

December 9, 2019

Email [REDACTED]

Dear [REDACTED]

Re: Request for Access to Information under Part II of the Access to Information and Protection Privacy Act (the ATIPP Act, 2015)

On November 8, 2019, the City of St. John's received your request for access to the following information:

Management letters that accompanied the City's audited financial statements for each of the past five fiscal years.

Enclosed is the information you requested. Please be advised that you may ask the Information and Privacy Commissioner to review the processing of your access request, as set out in Section 42 of the ATIPP Act. A request to the Commissioner must be made in writing within 15 business days of the date of this letter or within a longer period that may be allowed by the Commissioner:

Office of the Information and Privacy Commissioner
2 Canada Drive; P. O. Box 13004, Stn. A, St. John's, NL. A1B 3V8
Telephone: (709) 729-6309; Facsimile: (709) 729-6500

You may also appeal directly to the Supreme Court Trial Division within 15 business days after you receive the decision of the public body, pursuant to Section 52 of the Act.

If you have any further questions, please feel free to contact me by telephone at 576-8429 or by e-mail at kcutler@stjohns.ca.

Yours truly,



Kenessa Cutler
ATIPP Coordinator

ST. JOHN'S



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2017

Management and the Audit Committee of City of St. John's
City of St. John's
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September 26, 2018

Dear Sir/Madam,

Re: Internal control findings from the 2017 audit

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

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

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

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



Other deficiencies and advisory comments

Discounts on Payables

Observation

The financial application does not restrict A/P clerks from adjusting the discount terms of an invoice without secondary approval.

Recommendations to strengthen internal control

Controls should be designed and implemented to either prevent a clerk from adjusting the discount terms when entering invoices and/or to detect and report on all adjustments to vendor invoice terms.

City's response

In the absence of implementing controls to restrict AP Clerks ability to adjust the discount terms of an invoice without secondary approval, we are currently looking at setting up a process of reporting on discounts taken for comparison to vendor discount terms and payment dates.

Other Advisory Comments

In our letter dated September 29, 2017 we communicated the following other advisory comment. Based on discussion with management, this matter has not yet been addressed.

Whistleblower line

Observation

Best practices in governance indicate that whistleblower lines identify 43% of employee fraud. Furthermore, public companies are required by securities legislation to provide a whistleblower service to their employees. We understand that the City of St. John's does not currently have an independent, anonymous reporting line for this purpose. Many organizations committed to offering an ethical and positive work environment for their employees have such lines in place, which also serve to maintain their reputation with customers and suppliers. Current policy, under Whistle Blower Protection By-Law 1552, provides employee protection and allows employees to file a complaint with the City Manager or Mayor or City Clerk. It is our understanding that the City is currently exploring options for the implementation of a whistleblower line.

City's response

The Division of Internal Audit will develop, in consultation with other departments/divisions, a comprehensive fraud policy for the organization, including a review of current Whistle Blower policy.

Councillor's allowance

We would also like to bring your attention to a change in the Income Tax Act effective 2019. Currently, the Income Tax Act Subsection 83(3) allows a councillor's allowance not to be included in their income, provided it does not exceed 50% of the councillor's taxable remuneration for the year. This exemption will be repealed effective January 1, 2019. Therefore, the allowance provided to elected municipal officials will be included in their income once the exemption has been repealed.



The City's written response to the internal control matters identified herein has not been subjected to our audit procedures and accordingly, we express no opinion on it.

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

The matters discussed herein are those that have been noted as of September 26, 2018. In addition, this communication is prepared solely for the information of management and is not intended for any other purposes. We wish to acknowledge the co-operation and assistance provided by you and your staff during our recent visits to your offices and thank you for the opportunity to contribute to the present and future success of the company. Should you have any questions regarding the above or any other matters, please do not hesitate to contact us at your convenience.

Yours sincerely,
Grant Thornton LLP

A handwritten signature in cursive script that reads "Chris Brake".

Chris Brake, CPA, CA
Partner
/tb

2016

Management and the Audit Committee of City of St. John's
City of St. John's
10 New Gower Street
PO Box 908
St. John's, NL A1C 5M2

September 29, 2017

In connection with our audit of City of St. John's (the "City") financial statements as of December 31, 2016 and for the year then ended, the Canadian Auditing Standards require that we advise management and the audit committee (hereinafter referred to as "those charged with governance") of the following internal control matters identified during our audit.

Our responsibilities

Our responsibility, as prescribed by the Canadian Auditing Standards, is to plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. An audit includes consideration of internal control over financial reporting (hereinafter referred to as "internal control") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of identifying deficiencies in internal control or expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion on internal control effectiveness.

Identified deficiencies in internal control

We identified the following internal control matters as of the date of this letter that are of sufficient importance to merit your attention. The matters discussed herein are those that we noted as of September XX, 2017, and we did not update our procedures regarding these matters since that date to the current date.)

Our consideration of internal control would not necessarily identify all deficiencies in internal control that, individually or in combination, may be material weaknesses or significant deficiencies.

A deficiency in internal control ("control deficiency") exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the City's annual financial statements will not be prevented or detected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of the City's financial reporting (also referred to as those charged with governance).

Significant deficiencies

In our letter dated October 17, 2016 we communicated the following significant deficiency that has not been remediated as of the date of this letter.

Journal entries**Observation**

Deputy City Manager, Financial Management has the ability to create and approve journal entries, which creates an opportunity for management override of financial information.

Recommendations to strengthen internal control

We recommend that you review the segregation of duties for senior personnel and determine whether you feel that the level of segregation is appropriate to minimize any risk of fraud. In response to last year's management letter regarding the access of the Acting Deputy City Manager, Financial Management, the City noted that this situation existed due to staffing requirements at the time and the issue was going to be resolved. For the interim, Management was going to implement a review process to mitigate this risk. If the Deputy City Manager, Financial Management must prepare journal entries, the Manager, Accounting Services should review and approve the entries. Evidence of the review should be documented.

City's response

All journal entries posted by the Deputy City Manager are reviewed and signed off on by the Manager of Financial Services; evidence of these reviews are available for audit. As of September 2017 the Deputy City Manager has inquiry only roll and no longer has the ability to enter and post journal entries in the financial system.

Control deficiencies

In our letter dated October 17, 2016 we communicated the following control deficiency. Based on discussion with management, this matter has not yet been addressed.

Employee Master File Changes**Observation**

During our review of payroll system processes and controls, we noted there is no documented review or approval surrounding changes to employee master files. Additionally, we noted that the Payroll Supervisor periodically makes changes to employee master files without oversight.

Recommendations to strengthen internal control

We recommend that a monitoring control be implemented where a review of employee master file changes is performed by someone who does not have Administrator functionality. For example, the Payroll Supervisor could review all activity relating to changes to employee master files for appropriateness and to investigate any unusual edits. Any changes to the employee master files made by the Payroll Supervisor could be reviewed by the Manager, Accounting Services. Evidence of the reviews should be retained for auditing. Frequency of the reviews should be dependent on the amount of activity (e.g. if there is very little activity, perform the review twice a year), however the review should be performed in a timely manner from when the activity occurs in order to perform meaningful follow-up if required. IT support personnel could set up a periodic query to extract the activity and provide it to the Payroll Supervisor and Manager, Accounting Services for review.

City's response

The payroll function has moved under the Division of Human Resources. The Payroll Supervisor will no longer have access to make changes to the employee Masterfile; changes to the employee data files will be completed by HRIS coordinators.

Other Advisory Comments

In our letter dated October 17, 2016 we communicated the following other advisory comment. Based on discussion with management, this matter has not yet been addressed.

Whistleblower line

Observation

Best practices in governance indicate that whistleblower lines identify 43% of employee fraud. Furthermore, public companies are required by securities legislation to provide a whistleblower service to their employees. We understand that the City of St. John's does not currently have an independent, anonymous reporting line for this purpose. Many organizations committed to offering an ethical and positive work environment for their employees have such lines in place, which also serve to maintain their reputation with customers and suppliers. Current policy, under Whistle Blower Protection By-Law 1552, provides employee protection and allows employees to file a complaint with the City Manager or Mayor or City Clerk. It is our understanding that the City is currently exploring options for the implementation of a whistleblower line.

City's response

The Division of Internal Audit will develop, in consultation with other departments/divisions, a comprehensive fraud policy for the organization, including a review of current Whistle Blower policy.

Councillor's allowance

We would also like to bring your attention to a change in the Income Tax Act effective 2019. Currently, the Income Tax Act Subsection 83(3) allows a councillor's allowance not to be included in their income, provided it does not exceed 50% of the councillor's taxable remuneration for the year. This exemption will be repealed effective January 1, 2019. Therefore, the allowance provided to elected municipal officials will be included in their income once the exemption has been repealed.

The City's written response to the internal control matters identified herein has not been subjected to our audit procedures and accordingly, we express no opinion on it.

This communication is intended solely for the information and use of management, those charged with governance and others within the City and is not intended to be and should not be used by anyone other than these specified parties.

Yours sincerely,

Grant Thornton LLP

A handwritten signature in cursive script, appearing to read "Kim Simms".

Kim Simms, FCPA, FCA
Principal



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2015

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October 14, 2016

In connection with our audit of City of St. John's (the "City") financial statements as of December 31, 2015 and for the year then ended, the Canadian Auditing Standards require that we advise management and the audit committee (hereinafter referred to as "those charged with governance") of the following internal control matters identified during our audit.

Our responsibilities

Our responsibility, as prescribed by the Canadian Auditing Standards, is to plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. An audit includes consideration of internal control over financial reporting (hereinafter referred to as "internal control") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of identifying deficiencies in internal control or expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion on internal control effectiveness.

Identified deficiencies in internal control

We identified the following internal control matters as of the date of this letter that are of sufficient importance to merit your attention. The matters discussed herein are those that we noted as of October 14, 2016, and we did not update our procedures regarding these matters since that date to the current date.)

Our consideration of internal control would not necessarily identify all deficiencies in internal control that, individually or in combination, may be material weaknesses or significant deficiencies.

A deficiency in internal control ("control deficiency") exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the City's annual financial statements will not be prevented or detected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of the City's financial reporting (also referred to as those charged with governance).



Significant deficiencies

In our letter dated October 15, 2015 we communicated the following significant deficiency. The deficiency has not been remediated however a compensating control has been implemented. Ideally the Deputy City Manager, Financial Management should not have the ability to create and approve journal entries.

Journal entries

Observation

Deputy City Manager, Financial Management has the ability to create and approve journal entries, which creates an opportunity for management override of financial information.

Recommendations to strengthen internal control

We recommend that you review the segregation of duties for senior personnel and determine whether you feel that the level of segregation is appropriate to minimize any risk of fraud. In response to last year's management letter regarding the access of the Acting Deputy City Manager, Financial Management, the City noted that this situation existed due to staffing requirements at the time and the issue was going to be resolved. During the 2015 fiscal year, Management implemented a review process whereby the Manager of Financial Services reviewed all journal entries posted by the Deputy City Manager to mitigate this risk.

City's response

All journal entries posted by the Deputy City Manager are reviewed and signed off on by the Manager of Financial Services; evidence of these reviews are available for audit.

Control deficiencies

We identified the following control deficiency.

Employee Master File Changes

Observation

During our review of payroll system processes and controls, we noted there is no documented review or approval surrounding changes to employee master files. Additionally, we noted that the Payroll Supervisor periodically makes changes to employee master files without oversight.

Recommendations to strengthen internal control

We recommend that a monitoring control be implemented where a review of employee master file changes is performed by someone who does not have Administrator functionality. For example, the Payroll Supervisor could review all activity relating to changes to employee master files for appropriateness and to investigate any unusual edits. Any changes to the employee master files made by the Payroll Supervisor could be reviewed by the Manager, Accounting Services. Evidence of the reviews should be retained for auditing. Frequency of the reviews should be dependent on the amount of activity (e.g. if there is very little activity, perform the review twice a year), however the review should be performed in a timely manner from when the activity occurs in order to perform meaningful follow-up if required. IT support personnel could set up a periodic query to extract the activity and provide it to the Payroll Supervisor and Manager, Accounting Services for review.



City's response

Payroll is currently in the process of being transitioned from the Finance department to the Human Resources department, at which time this access will be removed.

Other Advisory Comments

In our letter dated October 15, 2015 we communicated the following other advisory comment that has not been remediated as of the date of this letter.

Whistleblower line

Observation

Best practices in governance indicate that whistleblower lines identify 43% of employee fraud. Furthermore, public companies are required by securities legislation to provide a whistleblower service to their employees. We understand that the City of St. John's does not currently have an independent, anonymous reporting line for this purpose. Many organizations committed to offering an ethical and positive work environment for their employees have such lines in place, which also serve to maintain their reputation with customers and suppliers. Current policy, under Whistle Blower Protection By-Law 1552, provides employee protection and allows employees to file a complaint with the City Manager or Mayor or City Clerk.

There are many benefits which come from having a whistleblower services including the identification of poor control processes and weak internal control. Grant Thornton offers an effective and low-cost hotline service that provides Confidential, Anonymous Reporting for Employees (CARE). We are available to meet to further discuss our services in this area.

City's response

The Finance department has been tasked with developing a fraud policy. Discussions have been ongoing. The intent is still the formation of a committee mandated to develop a comprehensive fraud policy for the organization, including a review of current Whistle Blower policy.

The City's written response to the internal control matters identified herein has not been subjected to our audit procedures and accordingly, we express no opinion on it.

This communication is intended solely for the information and use of management, those charged with governance and others within the City and is not intended to be and should not be used by anyone other than these specified parties.

Yours sincerely,

Grant Thornton LLP

Kim Simms, FCPA, FCA
Principal

2014



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October 15, 2015

In connection with our audit of City of St. John's (the "City") financial statements as of December 31, 2014 and for the year then ended, the Canadian Auditing Standards require that we advise management and the audit committee (hereinafter referred to as "those charged with governance") of the following internal control matters identified during our audit.

Our responsibilities

Our responsibility, as prescribed by the Canadian Auditing Standards, is to plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. An audit includes consideration of internal control over financial reporting (hereinafter referred to as "internal control") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of identifying deficiencies in internal control or expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion on internal control effectiveness.

Identified deficiencies in internal control

We identified the following internal control matters as of the date of this letter that are of sufficient importance to merit your attention.

Significant deficiencies

Our consideration of internal control would not necessarily identify all deficiencies in internal control that, individually or in combination, may be material weaknesses or significant deficiencies.

A deficiency in internal control ("control deficiency") exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the City's annual financial statements will not be prevented or detected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of the City's financial reporting (also referred to as those charged with governance).



We consider the following identified control deficiencies to be significant deficiencies.

Journal entries

Observation

Acting Deputy City Manager, Financial Management has the ability to create and approve journal entries, which creates an opportunity for management override of financial information.

Recommendations to strengthen internal control

We recommend that you review the segregation of duties for senior personnel and determine whether you feel that the level of segregation is appropriate to minimize any risk of fraud. For example, if the Acting Deputy City Manager, Financial Management must prepare journal entries, the Manager, Accounting Services should review and approve the entries. Evidence of the review should be documented.

City's response

This situation exists due to the current staffing requirements. Once this issue resolves itself over the longer term proper segregation of duties will be reinstated. In the interim Management will implement a review process to mitigate this risk.

Other Control deficiency

We identified the following other control deficiencies.

Routing rule exception for purchase orders

During our testing of controls, we identified an exception in the approval limits set up in the system, where one Director was approving purchase requisitions above their threshold as indicated in the City's policy for approval limits. A Director is only authorized to approve up to \$20,000 and it was discovered that because of the error in the routing rules, the Director was able to approve amounts between \$20,000-\$34,999. Upon further testing, we determined that this was an isolated error which was limited to certain individuals of certain departments. As we understand it, the routing rule has since been fixed.

City's response

This situation arose due to the redesign of the routing rules based on the City's recent changes in organizational structure and was corrected when identified.

Other Advisory Comments

We identified the following other advisory comments to discuss:

Whistleblower line

Observation

Best practices in governance indicate that whistleblower lines identify 43% of employee fraud. Furthermore, public companies are required by securities legislation to provide a whistleblower service to their employees. We understand that the City of St. John's does not currently have an independent, anonymous reporting line for this purpose. Many organizations committed to offering an ethical and positive work environment for their employees have such lines in place, which also serve to maintain their reputation with customers and suppliers. Current policy,



under Whistle Blower Protection By-Law 1552, provides employee protection and allows employees to file a complaint with the City Manager or Mayor or City Clerk.

There are many benefits which come from having a whistleblower services including the identification of poor control processes and weak internal control. Grant Thornton offers an effective and low-cost hotline service that provides Confidential, Anonymous Reporting for Employees (CARE). We are available to meet to further discuss our services in this area.

City's response

There is currently a recommendation going forth to the Audit & Accountability Committee during the October 22 meeting suggesting the formation of a committee with the mandate to develop a comprehensive fraud policy for the City. A review of the current Whistle Blower Protection By-Law will be conducted as a part of this work.

GST/HST compliance

Observation

Under a parking lease agreement with Eastside 2008 Equities Inc. ("Eastside"), the revenues from the parking operations located at 351 Water Street belong to the City. This would imply that the City must report the GST/HST applicable on the parking revenue earned. However, the parties have agreed to complete form GST506, which essentially has the effect of requiring Eastside to report the HST collected on the parking operations.

We recommend that you complete form GST506 in order to limit potential GST/HST risk relating to the parking lease arrangement with Eastside.

City's response

The proper form has been filed with CRA.

City response

The City's written response to the internal control matters identified herein has not been subjected to our audit procedures and accordingly, we express no opinion on it.

This communication is intended solely for the information and use of management, those charged with governance and others within the City and is not intended to be and should not be used by anyone other than these specified parties.

Yours sincerely,
Grant Thornton LLP

Kim Simms, FCPA, FCA
Principal



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2013

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December 18, 2014

Ladies and Gentlemen,

In connection with our audit of City of St. John's (the "City") financial statements as of December 31, 2013 and for the year then ended, the Canadian Auditing Standards require that we advise management and the audit committee (hereinafter referred to as "those charged with governance") of the following internal control matters identified during our audit.

Our responsibilities

Our responsibility, as prescribed by the Canadian Auditing Standards, is to plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. An audit includes consideration of internal control over financial reporting (hereinafter referred to as "internal control") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of identifying deficiencies in internal control or expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion on internal control effectiveness.

Identified deficiencies in internal control

We identified the following internal control matters as of the date of this letter that are of sufficient importance to merit your attention. The matters discussed herein are those that we noted as of December 18, 2014, and we did not update our procedures regarding these matters since that date to the current date.

Control deficiencies

A deficiency in internal control ("control deficiency") exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.



We identified the following control deficiency:

Payroll supervisor

Observation

Payroll Supervisor has access to Star Garden employee master file and has the ability to modify an employee's information.

Recommendations to strengthen internal control

We recommend that the City and those charged with governance consider the following actions.

Remove Payroll Supervisor's access to the Star Garden employee master file.

City's response

The City agrees with the recommendation. The access has been removed.

Comparison of actual and budgeted results

Observation

Under public sector accounting standards ("PSAS") the statement of operations and statement of changes in net debt is required to present planned results which are consistent with actual PSAS results [PS 1201.130, 1201.131]. As an alternative for 2013, management has presented a schedule that reconciles the consolidated cash budget to consolidated PSAS budget. For the 2014 fiscal year reporting, management have agreed to present the PSAS budget on the face of the statement of operations and statement of changes in net debt in compliance with PSAS.

Recommendation

The City should present the PSAS budget on the statement of operations and statement of changes in net debt in compliance with PSAS.

The City's written response to the internal control matters identified herein has not been subjected to our audit procedures and accordingly, we express no opinion on it.

* * *

This communication is intended solely for the information and use of management, those charged with governance and others within the City and is not intended to be and should not be used by anyone other than these specified parties.

Yours sincerely,
Grant Thornton LLP

Kim Simms, FCA
Principal