270) requires a competitive process to be initiated when more than \$35 thousand of expenditure is awarded.

- Contract IES06-20 Water/ Wastewater Treatment Chemicals expired on March 31, 2011. However, the City continued and paid 60 invoices between April 2011 and August 2013 totaling an amount of \$388 thousand referencing the expired contracts. No competitive bid was solicited by the City for this procurement over \$35 thousand as required by the Purchasing By-Law.
- Further, no exceptions were reported to Council, nor were Council requested to approve these continued contract extensions beyond their original expiry dates.
- A report should have been provided to Council, requesting approval for the continued contract extensions beyond the original contract expiry dates.

1.3 Opportunities to Improve Purchase/Tendering Practices

Example – Illustrating Small Volume Purchases Accumulating To A Larger Volume:

1. A vendor was awarded Road Maintenance work on a call by call basis.
 - Since the value of each "call" averaged under \$3 thousand, an opportunity to bid or quote on the work was not publicly advertised.
 - During the period of our audit review, 43 individual awards of work were purchased from this vendor (38 charged to the same department and account).
 - The value of work awarded added up to \$127 thousand.
 - No current blanket purchase order or open competitive RFT or RFP process was found.

Example – Illustrating Opportunity To Tender Larger Volume Purchases:

- 2) A vendor provides Tires and Tire repair Services to the City.
 - The total amount of Tires and Tire Repair Services purchased from this vendor exceeded \$590 thousand during the period of our audit review.
 - No current blanket purchase order or open competitive RFT or RFP process was found.

Example – Illustrating Opportunity To Tender Larger Volume Purchases:

- 3) Two key vendors provide HVAC and Mechanical Maintenance and Repair services for City facilities.

- Even though both the combined total acquisition costs for HVAC and Mechanical Maintenance and Repairs purchased from these two vendors exceeded \$4.1 million over our period of review, only \$1.1 million of purchases were in reference to a blanket order or contract.
- No current blanket purchase order or open competitive RFT or RFP process was found in Finance Purchasing central files for \$3.0 million or 3,871 of those transactions.

1.4 Inconsistent reporting of the value of contracts awarded

Auditors reviewed the City's Tenders and Results webpage for electronic advertising/announcements and found that methods used to estimate and report on the value of contracts on the City's website were inconsistent.

- Total Acquisition Cost descriptions examined by the auditor that were posted within the City's Tenders and Results webpage between January 2011 and August 2013 ranged from instances of:
 - No description of cost;
 - Unit Price only;
 - An Annual Contract Cost (reflecting a first year / annualized acquisition cost estimation based of the volume of work described in the tender specifications);
 - Total Contract award (reflecting only the first year / annualized acquisition cost based on the volume of work described in the tender specifications); and
 - Total Contract award (reflecting only the base term years acquisition cost based on the volume of work described in the tender specifications but excluding the cost of extension years).
- In only one case out of 337 over the last three years, did the advertisement accurately identify the Total Acquisition Cost reflecting the base term years acquisition cost based of the volume of work described in the tender specifications plus the cost of extension years. Ironically, this interpretation of Total Acquisition Cost was later reversed as a correction.
- "All Bid solicitations over \$35,000" was interpreted as:
 - A one-time expenditure expected to exceed \$35,000;
 - Annual expenditures expected to exceed \$35,000;
 - Responses to bid solicitations (based on hypothetical volumes) expected to exceed \$35,000;
 - Expenditures over the base term of the agreement (excludes extension terms) to exceed \$35,000; and,
 - Expenditures over the base term plus extension terms of the agreement expected to exceed \$35,000.

Quality Of Announcements On Tender Results Web Page (January 2011 to August 2013)		
Total Number Of Announcements	337	
Number Of Announcements With "Price" or "HST" Mentioned	337	100%
Number Of Announcements With "Term" of Contract Mentioned	4	1%
Number Of Announcements With Total Acquisition Cost Provided For Full Term of Award (Including Extensions)	1	0.25%
Number with Award Results But No Minutes	1	0.25%

- Since January 2011, only 4 out of 337 (1%), publicly communicated procurement announcements referred to the term of the contract being awarded.

1.5 Content of RFP/RFT announcements

The content of RFT and RFP public advertisements found on the City's Tender Results Web Page was inconsistent. The Auditors observed that transparency could be improved if the advertisements consistently provided the following information:

- Name of the vendor that the contract has been awarded to;
- Total estimated value of the award;
- The contract or reference number;
- The contract start date;
- The base contract end date;
- The end dates of any contract extensions;
- If the contract is similar to a previous contract;
- The contract or reference number of the previous contract; and
- The previous contract's end date.

1.6 Consistency of the City's conflict of interest rules.

- Conflicts of interest as described in the Purchasing By-Law (2006-270) were not as inclusive as the Municipal Conflicts Of Interest Act.

Business Impact

The City tracks and publicly reports on the "Benefit of The Tendering Process"³ through the annual Ontario Municipal Benchmark Initiative (OMBI). The measure describes the difference between the lowest bid and the second lowest bid when the City has used a formal tender process. This benefit of competitive procurement through a formal tender process has averaged around 10% since 2008 for the City. When independent oversight and monitoring through spend analysis does not exist, or is ineffective, the risk is that those benefits of a formal tendering process will be lost.

- When procurement opportunities are not communicated to prospective vendors on a timely basis, the existing vendors gain an unfair advantage. Such situations are comparable to absence of competitive procurement practices and should be discouraged by Senior Management and Council.
- When the procurement process is not in accordance with the Purchasing By-Law, the City's reputation and legal position may be at risk.
- The Finance Purchasing Division has recognized the need to re-establish their Blanket Purchase Order Agreement records, which at this point requires extensive manual research, going back to source documents.
- Blanket or Standing Order Agreements often contain special pricing and/or discounts. There is a great opportunity for the City to implement independent monitoring, validation and verification of pricing and discounts once Blanket Purchase Order (Standing Offer) Agreement records are re-established.

³ Refer to Appendix 1

- Due to the inconsistent wording of RFT / RFP tender results advertisements and reporting of contract award values (total acquisition values), the objective of transparency is not being met for all bidders (including prospective bidders).
- If organization policies regarding conflicts of interest are not consistently communicated and applied across the organization there may be confusion.

Management's Action Plans

1.1 Blanket Purchase Orders

- a) *As disclosed in the reports to City Council in April 2013 and January 2014, staff in Supplies and Services and the Operating Departments will continue the established work plan to complete the renewal process and ensure existing Blanket Orders are updated via competitive bid solicitations, where required. This work plan also included education to Authorized Employees about the changes to the Purchasing By-Law, and the use of spend analysis tools to identify competitive procurement opportunities. Timeline: On or before June 30th, 2015*

1.2 Independent Monitoring of expiry dates of Purchase Contracts

- b) *The Blanket Orders established under Contract IES06-20, for the purchase of Water/Wastewater Treatment Chemicals have been included in the renewal process as outlined above, and a report to City Council requesting approval for standardization and next steps for the issuance of the Tender will be completed before June 30th, 2015.*

The following is additional information regarding this Contract. Contract IES06-20 for Water/Wastewater Treatment Chemicals was awarded to 5 successful bidders for various chemicals on a per unit price and Blanket Orders were issued.

When Contract IES06-20 expired the City tendered Contract ISD11-6 "for the Supply and Delivery of Chemicals for the City of Greater Sudbury." There were 3 addenda issued. Bids were received from 12 Suppliers. The tender was complicated by issues such as truck sizes, delivery, trials and tests were required for the concentration of solutions and rust inhibitors. Clarifications were requested from a number of Suppliers and were not adequately provided. A decision was not reached before 90 days had lapsed, so the tender was canceled and no award was made.

Water and Waste Water Division management must be very cautious before deciding to change Suppliers, chemicals or concentrations that could affect the quality of the drinking water, to ensure compliance with Ministry regulations. The City continued to purchase the Chemicals from the existing Suppliers/Blanket Orders, in many cases with no or minimal increases to the unit prices.

- c) *The Supplies and Services Section does maintain a list of all Contracts in Excel, by department, by year, as well as a list of Blanket Orders. This information is available to all City staff, and stored in the Supplies and Services Section of City's internal website (City Links). Procedures were modified to ensure that the contract expiration date, or delivery date or substantial completion date is tracked in the excel spreadsheet, until the PeopleSoft functionality (or alternate solution) is developed.*

1.3 Opportunities to improve Purchase/Tendering Practices

- d) Complete Blanket Order renewal process as outlined above.
- e) Implement the communication plan established to educate Authorized Persons in operating departments about the changes to the Purchasing By-Law, and more specifically the Annual Acquisition Cost, Total Acquisition Cost thresholds, and guidelines for the Quotation Process. Timeline : June 2014
- f) Review the PeopleSoft functionality to identify tools and develop the framework to assist with spend analysis. Timeline: June 2015
- g) Implementation of the Contract Renewal Form : To be rolled out July 1, 2014 with the implementation of By-Law 2014-01

1.4 Inconsistent reporting of the value of contracts awarded and,

1.5 Content of RFP/RFT announcements

- h) Supplies and Services will research the websites of other municipalities to determine best practices for the disclosure of the various types of Contract Awards (ie. Unit Price, Fixed Price, Cost Plus, and the disclosure may vary for the purchase of goods, services or construction). Subsequently procedures and updated templates will be developed to ensure consistency in the wording of CGS's Contract Awards and notification of bid solicitations on the City's website. Timeline: September 2014
- i) To enhance transparency and accountability, the Purchasing By-Law 2014-01 also included a new requirement for the Purchasing Agent to provide a report to City Council which summarized the contract awards greater than \$50,000. This report will also be posted on the City's website. Timeline: Completed; First Report will be provided in August 2014.

1.6 Consistency of the City's conflict of interest rules

- j) The Auditor General provided this feedback in September 2013 during the preparation of the Purchasing By-Law and By-Law 2014-01 includes amended language consistent with the Municipal Conflict of Interests Act. Status: Completed

Management Comments

1.1 Blanket Orders

The City's Purchasing By-Law 2006-270 authorized the use of Blanket Order Contracts to be established to purchase repetitive Goods or Services for a specified period of time, when convenience and location are significant factors in determining Total Acquisition Cost and the quantity and demand are unknown. Two types of Blanket Orders existed:

- (1) Convenience/Location and Repetitive: where pricing is obtained and a maximum dollar limit per release is established. (Note: Many did not contain expiry dates)
- (2) Repetitive Supplies/Services: Issued through a Tender/RFP Process

During 2011 and 2012, staff in Supplies and Services cleaned up the inventory of Blanket Orders and deleted numerous Blanket Orders that were no longer required. During this review, management

identified that additional review, renewal and updating of many Blanket Orders was required. This was reported to City Council in two reports related to the updating of the Purchasing By-Law, in April 2013 and in January 2014.

As a result of management's review, in April 2013 Finance recommended changes to the Purchasing By-Law which would eliminate Blanket Orders, and that these contracts will be replaced with Standing Offers. The By-Law also clarified that total acquisition costs under the Standing Offers must comply with the procurement thresholds and other provisions of the By-Law.

Further, in January 2014, City Council approved the following resolution "That the City's existing Blanket Orders be maintained until they expire, and that any existing Blanket Orders requiring renewal be completed before June 30th, 2015.

1.3 Opportunities to improve Purchase/Tendering Practices

Management concurs with the AG's observation. Management's planned changes as communicated to City Council through the development of the revised Purchasing By-Law will increase opportunities for competitive procurement for low dollar value, repetitive purchases. However, for certain purchases in the AG's sample of transactions the quotation process was utilized by the Authorized Employee in accordance with the Purchasing By-Law 2006-270.

The Purchasing By-Law (2014-01) includes the use of Standing Offers as a tool to achieve purchasing efficiencies and increased competitive procurement for the low dollar value, repetitive purchases. The examples that the AG has provided are included in the Blanket Order renewal process, and will be replaced with Standing Offers, established competitively, where appropriate.

Action Plan Lead

Purchasing Agent and applicable Authorized Employees

Timing

The timing of the action plans are noted above.

OBSERVATIONS AND ACTION PLANS - 2

Optimum Use Of Investments Made In The PeopleSoft System.

Observation

2.1 City wide use of PeopleSoft

- The Auditors noted that Finance purchasing strategies, objectives and goals continue to refer to the need to develop and use foundational elements of PeopleSoft purchasing functionality. The City acquired and rolled out the PeopleSoft Finance system in 2001. This included the Purchasing Module.

- While business plans of the Finance division highlight the importance of City wide use of PeopleSoft functionality, there is a risk that implementation timelines may slip beyond the 2014 timeline established in the Finance Services Strategic Plan.

2.2 Reliance on manual systems and processes

- Currently, operating department staff place reliance on manual off-line processes and workarounds instead of using automated functionality and features of the PeopleSoft system.
- Auditors noted that such reliance on manual off-line purchase order processes has persisted for the past three years.
- Auditors estimated that 75% of dollars or 88% of transactions were supported by freeform references in description fields. Those references were to various forms of manual purchase orders and agreements.
- Only 25% of dollars or 12% of transactions were supported by a PeopleSoft Purchase Order.
- Greater use of electronic, PeopleSoft Purchase Orders could provide the basis for efficient, economical and effective oversight of procurement by management as suggested by the 2nd line of defense of "The Three Lines Of Defense Model"⁴.
- As was previously noted in examples listed in observation 1, this audit revealed significant internal control exceptions that could have been identified and remediated on a timely basis or reported to Council for approval, if automated functionality of PeopleSoft was used for all purchase orders.

2.3 Use of relevant defined fields in PeopleSoft

- Auditors noted that freeform references in description fields do not facilitate meaningful analysis and monitoring. Such inputs need to be made in appropriate fields defined for this purpose in PeopleSoft.

2.4 Internal control framework

- Application of an appropriate effective internal control framework over procurement activities may continue to be negatively impacted until all purchase orders across the City are issued from PeopleSoft.

2.5 Purchasing Activity Report (PARS)

- A manual Purchasing Activity Report (PARS) was developed by purchasing in 2010 as a tool to manage and track the work load of each Supplies and Services Coordinator.
- Our review of the PARS reports revealed that Supplies and Service's manual records of contracts and blanket purchase agreements often did not contain contract expiration dates, name of the successful bidder, total acquisition costs and/or annual acquisition costs. In the absence of this critical information, effective management, tracking and projection of workloads for individual Supplies and Services Coordinators may be ineffective.

⁴ Refer to Appendix 2

2.6 Contract functionality

- In 2012, Finance informed staff that PeopleSoft Commitments Control would be implemented in 2013. In September 2013, the Finance Division reported to Council that the PeopleSoft Purchasing Contracts functionality had been implemented in 2012. However, during the audit, we noted that testing continued for certain contract types during fall of 2013 (e.g. notifications and progress payments).
- During the audit, we were advised that the PeopleSoft program still did not allow for all contracts to be entered (e.g., Revenue Bearing, Multiple Account #s, and Blanket Purchase Agreements)

Business Impact

- Reliance on manual processes by operating staff results in inconsistent application of controls by individual departments using various manual processes.
- The Finance Purchasing Division has recognized the need to re-establish their Blanket Purchase Order Agreement records, which at this point requires extensive manual research, going back to source documents.
- If City use of PeopleSoft Purchase Orders and Procurement Contract Functionality is not expanded, the City will not reap the benefits of its recent investments in PeopleSoft Commitment Control encumbrance system functionality and related reporting strategy.
- Management's current action plans indicate a risk of further timeline⁵.
- If PeopleSoft contracts, contract releases, purchase orders and purchase order releases do not include all procurement activity, the usefulness of the City's PeopleSoft Commitment Control encumbrance system functionality and related reporting strategy will be negatively impacted. Timelines identified in Finance's plan may not be achieved.

Management's Action Plans

Various reports to City Council and/or the Finance and Administration Committee, provided updates on the Finance Department's goals, action plans, and accomplishments, which are summarized in the department's Strategic Plan. More specifically, there are numerous action plans which have been identified to strengthen the City's Procure-To-Pay cycle. Goal #4 in the Finance Strategic Plan states: "Maximize the capabilities and opportunities provided by the financial information systems." To achieve this goal, a number of action items were identified and their status was summarized in the report to City Council in January 2014. The following is an extract of the action items and current status update:

- a) Implement and roll out the Commitment Control functionality in PeopleSoft: This functionality has been operational since February 2014. Roll out and training to Operating Departments will take place in June 2014.*

⁵ Supplies and Services advised the Auditors that they do not have the resources to go back to enter contracts earlier than August 2012. Purchases relating to roads, water, waste water and parks maintenance have largely been managed at the operating department level through the Municipal Maintenance Management System (MMMS), and are not expected to be migrated to PeopleSoft until the second phase of an implementation of a new work order system.

- b) *Expand the use of PeopleSoft Purchase Orders and implementation of recommendations from the Procure to Pay Process review. This is essential to ensure meaningful and reliable encumbrance data in Commitment Control. Timeline: On going*
- c) *Support IT in the development and roll out of Business Intelligence (BI) Reporting Strategy to replace ELinks. These financial reports will contain the Commitment Control encumbrances and pre encumbrances, where a PeopleSoft Purchase Order exists. Roll out and training to Operating Departments will take place in June 2014.*
- d) *Implement and roll out the Procurement Contract functionality in PeopleSoft. As reported to the Finance and Administration Committee in September 2013, challenges were discovered with the functionality and further resources and investigation is required before additional contracts can be entered. Finance has recently completed (in partnership with a PeopleSoft expert hired from Spyre Solutions Inc. the following reports:*
 - (i) *Business Process Review related to the CGS's use PeopleSoft Purchasing Module.*
 - (ii) *Solution Design Report to implement the PeopleSoft Procurement Contract functionality within the Purchasing Module*

Finance is in the process of hiring a temporary contract employee to implement the recommendations and business process changes recommended in these reports, which are required to enhance the City's use of the PeopleSoft Purchasing functionality.

Timeline: To be determined, since it is dependent on availability of resources, with the appropriate expertise.

It must be noted that if the Procurement Contract functionality does not meet the City's needs, Finance will work with IT to investigate options for a more robust Contract Management System.

- e) *Support the implementation of Cityworks, the City's Computerized Municipal Maintenance Management System. Phase 2 of this project includes the interface of PeopleSoft Purchasing and Accounts Payable. Timeline: 2015 to 2016*

Management Comment

The City has made progress on the foundational pieces to improve the City's procure to pay cycle. These foundational pieces include: Purchasing By-Law, business process review / policy development and expansion of PeopleSoft functionality. Once the foundational pieces are complete, and resources are identified in operating departments, management plans to amend City policies to make the use of electronic purchase orders mandatory. Managing the pace of change in the organization has been top of mind to the Chief Financial Officer, and Senior Management Team. The Finance Strategic plan outlined the required action items to achieve the goals, in a balanced approach, at a pace that the organization can manage with the resources it has.

The majority of the remaining Action Plans identified throughout this report, are only some examples of the initiatives that have been underway or completed to build the foundational pieces noted above.

Action Plan Lead

Manager of Accounting and Manager of Supplies and Services

Timing

The timing of the action plans are noted above.

OBSERVATIONS AND ACTION PLANS - 3

Monitoring And Oversight By Finance Over The Initiation Of Contracts, Agreements and Commitments.

Observation

3.1 Effects of manual monitoring processes

The following examples illustrate the need for effective monitoring and oversight of procurement by Finance as a second line of defense, and as part of an effective and integrated framework of internal controls for procurement.

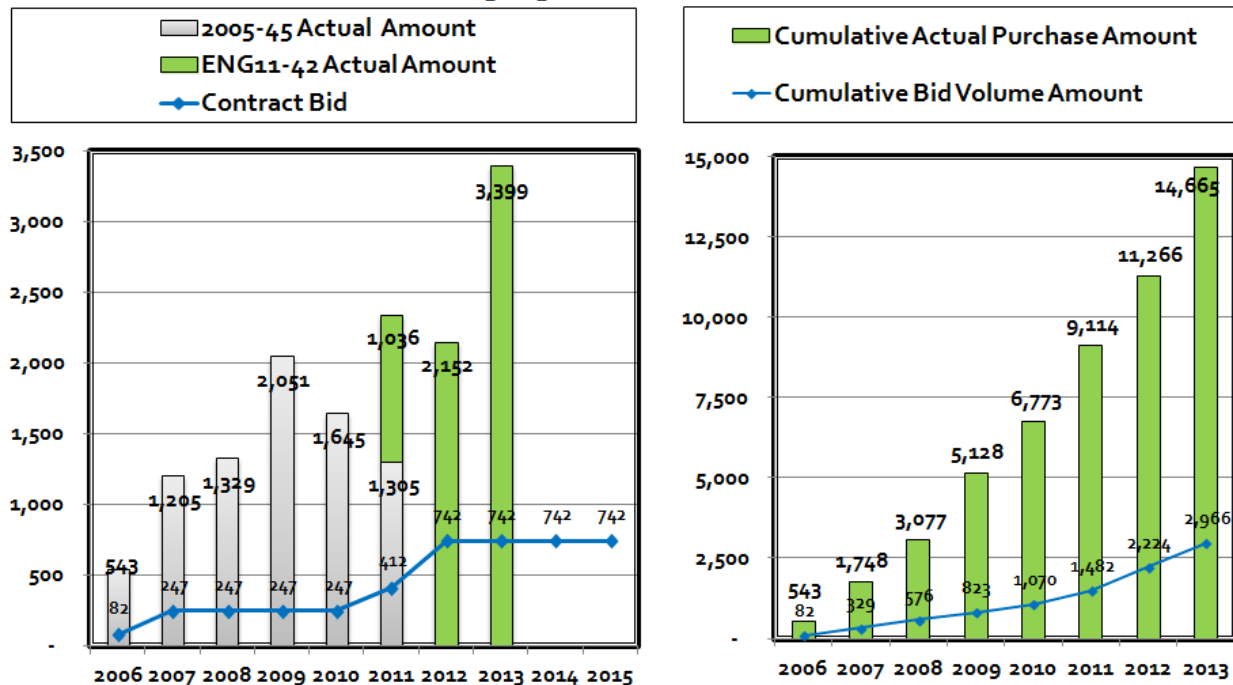
- In 2005, the City issued a tender for Water Main Repairs (the "2005 Tender"). The contract awarded was a unit price contract, but the evaluation was based on an annual estimate that was calculated by multiplying each unit price by the City's estimates of the quantities required. These estimated quantities were based on past volumes of water main repair work. The term of the contract was for three years with the option to extend the contract for two additional one year terms.
- The selected proponent, bid an estimated annual amount of \$247,437.
- The City extended the 2005 Tender contract for the full five years, during the term of which the City spent approximately \$8.1 million under the contract, which was over six times the original estimate bid by selected proponent.

Actual Expenditures Referring To Contract #2005-45		
Contract 2005-45		
Year	#Mths	Expenditures (000's)
2006	4	\$ 543
2007	12	\$ 1,205
2008	12	\$ 1,329
2009	12	\$ 2,051
2010	12	\$ 1,645
2011	8	\$ 1,305
5 YEAR TOTAL		\$ 8,078
YEARLY AVERAGE		\$ 1,616

- In 2011, when the 2005 Tender contract expired, the City put out a new tender for emergency water and waste water repairs (the "2011 Tender"). There were relatively minor variances in volume estimated as between the 2005 and the 2011 Tenders and these variances were inadequate to reflect the significant increases in actual volumes.
- Based on the increased quantities in the 2011 Tender, the amount of the annual estimate that was bid increased. The low bid in the 2011 Tender was again submitted by the same contractor at an estimated annual contract amount of \$740,550. Accordingly, the 2011 Tender contract was awarded to the same contractor. The length of the contract was again a three year term with two optional one year extensions.
- The other two bids submitted in response to the 2011 Tender came in at \$1,036,945 and \$1,381,016.

Actual Expenditures Referring To Contract ENG 11-42		
Contract ENG11-42		
Year	#Mths	Expenditures (000's)
2011	4	\$ 1,036
2012	12	\$ 2,152
2013	12	\$ 3,399
TOTAL		\$ 6,587
YEARLY AVERAGE		\$ 2,823

Contracts 2005-45 and ENG11-42 (\$ 000's)



Section 2 of Part II of the Purchasing By-Law sets out the City's purposes, goals and objectives with respect to its purchasing processes. The following principles are included within this section:

- (a) To encourage competition among suppliers;
- (b) To maximize savings for taxpayers;
- (d) To ensure fairness among bidders.

These principles align with general best practices for public sector procurement across Ontario. The question is whether the facts set out above meet these principles and best practices:

To maximize savings for taxpayers

- Management have stated that they were aware of the increases in contract costs and the annual budget was increased and/or reallocated. The City budget for these activities was doubled between 2008 and 2013.
- According to management, many factors influence the annual number of calls for service and resulting expenses for water and wastewater breaks, such as volumes, severity of the break and duration to repair service, location, weather and timing.
- Management has explained the City's contract cost increased as a result of two main factors.
 - a) Increased call volume of repairs due to aging infrastructure, and
 - b) Improved understanding of cost structure (developed in confirmation with Auditor General) which led to increased use of the Contractor during evening and overnight, especially for more severe breaks
- Management has assured the Auditor General's Office that the contractor has provided exceptional service in responding to the emergency infrastructure repairs requested by the City under the

contracts. Response times and quality of work have been excellent with a minimum impact to traffic and service disruptions.

- The above OMBI Value for the taxpayer is obtained, in large part, by ensuring the best price for services required by a public entity. Only by disclosing the full value of a contract would the City be able to ensure that it is obtaining best value and accordingly, it is not clear that this goal has been met with respect to the 2011 Tender.

To encourage competition among suppliers

- In order for there to be true competition as part of a competitive tender process, all information must be equally known by all bidders. In particular, any estimated quantities must be as accurate as possible in order to ensure fair opportunity to all bidders and that best value is offered by those bidders. Generally, the higher the volume of work that is estimated, the more competitive the rates a bidder will be willing to offer. Based on the information set out above, it appears that the full and accurate value of the work may not have been accurately disclosed in the 2011 Tender. It is possible that another competitor could have provided even more competitive rates had they known the true value of the total dollar spend under the contract.
- With respect to whether the City actually disclosed the full value of the possible work in the 2011 Tender, the Auditors General's Office is concerned that the total dollar spend exceeded the estimate based on the quantities disclosed in the tender by factors ranging from approximately twice as much (over 4 months in 2006) to nine times as much (in 2009). While minor increases above value estimates may be the norm when dealing with contracts with unknown quantities, these variances are clearly outside the acceptable norms for tendered contracts. Further, subject to a decrease between 2009 and 2010, the City's spend on the required services increased on an annual basis.
- While we acknowledge that there may be technical explanations for the increases in the estimated quantities that could factor into the ultimate analysis as to whether the City's estimated quantities in the 2011 Tender were reasonable and accurate, it appears that the City did not increase its anticipated estimated quantities sufficiently in the 2011 Tender to accurately reflect the anticipated spend on water main repair work.

To ensure fairness among bidders

- Finally, with respect to the goal of ensuring fairness to bidders, it would appear that the incumbent service provider, had access to information that other suppliers did not. That is, the incumbent service provider was aware of the actual amount spent by the City during the years of the 2005 Tender, including the trend towards significant annual increased spending in the area. The other bidders were only aware of the estimated quantities and the original estimated annual amounts tendered for the 2005 Tender. Full and equal disclosure of all relevant information, including volumes, is integral to a fair process and in this regard, this principle of the Purchasing By-Law may not have been met.
- We also note that Section 12(5) of the Purchasing By-Law provides as follows with respect to Blanket Purchase Orders: *"The expected quantity of the specified Goods, Services or Construction to be purchased over the time period of the agreement will be as accurate an estimate as practical and be based, to the greatest extent possible, on previous usage adjusted for any known factors."* Based on our observations above with respect to the significant increased spend between the 2005 and the 2011 Tender, it appears that the City's processes with respect to the 2011 Tender similarly may not have met this requirement of the Purchasing By-Law.

Business Impact

The establishment of effective, independent spending analysis, internal controls and monitoring to identify competitive procurement opportunities, will promote openness, transparency, accountability, fairness to bidders, and encourage competition in accordance with procurement objectives.

What is the benefit to the City when all bidders have access to the same information?

- Supplies and Services has reported “The Benefit Of Tendering Process” which is the difference between the lowest bids and second lowest bids on City tenders as an average of approximately 10% over the last five years (2008 to 2012).

Should the City decline to extend the 2011 Tender contract for the optional extension years and put the value of work out as a new tendering process?

Subject to any commitments already made to the incumbent, the City should consider not extending the existing 2011 Tender contract ENG11-42 for the optional extension years and retender its requirements for its emergency water main and waste water repair work.

- As set out above, given the fact that the estimated quantities were significantly lower than the actual spend, the current 2011 Tender contract may not represent the most accurate and competitive pricing available to the City and therefore could be a breach of the spirit of the City’s Purchasing By-Law. By retendering the value of work with updated estimates that accurately reflect the City’s anticipated spend on water main repair work, the City can assure adherence to the purposes, goals and objectives of its Purchasing By-Law.
- Now that the significant increased spending has been identified by the City, it should consider
 - a) establishing more accurate volume disclosure procedures and
 - b) mitigating against out of scope expenditures through the implementation of contract ceiling limits.

Management’s Action Plans

3.1 Effects of manual monitoring processes

3.1 Effects of manual monitoring processes

a) As noted above under observation #1.4 (pages 7 and 10), Supplies and Services will develop procedures to clarify and ensure consistency regarding the disclosure of Unit Price Contract awards posted on the City’s website.

Timeline: September 2014

b) Management will continue the action plans to increase the use of PeopleSoft Purchasing functionality, as outlined under the Action Plans for Observation #2. The work plans also include a review of the business processes related to procurement contract management for the various types of contracts/arrangements, such as, Standing Offers, Unit Price Contracts, Fixed Price Contracts. Timeline: To be determined, since it is dependent on available resources, with the appropriate expertise.

Compliance with the City's Purchasing By-Law

- c) *Contracts 2005-45 and ENG2011-42 are unit price contracts which were awarded after a competitive Tender, in accordance with the City's Purchasing By-Law. The estimated quantities in 2005 and 2011 were based on management's best estimates at that time. The term of Contract ENG2011-42 for Emergency Water and Wastewater repairs ends August 31, 2014, and the contract contains a renewal option to extend for 2 additional 1 year periods. The City will continue to follow the Purchasing By-Law 2014-01 Section 35 (4) regarding the Contract Extensions.*

Management Comments

Management believes that the issuance and award of these Tenders were in accordance with the Purchasing By-Law. Best and reasonable efforts were made to encourage competition, ensure fairness among bidders, and maximize savings for taxpayers. does not agree that the purchasing objectives were not met.

Action Plan Lead

Noted Above

Timing

Noted above

OBSERVATIONS AND ACTION PLANS - 4

Performance Measures To Enhance Accountability.

Observation

- Recent CGS trends indicate an increase in procurement costs, a decline in the number of bids per bid call, and a decline in the percentage of goods and services purchased through a competitive procurement process.⁶
- It is sound business practice for Management and Council to establish performance measures appropriate for responsibilities at all levels of the entity, reflecting appropriate dimensions of performance and expected standards of conduct, and considering the achievement of both short-term and longer-term objectives.
- Purchasing Metrics and Key Performance Measures are not fully in use to monitor the achievement of objectives for Procurement.
- Only a limited set of information for the Ontario Municipal Benchmarking Initiative or OMBI was prepared for 2011 and 2012.
- For the 2011 OMBI reported statistics, the annual number and \$ value of Purchase Orders awarded by Coordinators was reported.

Business Impact

- When the organization holds individuals accountable for their internal control responsibilities in the pursuit of objectives, there is a greater chance that the objectives will be achieved.

⁶ Source: OMBI (2013) measures reported in the 2014 budget book (Appendix 1)

- The lack of key metrics seriously impacts operations including the performance and productivity of Supplies and Services staff and reduces the effectiveness central purchasing support services.

Management's Action Plan

Supplies and Services will continue to participate in the OMBI Benchmarking Study, and explore opportunities with the OMBI expert panel to expand the number of measures.

Management Comment

None

Action Plan Lead

Manager of Supplies and Services

Timing

On-going

OBSERVATIONS AND ACTION PLANS - 5

Staff Development.

Observation

- Only the Manager, Supplies and Services, Purchasing Agent holds the Supply Chain Management Professional (SCMP) designation in the department. The SCMP is the highest achievement in the field and the mark of strategic chain leadership, administered by the Supply Chain Management Association (SCMA) which is the principal source of supply chain training, education and professional development.
- Staff members of Supplies and Services need to follow the annual SCMP CPD requirements to keep abreast with developments in the procurement profession, training which can help bring leading practices to discharge an effective procurement mandate.
- New staff members in the department should be encouraged to pursue the SCMP as they will be equipped with a technical certificate in purchasing which will professionalize the purchasing effort and bring best practices to the function and City operations.
- With Finance Services plans for major change to decentralized procurement processes through expanded use of PeopleSoft ERP purchase order, contract and commitments capabilities, there will be increased reliance on the capabilities of purchasing staff.

Business Impact

- Professional qualifications of purchasing staff may impact the success and achievement of Finance Services' objectives.
- The current staffing approach does not provide for succession planning and staffing key positions in purchasing.

Management's Action Plan

- Continue to provide training and professional development opportunities for the Supplies and Service staff.*
- Review the organizational structure in Supplies and Services and assess the sufficiency of the resources.*

Management Comment

No additional comments.

Action Plan Lead

Manager of Supplies and Services and Chief Financial Officer

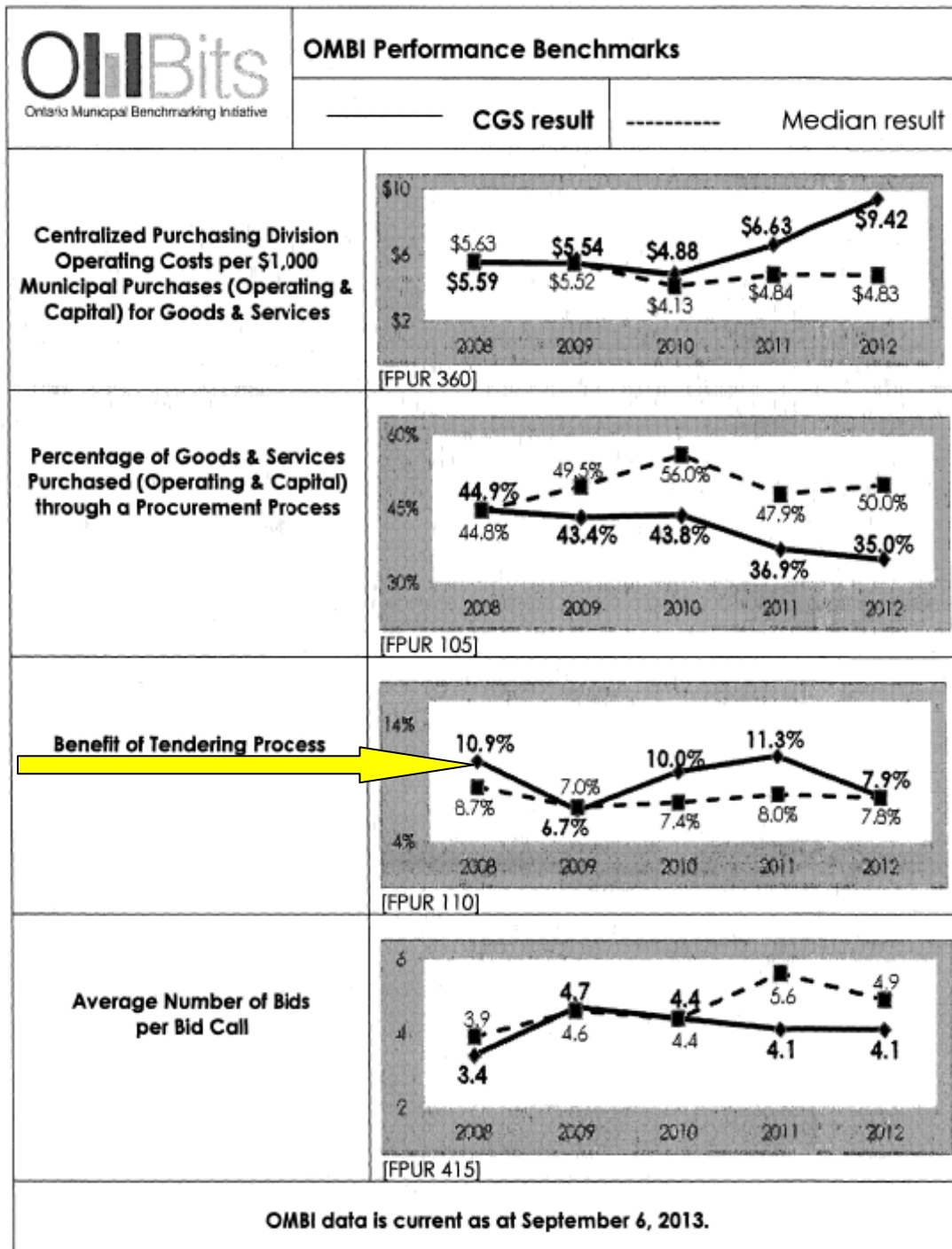
Timing

On going and 2014

APPENDIX - 1

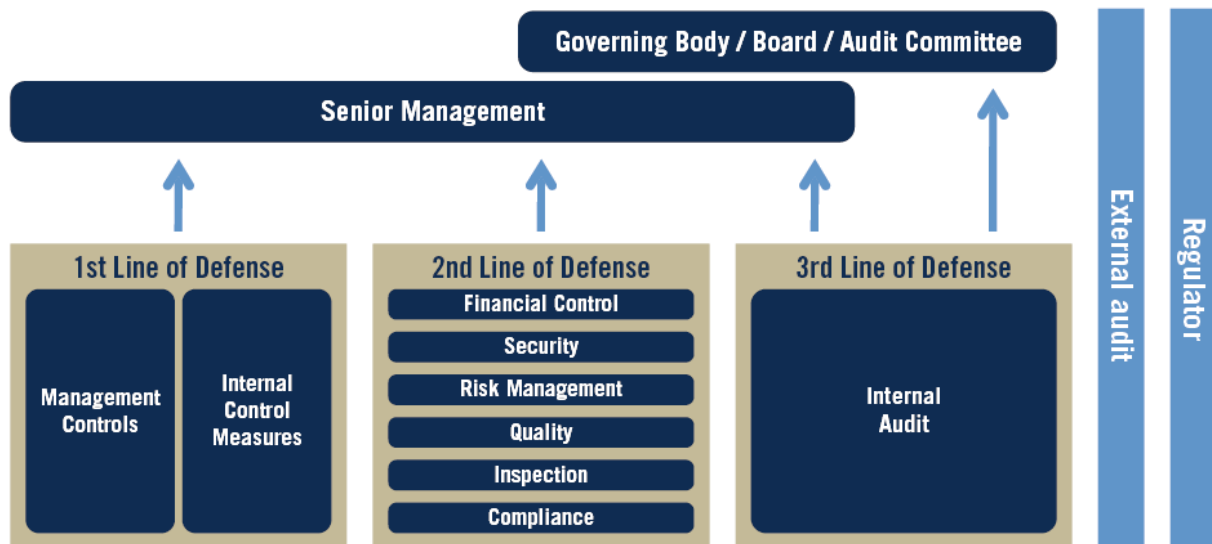
Supplies and Services Performance Measures

SUPPLIES AND SERVICES



APPENDIX - 2

The Three Lines of Defense Model



Adapted from ECIIA/FERMA *Guidance on the 8th EU Company Law Directive, article 41*

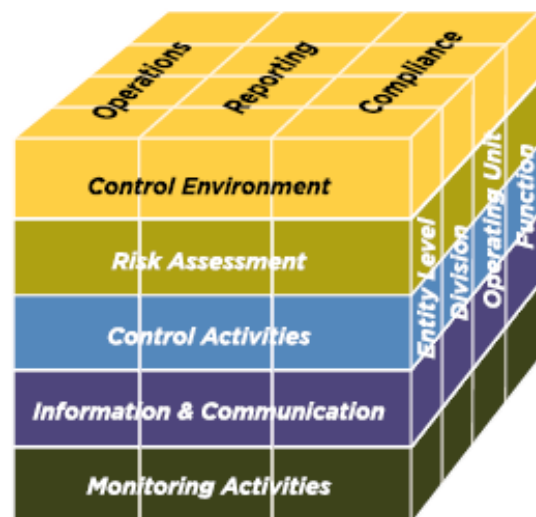
APPENDIX - 3

COSO – Integrated Framework Of Internal Controls

Relationship of Objectives and Components

A direct relationship exists between *objectives*, which are what an entity strives to achieve, *components*, which represent what is required to achieve the objectives, and the *organizational structure* of the entity (the operating units, legal entities, and other). The relationship can be depicted in the form of a cube.

- The three categories of objectives—operations, reporting, and compliance—are represented by the columns.
- The five components are represented by the rows.
- An entity's organizational structure is represented by the third dimension.



For Information Only

Audit Report - Monitoring Progress Of Action Plans (May 31, 2014)

Presented To:	Audit Committee
Presented:	Tuesday, Jun 17, 2014
Report Date	Wednesday, Jun 11, 2014
Type:	Presentations

Recommendation

For Information Only

BACKGROUND

In August of 2013, the Auditor General introduced an updated Audit Report format, as well as changes to our audit follow up process.

In our reports, we no longer identify audit findings, they are audit observations. We are also shifting from a focus on audit recommendations, to a focus on management's action plans. In our reports we will no longer highlight Auditors recommendations to management in cases where we believe that management's action plans are appropriate. Instead, we work with management, asking them to develop action plans that they own, and are committed to. Management's assignment of an action plan lead, and the expected timing are clearly identified in the audit report. The focus is on management's accountability for action and improvement.

This audit report format sets the stage well for audit monitoring and follow up of the status of management's action plans. The Auditor General's Office maintains an ongoing audit follow up process which involves a consolidation of management's own self assessment of any accomplishments, and the status of their action plans. Periodic reports are provided to Council with the aim of documenting the actions taken, lessons learned, progress milestones, cost savings, efficiencies and accomplishments recognized by management while following through on their action plans.

The self assessment reports are not evaluations or assurances provided by the auditor. Instead, the self assessments provided in the "Actions taken, results and /or actions planned" section are unedited, and in management's own words. The Auditors still reserve the ability to conduct our own progress assessments and progress audits.

SELF ASSESSMENT FOLLOW UP REPORTS (Compiled By The Auditors)

Appendices attached to this report contain detailed Follow Up Self Assessment reports for the following audit reports:

- Roads - Miscellaneous Winter Maintenance
- Accounts Payable

Signed By

Auditor General

Brian Bigger

Auditor General

Digitally Signed Jun 11, 14

- Conventional Transit
- Transit Kiosk
- Roads – Impact Of Changes To Road Design
- User Fees – Sports Fields
- Transit and Community Arena Advertising Agreement

SUMMARY OF THE STATUS OF MANAGEMENT'S ACTION PLANS (As Of May 31 2014)

Audit Name	Year Report Issued	Management's Self Assessment Of The Status Of Their Action Plans And Accomplishments				
		Total # Of Action Plans	Fully or Substantially Implemented	Alternative Action Taken	Action Plan Partially Implemented	No Substantial Action Taken
Roads Miscellaneous Winter Maintenance	2010	32	29	0	3	0
Accounts Payable	2011	19	17	1	1	0
Conventional Transit	2011	16	9	6	1	0
Transit Kiosk	2011	21	18	3	0	0
Roads – Impact Of Changes To Road Design	2012	13	11	0	2	0
User Fees – Sports Fields	2012	9	3	0	2	4
Transit and Community Arena Advertising Agreement	2013	5	2	2	0	1
Total		115	89	12	9	5
% By Status		100%	77%	10%	9%	4%
% Partially, Substantially, or Fully Completed			96%			

CONCLUSION

Ninety-six percent of audit action plans have been partially, substantially, or fully completed. These reports confirm that management's (and suppliers) response to audit observations, and a focus on action plans, has resulted in encouraging assessments of progress and improvements impacting all areas of the organization.



Audit Follow Up Report

May 31, 2014

To: Pre Audit Sub Committee

From: Brian Bigger, Auditor General

Re: Roads – Miscellaneous Winter Maintenance

Audit Report Released	June 2010
Original # Of Recommendations	32
# Of Action Plans Previously Completed	29
# Of Action Plans Now Closed	29
# Of Action Plans On Next Follow Up	3
Status As Of May 31, 2014	Some Delays

Recommendation and Summary Of Progress (Note: Self assessment conducted by Roads Division)	Self-assessed Status
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Recommendation 2 (a)

Due to the age of the software and limited ability within current MMMS to associate activities and costs to specific road assets or road segments, management should continue to investigate other available programs in the market place that could be used to support budget planning, work order management, productivity tracking and cost analysis to the infrastructure asset level.

- Partially Implemented

Original Management Response

Staff agree that a more updated software program should be pursued to better refine the MMMS system. A Project Development Team is being established to pursue a replacement for the current MMMS system and a new system is expected to be in place by early 2012.

Actions Taken, Results and /or Actions Planned - As Of June 30, 2013

Staff is currently involved with the implementation of a new Computerized Maintenance Management System (CMMS) to replace the legacy MMMS. Phase 1 is scheduled to be implemented by the Spring or 2014. Phases 2 and 3 will follow. The CMMS will include these functions.

Actions Taken, Results and /or Actions Planned - As Of May 31, 2014

Phase 1 of the new Computerized Maintenance Management System (CMMS) will be phased in over the next 24 months. Phases 2 and 3 will follow. The CMMS will include these functions.

Recommendation 3 (a)

It is recommended that the City continue to extend the implementation of an AVL/GIS system that will capture the entire roads infrastructure. This will reduce the need for paper based road patrol reports as the information can be captured timely and accurately, right into GIS. Therefore, our road data will be available for reference purposes. It will be complete, accurate and timely. This information will also assist in the investigation of claims by reducing the amount of time required to trace through paperwork. Since an AVL/GIS system contains all the maintenance information, it can also be used to track potholes and plan the most efficient and cost effective repair for a section of road. This will ensure that once a pothole is identified, it is repaired according to minimum maintenance standards. The system should handle work orders, in order to track the productivity of the crews.

- Partially Implemented

Original Management Response

Staff agree. Staff have been investigating an electronic road patrolling system which would be tied to the ACR system. It is anticipated this will be in place with the new MMMS system.

Actions Taken, Results and /or Actions Planned - As Of June 30, 2013

Council approved the purchase of new AVL hardware / software on May 28, 2013, which includes the development of an electronic Road Patrol application. Staff will commence work on the project in the spring/summer of 2013.

Actions Taken, Results and /or Actions Planned - As Of May 31, 2014

The AVL equipment is 80% installed, and will be completed prior to the start of the 2014/2015 winter control period. The Route Completion software is in development, with a trial expected to start in November 2014.

Recommendation 3 (b)

Management needs to improve procedures related to road patrol documentation to ensure regulatory requirements for patrols and repairs are consistently met.

- Partially Implemented

Original Management Response

Paper copy road patrol records are being kept and are continuously being improved. Staff follow the province's road patrol documentation process. Staff have been investigating an electronic road patrolling system which would be tied to the ACR system. It is anticipated that this will be in place with the new MMMS system.

Actions Taken, Results and /or Actions Planned - As Of June 30, 2013

Council approved the purchase of new AVL hardware / software on May 28, 2013, which includes the development of an electronic Road Patrol application. Staff will commence work on the project in the spring/summer of 2013.

Actions Taken, Results and /or Actions Planned - As Of May 31, 2014

The Route Completion software is in development. Following completion, the development of the Road Patrol software will commence.



Brian Bigger, CGA, CRMA

Auditor General for the City of Greater Sudbury



Audit Follow Up Report

May 31, 2014

To: Pre Audit Sub Committee

From: Brian Bigger, Auditor General

Re: Accounts Payable

Audit Report Released	May 2011
Original # Of Recommendations	19
# Of Action Plans Previously Completed	18
# Of Action Plans Now Completed	18
# Of Action Plans On Next Follow Up	1
Status As Of May 31, 2014	Some Delays

Recommendation and Summary Of Progress (Note: Self assessment conducted by the Finance Department)	Self-assessed Status
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Recommendation (g)	
<p>Invoices should reflect a Purchase Order (PO) generated within PeopleSoft. A PO system allows a three way match between invoice, PO and receipt of good. Therefore, all three must match in order to generate a payment. Once a match is made, the PO is closed and no further payments can be processed; thus preventing a duplicate payment. System based controls decrease the risk of an undesirable event, for example duplicate payments. Currently, most duplicate payments are being detected after the payment has been processed. From a control framework perspective, having preventative controls reduces the likelihood of the undesirable event occurring in the first place. Having system based controls rather than a manual check reduces the likelihood of an error, and can decrease processing time of invoices. This in turn, reducing the cost of processing an invoice, as the process becomes more automatic rather than manual. The PeopleSoft System was installed in 2001. Although, Finance is in the process of moving more PO's to PeopleSoft, it is understood that full implementation is still a few years away.</p>	<ul style="list-style-type: none"> Partially Implemented

Original Management Response

The overall management response at the beginning of this report highlights the key controls in Accounts Payable. At the time that PeopleSoft was implemented, the business process that was established included using PeopleSoft POs for purchases greater than \$5,000 as well as blanket POs and contract numbers. For purchases less than \$5,000 legacy POs and contract numbers and blanket POs if appropriate were to be used. When purchases are made pursuant to a contract, blanket purchase number or legacy PO, the operating department approves the actual invoice for payment by the appropriate signing authority signing the invoice. The signature is evidence that the operating department has authorized the purchase, received the purchase and confirms that the invoice accurately charges for goods or services that were authorized and received and is in accordance with the contract, blanket order or legacy purchase order and is therefore authorized for payment. We do agree that there is a need to move more purchases to PeopleSoft POs and to this end a project was initiated in the fall of 2009 to review the purchasing and payables cycle. There are many recommendations that have stemmed from this review and staff continues to work to implement these recommendations. A key recommendation was to move more purchases to PeopleSoft POs. Changes to the purchasing cycle involve extensive changes to business processes as well as cultural change and consequently will take some time.

Actions Taken, Results and /or Actions Planned - As Of June 30, 2013

Finance is encouraging the use of Peoplesoft Purchase orders, where efficient. Finance has implemented additional functionality such as procurement contracts to ease the process. In addition, Commitment Control has been implemented. The City will continue to increase the use of PeopleSoft purchase orders and this will be an on-going process.

Actions Taken, Results and /or Actions Planned - As Of May 31, 2014

The City has made progress on the foundational pieces to improve the City's procure to pay cycle. These foundational pieces include: Purchasing By-Law, business process review / policy development, expansion of PeopleSoft functionality and integration with the new CityWorks MMMS system. Once the foundational pieces are complete, and resources are identified in operating departments, management plans to amend City policies to make the use of electronic purchase orders mandatory.

Managing the pace of change in the organization has been top of mind to the Chief Financial Officer, and Senior Management Team. The Finance Strategic plan outlined the required action items to achieve the goals, in a balanced approach, at a pace that the organization can manage with the resources it has.

In June, Finance has scheduled training for authorized employees, and we will take the opportunity to continue to encourage the use of PeopleSoft Purchase Orders, where efficient.

Update on Procurement Contract Functionality and Peoplesoft Purchasing Module

The work on Procurement Contract functionality has been advancing at a slow pace, since challenges were discovered. As reported to City Council, Spyre Consultants was hired and performed a review of the City's use of the PeopleSoft Purchasing functionality. The recommendations from these reports are being reviewed and prioritized. Additional resources will be required to implement the recommendations and business process changes. Finance is in the process of hiring a temporary ERP Project Manager to assist with the implementation.



Brian Bigger, CGA, CRMA

Auditor General for the City of Greater Sudbury



Audit Follow Up Report

May 31, 2014

To: Pre Audit Sub Committee

From: Brian Bigger, Auditor General

Re: Conventional Transit

Audit Report Released	August 2011
Original # Of Recommendations	16
# Of Action Plans Previously Completed	15
# Of Action Plans Now Completed	15
# Of Action Plans On Next Follow Up	1
Status As Of May 31, 2014	Some Delays

Recommendation and Summary Of Progress (Note: Self assessment conducted by Transit Services)	Self-assessed Status
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Recommendation 14

A formal program of route analysis activities, route planning policies and standards considering such things as ridership demographics, citizen needs and minimum ridership by route need to be established.

- Partially Implemented

Original Management Response

Accepting the auditor's recommendation will require more manpower to develop, implement and maintain these new policies and standards.

Actions taken, results and /or actions planned - As Of June 30, 2013

Transit hired a Planner who will provide analysis of transit routes and will present a report to the Operations Committee regarding the process of rationalizing routes. Standards such as boarding counts form part of any route review and will be presented in the same report

Actions taken, results and /or actions planned - As Of May 31, 2014

The project is ongoing with much of the information in draft format. Unfortunately the transit planner resigned at the end of 2013. We have recently hired a new planner which is currently being trained and who will resume the task of completing this project.



Brian Bigger, CGA, CRMA

Auditor General for the City of Greater Sudbury



Audit Follow Up Report

May 31, 2014

To: Pre Audit Sub Committee

From: Brian Bigger, Auditor General

Re: Transit Kiosk and Cafe Contract Management

Audit Report Released	October 2011
Original # Of Recommendations	21
# Of Action Plans Previously Completed	19
# Of Action Plans Now Closed	21
# Of Action Plans On Next Follow Up	0
Status As Of May 31, 2014	Completed

Recommendation and Summary Of Progress (Note: Self assessment conducted by Finance Services)	Self-assessed Status
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Recommendation 9

Management should consider developing a new policy for determining the amount of the letter of credit. For example, the value of the contract as well as other risks (financial, operational, etc.) should be considered in establishing an amount for the letter of credit. The policy should consider instances where exceptions are made, how these exceptions are documented and what approvals are necessary.

- Fully or Substantially Implemented

Original Management Response

The City's construction contracts for capital projects have specific guidelines for the amounts that the City is to collect for bid deposits, bid bonds and letters of credit. Building on the guidelines in place for construction contracts, Purchasing, in consultation with Legal, will develop a policy and procedure that will apply to other types of contracts by the end of the first quarter of 2012.

Actions Taken, Results and /or Actions Planned - As Of June 30, 2013

The City has established guidelines, and the draft purchasing by-law has been amended to state that the Authorized Person must approve the securities. However Supplies and Services will develop a formal written policy for Contract Securities (Letters of Credit). It is anticipated that this will be completed in Q1 2014

Actions Taken, Results and /or Actions Planned - As Of May 31, 2014

As part of the Purchasing By-Law renewal project, management has rewritten the RFP and Tender Procedures. The new procedures will contain an Appendix, which will document the City's established guidelines for Bid Deposits and Performance Guarantees. This is substantially complete, and will be finalized in June 2014.

Recommendation 17

In order to simplify lease administration and reduce the risk of payment errors, the City should develop a system to flag when lease and contract renewals are coming due.
Auditor Comments: This solution was identified by management, and the Auditor General agrees that this would improve internal controls. It is a normal internal audit practice to recommend improvements working cooperatively and with the advice of management.

• **Fully or Substantially Implemented**

Original Management Response

The AG has adopted a recommendation in this updated report that was put forward by management in its response to the original recommendation. A system to flag when lease and contract renewals are coming due is required. If there is an effective system in place, then the renewal date should not be an issue. We do not agree that it would be more beneficial to have all leases renewing on January 1 and further it is not common business practice. Renewing leases and contracts can be significant work and having it all occur for January 1 is not practical. Action plan described in item 2 above.

Actions Taken, Results and /or Actions Planned - As Of June 30, 2013

Draft Purchasing By-Law changes approved by Finance and Administration Committee in April 2013.
Procurement Contract Administration Policy to be presented to Finance and Administration Committee in August 2013. In addition staff is pursuing the notification features within Procurement Contract Functionality in PeopleSoft.

Actions Taken, Results and /or Actions Planned - As Of May 31, 2014

Management continues to monitor contract renewals and expiry dates, on a decentralized basis. In addition, Supplies and Services is tracking expiry dates in Excel for Contracts that were awarded through a competitive bid solicitation. Also, Accounts Receivable reviews and monitors contracts for any overdue accounts.

As noted in the September 2013 City Council report on Procurement Contract Administration Policy, the City is also working on the implementation of the PeopleSoft Procurement Contract functionality and related business processes. Spyre Consulting was engaged to assist the City and this work was completed in March 2014. Finance is in the process of hiring a temporary ERP project manager to oversee the full implementation of the procurement contract functionality.



Brian Bigger, CGA, CRMA

Auditor General for the City of Greater Sudbury



Audit Follow Up Report

May 31, 2014

To: Pre Audit Sub Committee

From: Brian Bigger, Auditor General

Re: Roads - Impact Of Changes To Road Design

Audit Report Released	August 2012
Original # Of Recommendations	13
# Of Action Plans Previously Completed	11
# Of Action Plans Now Closed	11
# Of Action Plans On Next Follow Up	2
Status As Of May 31, 2014	On Track

Recommendation and Summary Of Progress (Note: Self assessment conducted by Roads Division)	Self-assessed Status
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Recommendation 1

The City should improve policies, procedures and reports supporting accountability for rejection of inferior products and enhanced follow-up on warranty issues.

• Partially
Implemented

Original Management Response

Will formulate reporting procedure for test results. This can be completed within six months (March 2013).

Actions Taken, Results and /or Actions Planned - As Of June 30, 2013

All test results are reported to the Chief Field Inspector for distribution. As a result of discussions at the annual contractor's meeting there was subsequent committees comprised of staff and contractors formed to address a variety of issues, including developing a formal procedure for warranty issues.

Actions Taken, Results and /or Actions Planned - As Of May 31, 2014

The City of Greater Sudbury is participating in a pilot project with the Ontario Hot Mix Producers Association, the Ministry of Transportation, and other municipalities in Ontario on the issue of "rejectable samples" and based on the pilot project shall make the appropriate changes or revisions to Ontario Standard Specification 310 – Construction Specification for Hot Mix Asphalt.

Recommendation 7

The City should improve policies, procedures and reports supporting accountability for rejection of incorrect cross fall as specified in the contract and/or drawings in order to comply with City standards.

• Partially Implemented

Original Management Response

Will research policies and procedures of the Ministry of Transportation and other municipalities in Ontario. Time frame may be 12 to 18 months.

Actions Taken, Results and /or Actions Planned - As Of June 30, 2013

Research is ongoing and on schedule.

Actions Taken, Results and /or Actions Planned - As Of May 31, 2014

Research is ongoing.



Brian Bigger, CGA, CRMA

Auditor General for the City of Greater Sudbury



Audit Follow Up Report

May 31, 2014

To: Pre Audit Sub Committee

From: Brian Bigger, Auditor General

Re: User Fees – Sports Fields

Audit Report Released	November 2012
Original # Of Recommendations	9
# Of Action Plans Previously Completed	3
# Of Action Plans Now Closed	3
# Of Action Plans On Next Follow Up	6
Status As Of May 31, 2014	Some Delays

Recommendation and Summary Of Progress (Note: Self assessment conducted by Community Development)	Self-assessed Status
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Recommendation 1

Evaluate whether the youth per participant rate should be replaced by an hourly rate. If any changes are required, it should be reflected within the User Fee By-law approved by Council.

- No Substantial Action Taken

Original Management Response

Review impact of any potential changes to minor sports playfield user fees and prepare a report to Standing Committee with options re: participant rates vs. hourly, etc. The review will be conducted in time for the 2014 playfield season.

Actions Taken, Results and /or Actions Planned - As Of June 30, 2013

A report will be presented to the Community Services Standing Committee scheduled for September 16th, 2013. The report will provide a summary of the 2013 youth participant numbers for minor soccer and minor baseball and the fee charged for playfield use based on the existing per participant fee. The report will also provide a financial analysis of the revenues generated based on the participant rate fee versus an hourly rate fee. In addition, the report will provide Council with comparatives with other cities related to playfield user fees for youth sports. Should Council support changes to the youth playfield user fees, the rates would be included as part of the user fee by-law in time for the 2014 season.

Actions Taken, Results and /or Actions Planned - As Of May 31, 2014

The original deadline to submit a report to the Community Standing Committee as identified on June 30, 2013, was not realized. The analysis will be completed and presented to the Community Standing Committee for direction in early 2015.

Recommendation 4

If the City continues to charge a per participant fee for youth associations, Leisure Service should consider including a provision for participant number verification rights within the Facility Agreement for youth leagues similar to other revenue generating contracts within the City.

- **No Substantial Action Taken**

Original Management Response

Contingent on any decisions made from recommendation #1. The requirements would have to be incorporated into the facility use agreement.

Actions Taken, Results and /or Actions Planned - As Of June 30, 2013

A report will be presented to the Community Services Standing Committee on September 16, 2013. The report will review the recommendation and will determine if the user fee be amended to revise the fees from a participant rate to an hourly rate. Should Council support maintaining a per participant rate recommendation, #4 would be implemented in time for the 2014 playfield season.

Actions Taken, Results and /or Actions Planned - As Of May 31, 2014

The department will be requesting a signed letter from each minor sports organization confirming the total number of registrations.

Recommendation 5

A best practice for user fees is for the City to set a policy framework that provides transparency and clarity, promotes consistency, and makes cost sharing amongst users more equitable. Management should present user fee target recovery options to Council after performing a full cost analysis. Since the decision for establishing user fees rests with Council, full cost analysis will better inform Council of cost recovery target options as well as their impact on user fees. Management may want to consider implementing these recommendations within Leisure Services prior to rolling it out to other departments within the City.

- **Partially Implemented**

Original Management Response

The City's Base Budget Preparation Policy states "that when establishing user fee rates, the (a) Cost of service, including direct, indirect costs, allocation of capital costs etc. should be considered." In addition, policy #7 of the Long Term Financial Plan states "Ensure operating revenues are sustainable and consider community-wide and individual benefits (taxes versus user fees)". In addition, there are a number of principles that provide guidance to management regarding user fees. For example, principle 3.3 states "Establish target proportions of program costs to be raised through user charges based on reviews of benefits received; Principle 3.6 states "Ensure both operating and capital costs are considered when establishing user fees (full program costing)".

Management agrees that the City should expand the use of the existing policy framework when setting user fees. As a first step, the Finance and Leisure Services department will prepare a report to Finance and Administration Committee which discloses the current and historical user fee recovery percentages for the larger programs in Leisure Services, and to seek the committee's direction regarding increasing user fees to address the City's infrastructure shortfall or to reduce the tax levy.

In addition, as part of the 2013 budget planning session, Council requested a detail breakdown on the operational costs for the following programs:

- a) camp Sudaca / Wassakwa
- b) summer playground programs
- c) fitness facilities
- d) trailer park operations

Actions Taken, Results and /or Actions Planned - As Of June 30, 2013

As reported under "Actions Taken", management at the request of Council brought forward reports to the CS Standing Committee regarding Leisure Services review program fees for Camp Sudaca/Wassakwa, summer playground programs, fitness facilities and the trailer park operation. At the Feb. 4, 2013 CS Standing Committee meeting, Council approved net operating cost recoveries for fitness centre operations at 75% and summer playground programs at 86%. Camp Wassakwa weekly rates were increased by \$10/week in order to harmonize the weekly fees with Camp Sudaca. The fee will be increased and will be implemented in 2014. Trailer park fees were adjusted in 2012 to be in line with the North Eastern Ontario Provincial Park rates. In addition, management as part of the Arena Renewal Strategy, has provided Council with net operating/capital cost recoveries for the 14 municipally operated arenas. Council approved a user fee increase at the Gerry McCrory Countryside Sports Complex and at community arenas to offset the net operating cost at Cambrian Arena. Both facilities are operated with no impact on the levy.

Actions Taken, Results and /or Actions Planned - As Of May 31, 2014

The fitness fees are currently being reviewed and a recommendation will be presented to CS Standing Committee in 2015. The department is using the City's base budget preparation policy as a guide in establishing user fee rates. In addition the Parks, Open Space, Leisure Master Plan review as part of the implementation strategy have identified an action plan on user fees & cost recovery. The plan recommends that Staff regularly assess rates and fees for Leisure programs and facilities to ensure that they represent a fair and equitable balance between true costs and public benefits. It is recommended also to include annual capital requirements within the cost recovery targets to provide a true indication of the balance between user fee contributions, taxation, and other funding sources. The master plan review provides recommendations on developing an Affordable Access to Recreation policy in order to bolster universal access to physical activity and recreation opportunities based on an ability -to-pay model. The draft Parks, Open Space, Leisure Master Plan review will be presented to CS Standing Committee on June 16th, 2014.

Recommendation 6

User fee rates for James Jerome artificial turf should be re-evaluated to ensure it is meeting established program objectives.

• **No Substantial Action Taken**

Original Management Response

User fee rates for James Jerome artificial turf will be re-evaluated in time for the 2014 Playfield season.

Actions taken, results and /or actions planned - As Of June 30, 2013

A report will be presented to Community Services Standing Committee scheduled for September 16, 2013. As part of the report, management will provide an analysis of the prime and non-prime use of the artificial turf at James Jerome during the 2012-13 season in order to determine if the user groups are using the majority of the prime time times available.

Actions taken, results and /or actions planned - As Of May 31, 2014

The original deadline to submit a report to Community Standing Committee on September 16, 2013, was not realized. The analysis will include a 3 year review (2012-2014) of the use of the artificial turf in order to establish an accurate pattern of use. The results of the analysis will be presented to Community Standing Committee in early 2015 for direction.

Recommendation 8

Additional clarification should be made in the User Fee By-law as to which City fields are major or minor complexes. This should include fields covered under Joint Use Agreements for which the City can charge a fee.

- No Substantial Action Taken

Original Management Response

Clarification will be captured through the annual user fee by-law review which is circulated to operating departments for input and forwarded to Council for approval annually (December/January).

Actions Taken, Results and /or Actions Planned - As Of June 30, 2013

Management will capture the clarification of major and minor complexes including fields covered under the joint use agreement in the next amendments to the user fee by-law which is scheduled to be submitted to Council for approval in December, 2013.

Actions Taken, Results and /or Actions Planned - As Of May 31, 2014

There are definitions between major and minor fields in the current user fee by-law. School fields have not been included. Staff will review and include the school fields as part of the upcoming amendments to the user fee by-law.

Recommendation 9

Ensure the Joint Use Agreements are updated in a timely fashion with all school boards participating in this agreement. Ensure they accurately reflect the current understanding amongst all the parties in regards to field maintenance, usage and restrictions.

- Partially Implemented

Original Management Response

Leisure staff have been working on renewing the joint use agreement since the fall of 2011. A number of meetings have been held with representatives from all Boards of Education in order to revise and update the Joint Use Agreement. A draft agreement will be circulated to senior staff and will be presented to Council for feedback. The objective is to finalize the agreement by year end 2013.

Actions Taken, Results and /or Actions Planned - As Of June 30, 2013

Management has progressed well regarding finalizing the draft joint use agreement between the City of Greater Sudbury and the local Boards of Education. The draft agreement is scheduled to be completed for Council's review by the end of 2013. The joint use agreement, once approved by Council, will be evaluated and reviewed semi-annually by the joint use agreement committee.

Actions Taken, Results and /or Actions Planned - As Of May 31, 2014

The draft is being reviewed by the respective boards and legal departments. The draft agreement is scheduled to be completed and presented to Council for their review by September 2015.



Brian Bigger, CGA, CRMA

Auditor General for the City of Greater Sudbury



Audit Follow Up Report

May 31, 2014

To: Pre Audit Sub Committee

From: Brian Bigger, Auditor General

Re: Transit Advertising Agreement

	Audit Report Released	August 2013
	Original # Of Recommendations	5
	# Of Action Plans Previously Completed	0
	# Of Action Plans Now Closed	4
	# Of Action Plans On Next Follow Up	1
	Status As Of May 31, 2014	On Track

Recommendation and Summary Of Progress (Note: Self assessment conducted by Transit)	Self-assessed Status
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Action Plan 1

Meet with the Contractor in order to develop a proper sales tracking tool described as a "Yearly Statement" in paragraph 5.(1) of the agreement.

- Alternate Action Taken

Management Comment - Action Plan Lead – Timing

Comment - Management agrees with the recommended action plan and the plan has already been initiated.

Action Plan Lead – Manager of Transit Administration

Timing - Staff has already contacted the Contractor regarding a proper sales tracking tool as described in paragraph 5.(1). Further meetings will take place in order to finalize the appropriate format.

Actions Taken, Results and /or Actions Planned - As Of May 31, 2014

As a follow-up to the audit staff presented a report to the operations Committee on November 18, 2013 which included recommended changes to the Advertising Contract. All recommendations were accepted and implemented. These recommendations fulfill all actions required in the audit with the exception of action item #5

The key amendments are as follows:

- Amend the contract and remove the obligations set out in Section 5 relating to the Confirmation of

Revenue effective January 1st, 2103. To further simplify reporting and auditing process for both parties the obligations outlined in Section 15 Annual Gross Billings and Section 5 and 6 of Schedule B would have no application to payment obligations arising in the 2013 or 2014 calendar year or in any extension term.

- Amend the Minimum Annual License Fee for transit advertising to reflect the increased guarantee of \$125,000 plus HST for 2013 and \$130,000 plus HST for 2014-05-12
- That the annual fee represents advertising on Buses, Benches and Transit Shelters;
- Any new advertising initiatives will be negotiated with terms and conditions and revenues established for each; and
- That BK will place benches at up to 10 locations requested by the City on an annual basis.

Action Plan 2

Monitor sales reported on this basis for the remainder of the base agreement period, and re-evaluate settlement minimums and formulas.

- Alternate Action Taken

Management Comment – Action Plan Lead – Timing

Comment - Management agrees with the recommended action plan and the plan has already been initiated.

Action Plan Lead – Manager of Transit Administration

Timing - The new sales tracking tool will then be used to compare against the “Annual Statement”.

Actions Taken, Results and /or Actions Planned - As Of May 31, 2014

See response in Action Plan #1

Action Plan 3

Assign staff responsibilities for key elements of contract administration and develop an internal procedure whereby the Contractor’s performance of agreement terms and conditions is monitored for compliance and evaluated for accuracy and completeness.

- Fully or Substantially Implemented

Management Comment – Action Plan Lead – Timing

Comment - Management agrees with the recommended action plan and the plan has already been initiated.

Action Plan Lead – Manager of Transit Administration

Timing - The Manager of Transit Administration has been assigned the task of reviewing the terms and conditions of the contract for compliance, accuracy and completeness.

Actions Taken, Results and /or Actions Planned - As Of May 31, 2014

The responsibility for contract administration resides with the Manager of Transit and Fleet Administration. As recommended, contracts are monitored for compliance and evaluated for accuracy and completeness.

Action Plan 4

Eliminate the deduction for direct sales expense at the City’s earliest opportunity and establish an appropriate percentage of gross billings and minimum annual license fee amount.

- Fully or Substantially Implemented

Management Comment – Action Plan Lead – Timing

Comment - Management agrees with reviewing the terms of the agreement as it relates to direct sales expense.

Action Plan Lead – Director of Transit and Fleet Services

Timing - Discussion will occur with the Contractor and Legal Services immediately.

Actions Taken, Results and /or Actions Planned - As Of May 31, 2014

See response in Action Plan #1

Action Plan 5

Transit advertising services should be separately contracted out (unbundled). Revise the process for issuing and awarding Transit and Community Arena Advertising Agreement with the objective of maximizing competition and potential advertising revenues for the City.

- **No Substantial Action Taken**

Management Comment – Action Plan Lead – Timing

Comment - Management agrees with the unbundling of the agreement.

Action Plan Lead – Director of Transit and Fleet Services – Manager of Arenas

Timing - At agreement renewal or new RFP

Actions Taken, Results and /or Actions Planned - As Of May 31, 2014

The agreements will be unbundled prior to issuing and awarding a new Transit and Community Arena Advertising Agreement with the objective of maximizing competition and potential advertising revenues for the City.



Brian Bigger, CGA, CRMA

Auditor General for the City of Greater Sudbury

Request for Decision

Audit Review - Heartbleed Vulnerability Assessment

Presented To:	Audit Committee
Presented:	Tuesday, Jun 17, 2014
Report Date	Wednesday, Jun 11, 2014
Type:	Managers' Reports

Recommendation

THAT the City of Greater Sudbury receive this update on the results of the Auditor General's review to determine if there were any concerns related to the Heartbleed Vulnerability.

Signed By

Auditor General

Brian Bigger

Auditor General

Digitally Signed Jun 11, 14

SUMMARY

Background

- This threat was identified during the week and resulted in almost immediate lock down of Canada Revenue Agency site.

Scope

- The Office of the Auditor General has not performed a comprehensive threat analysis of all locations of CGS and this report is based on online tests performed and information provided by IT.

Objectives

To assess the risk and mitigation strategies arising from discovery of threats to information technology resources of CGS from "Heartbleed" virus and vulnerabilities of SSL (Secure Socket Layer). This vulnerability allows attackers to intercept secure communications and steal sensitive information such as login credentials and personal data.

- Determine whether the City IT Department's response to the Heartbleed threat appeared appropriate in the circumstances.
- Conduct independent tests (Symantec), to support staff assurances that risks to the City, if any, were minimal.

Methodology

- We interviewed the City's IT Department staff regarding their response to the Heartbleed Vulnerability.
- Attendees:

- Jim Dolson, Manager of Network and Operations Support
- Clayton Schiewek, System Specialist
- Curtis Schiewek, Senior Programmer Analyst
- Brian Bigger, Auditor General, City of Greater Sudbury
- Vasu Balakrishnan, Senior Auditor, City of Greater Sudbury

Risks / Opportunities We Evaluated

- The City's IT Department assessment of, and response to OpenSSL Heartbleed Vulnerability

Elements Not Operating Effectively

- None observed through our follow up.

Elements Operating Effectively

- The Auditor General's Office performed a vulnerability test for OpenSSL Heartbleed vulnerability assessment from Symantec site on the following sites of the City of Greater Sudbury:

- a) www.greatersudbury.ca
- b) www.gsuinc.ca
- c) www.gspcs.ca/en/
- d) www.sudburylibraries.ca/en/
- e) www.sdhu.com/

The test results were as follows:

Site Address and site Test result Other vulnerabilities

www.greatersudbury.ca – City of Greater Sudbury Server is not vulnerable to Heartbleed attack.

- None

www.gsuinc.ca – GSU Inc. Server is not vulnerable to Heartbleed attack.

- None

www.gspcs.ca/en/ -Greater/Grand Sudbury Police Encountered an issue scanning this site for the Heartbleed Vulnerability.

- Wrong certificate installed. The domain name does not match the certificate common name or SAN.

www.sudburylibraries.ca/en/ -Sudbury libraries Encountered an issue scanning this site for the Heartbleed Vulnerability.

- Wrong certificate installed. The domain name does not match the certificate common name or SAN.

www.sdhu.com/ - Sudbury and District Health Unit Server is not vulnerable to Heartbleed attack.

2 Errors.

- Wrong certificate installed. The domain name does not match the certificate common name or SAN.
- The certificate has expired. This site is not secure.

- In the two instances where an issue was encountered during scanning for sites of Sudbury libraries and GSPS, risk from failure of tests and the likely impact needs to be assessed by the information technology department, based on the type of information transmitted between potential users. A copy of the report has been shared with IT.

Among other information provided by IT during a meeting, the following was noted:

1. One of the two servers that rely on SSL is used internally by CGS employees with no remote access,
2. The other server that was used for non critical applications as storing bus routes etc was briefly exposed to this threat during the period 17th Dec., 2013 to 7th April, 2014, when the vulnerable SSL1 was patched.
3. City employees use Windows NetMotion Mobility XE client to remotely access City IT resources. This software is not susceptible to the Heartbleed vulnerability.
4. Information Technology department plans to force all employees to change their passwords in a phased manner - 50 users at a time during the week from 14 April, 2014.
5. A plan to assess risk exposures arising from exchange of information between various stakeholders and

other locations of CGS such as Pioneer Manor is proposed to be initiated with remedial responses, if required.

Based on the information provided during the meeting, it appears no remote payment transactions are being performed by these other locations of CGS.

Management Response

We cant comment with respect to the health unit or GSU, however GSPS and the Library sites show up as a false positive simply because there is no SSL needed or active on those sites. The scanning tool is returning a false positive because it is specifically looking for SSL certificates. None exist nor are they required with any non SSL sites. If the nature of those specific sites were to change in the future and security was required, SSL and certificates would be implemented at that time.

Conclusion

The City IT Department's response to the Heartbleed threat appeared appropriate in the circumstances.

Independent tests supported staff assurances that risks to the City, if any, were minimal.

We thank Staff for their cooperation and assistance in the completion of this review.

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