

March 9, 2005

Toronto Public Library Board

Audit Results – Year Ended December 31, 2004

Report to the Members of the Library Board



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March 9, 2005

Members of the Board of Directors of the Toronto Public Library Board

Dear Members:

We are pleased to present the results of our audit of the financial statements of the Toronto Public Library Board (“the Library” or “the Board”).

This report to the Members summarizes the scope of our engagement, the issues of audit significance discussed with management and provides the communications required by our professional standards.

Our audit was designed to express an opinion on the December 31, 2004 financial statements of the Library. We considered current and emerging business needs, along with an assessment of risks that could materially affect the financial statements and aligned our audit procedures accordingly. We received the full support and assistance of the organization’s personnel and we conducted the audit with the objectivity and independence that you, the entire Board of Directors, and the community expect.

As always, we strive to continually improve the quality of our audit services. This meeting is a forum for you to provide feedback on ways we can continue to meet and exceed your expectations.

This report is intended solely for the use of the Members of the Board of Directors of the Toronto Public Library Board and management, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate this opportunity to present the contents of this report with you and answer any questions you may have about these or any other audit-related matters.

Very truly yours,

A handwritten signature in cursive script that reads 'Ernst & Young LLP'.

Diana Brouwer/Arthur Chen
905-882-3037 / 905-882-3067

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Terms of Our Engagement

| | Discussion |
|------------------|--|
| Overview | <ul style="list-style-type: none">• We performed an examination of your organization’s December 31, 2004 financial statements in accordance with Canadian generally accepted auditing standards. The objective of our audit is to obtain reasonable – not absolute - assurance that the financial statements are free from material misstatement. The preparation of the financial statements and the accompanying notes are the responsibility of management.• While the primary objective of our audit examination is to render an opinion on the fairness of the financial statements as a whole, we consider internal accounting procedures and systems of internal controls to the extent necessary to determine our auditing procedures. Our work does not provide assurance on the internal control structure, nor do our procedures necessarily cover all control systems upon which management may be relying.• The detailed terms of our engagement are outlined in our engagement letter included in this document. |
| Your Team | <ul style="list-style-type: none">• Ernst & Young continues to serve you with a team of professionals under the direction of our principal, Diana Brouwer, who offers both industry expertise and a history of involvement with your organization. Their enthusiasm and commitment ensure responsive, innovative and forward looking service focused on your business issues. |

| Engagement Member | Responsibility |
|-------------------|----------------------|
| Diana Brouwer | Engagement Principal |
| Martha Tory | Independent Partner |
| Arthur Chen | Manager |

Audit Approach

| | Discussion |
|----------|---|
| Overview | <ul style="list-style-type: none">• Audit risk is influenced by business risk. Our audit scope is developed after considering inherent and control risks in the current environment and the existence of effective internal controls that mitigate those risks. A variety of factors are considered when establishing the audit scope for the organization, including size, specific risks, the volume and types of transactions processed, changes in the business environment, and other factors.• Ernst & Young will review and evaluate the overall internal control environment and assess the computer environment. We will report in writing to the Board any material observations resulting from our audit. Where the audit plan is dependent on an understanding or reliance on internal controls, we will document and test the specific internal control. This approach will result in the most effective external audit, providing you with maximum benefits at a lower cost (both in fees and in financial management support time).• Our understanding of the business and controls provides the basis for our audit risk assessments, and the identification of audit procedures responsive to those risk assessments. Our balanced approach is designed to focus comparatively more audit effort on complex, higher-risk areas than on those assessed as lower risk.• Consistent with prior years, we identified and tested controls in connection with our audit of payroll, purchases, and budget processes. For other balances, it was more efficient to use audit procedures such as confirmations and analytical review to obtain our audit assurance.• Our principal areas of focus were:<ul style="list-style-type: none">– Ensuring that debt charges incurred by the City of Toronto were properly reflected in the finances of the Library.– Reviewing purchase accruals to assess they have been reasonably accumulated at year-end.– Determining the impacts of changes to the actuarial valuation initially performed by Mercer’s for fiscal 2003, based on changes to employment agreements.– Properly recording the wage harmonization award which was retroactive to the first full pay period after September 1, 2003. |

Audit Approach (continued)

| | Discussion |
|--|--|
| Materiality | <ul style="list-style-type: none">• Our evaluation of areas of audit significance is made relative to “materiality”. An understanding of what is significant or material in relation to the overall results of your organization is critical to the performance of an effective and efficient audit. An item is considered material if its impact might reasonably be expected to affect the decisions of a reader of the financial statements.• The level at which materiality is set affects the following audit planning decisions:<ul style="list-style-type: none">✦ extent of evaluation of internal accounting controls✦ extent and nature of audit evidence (i.e., extent of testing) to be examined• Materiality for not-for-profit entities is generally measured in terms of a range between 1/2% and 2% of revenues/expenses. This range corresponds with the recommendations in the CICA Handbook guideline which deals with materiality and audit risk.• We have determined that an amount greater than \$1.55 million which represents approximately 0.9% of your total expenditures of \$171.5 million, is considered material. In the prior year, we used a materiality calculation of \$1.3 million. Of course, the final determination of items to be reported is also affected by the item’s sensitivity and whether the item is of a routine nature. For purposes of reporting to the Board, amounts greater than \$15,500 are addressed. |
| Use of Specialists | <ul style="list-style-type: none">• We rely on Mercer Human Resources Consulting to provide the actuarial estimates to account for non-pension future employee benefit costs and costs associated with the defined benefit plan and accident claims. |
| Coordination With Auditor General’s Office and Internal Audit | <ul style="list-style-type: none">• We work closely with the City’s Auditor Generals’ Office and Internal Audit Department so that we take into consideration work they have completed in planning our approach. In addition, we ensure that the Auditor General is informed about any significant issues that arise in the organization, on a timely basis. |

New Developments in Accounting or Auditing Standards

Each year, we review changes in professional standards, legislation and stakeholder requirements that may have an impact on our audit, including the presentation or disclosure of items in the financial statements, our audit scope, and matters requiring communication.

New Standards Issued

Discussion

Liabilities, Contingent Liabilities and Contractual Obligations

- In June 2004, the Public Sector Accounting Board approved three new Handbook sections: Liabilities, Section PS3200, Contingent Liabilities, Section PS 3300, and Contractual Obligations, Section PS 3390.
 - PS 3200 – Liabilities – defines liabilities as present obligations of a government to others, arising from past transactions or events, the settlement of which is expected to result in the future sacrifice of economic benefit. This new Section requires that liabilities be recognized when they meet the general recognition criteria; and for liabilities that cannot be recognized, that the nature of the liability and the reason(s) why the amount cannot be estimated be disclosed.
 - PS 3300 – Contingent Liabilities – defines contingent liabilities as possible obligations that may result in the future sacrifice of economic benefit arising from existing conditions or situations involving uncertainty. This new Section requires a government to accrue a contingent liability when the expected future confirming event is likely to occur; that an accrued contingent liability be reversed when it is settled or otherwise extinguished or when the future confirming event is unlikely; and, a government to disclose a contingent liability unless the occurrence of the future confirming event is unlikely.
 - PS 3390 – Contractual Obligations – defines contractual obligations as obligations of a government to others that will become liabilities when the terms of those contracts or agreements are met. This Section requires a government to disclose information about the nature, extent and expected timing of the related expenditures.
 - The provisions of this new section are effective for fiscal years beginning on or after September 1, 2004.
 - *These sections have no impact on our current year audit procedures but we will consider the impact of these changes on our procedures for 2005.*
-

New Developments in Accounting or Auditing Standards (continued)

| New Standards Issued | Discussion |
|---|---|
| Measurement Uncertainty | <ul style="list-style-type: none">• In November 2004, the Public Sector Accounting Board approved a new handbook section on “Measurement Uncertainty” – PS 2130.• This new section provides guidance for the disclosure of measurement uncertainty for items recognized and disclosed in public sector financial statements. The new section includes a definition of measurement uncertainty and the following disclosure requirements:<ul style="list-style-type: none">• discussion of measurement uncertainty for both recognized and disclosed amounts;• the nature and extent of measurement uncertainty;• when disclosure of the extent has not been made, the reason(s) for non-disclosure; and• the key assumptions and the sensitivity of the amount to change.• The provisions of this new section are effective for fiscal years beginning on or after April 1, 2005.• <i>This section has no impact on our current year audit procedures but we will consider the impact of the change on our procedures for 2005.</i> |
| Government Reporting Entity | <ul style="list-style-type: none">• In March 2004, the Public Sector Accounting Board approved PS 1300, the Government Reporting Entity - Accounting. This Section was revised to define the government reporting entity as those organizations that are controlled by the government.• The provisions of this new section are effective for fiscal years beginning on or after April 1, 2005 with some transitional provisions applicable until fiscal years beginning on or after April 1, 2008.• <i>We do not anticipate an impact on the Board as a result of this change.</i> |
| Generally Accepted Accounting Principles | <ul style="list-style-type: none">• In November, the Public Sector Accounting Board approved a new handbook section, PS 1150, on guidance about the basis of preparation for financial statements of governments and those organizations who follow the Public Sector Handbook. This new section provides guidance on where to look to when issues are not dealt with in the Public Sector Handbook.• The provisions of this new section are effective for fiscal years beginning on or after April 1, 2005.• <i>We do not anticipate that this new section will have a significant impact on the Board’s audited financial statements.</i> |

New Developments in Accounting or Auditing Standards (continued)

| Other Projects | Discussion |
|--|--|
| Local Government Capital Assets | <ul style="list-style-type: none">• In September 2004, the Public Sector Accounting Board approved a Statement of Principles for Local Government Capital Assets. Currently, there are no standards for local governments covering the accounting for capital assets. For a number of local governments, legislation is either being passed or being considered requiring local governments to cost certain services. At the moment, there is no generally accepted definition of a capital asset, and practices vary from one local government to another. Other initiatives are underway, such as benchmarking and performance reporting, that are, in part, based on the cost of services provided. Accounting for the stock and use of non-financial assets will provide needed information for these initiatives. The current standards require local governments to record an expenditure when tangible capital assets are acquired, even though these assets do have a future economic benefit.• The proposed changes under this project will have a significant impact on the Board and management should ensure that they are doing what they can now, to prepare for future implementation. Current expectations are to have a final standard approved by September 2005 and the required implementation would be sometime after that (given the significance of the changes – there would likely be a long enough implementation time to allow governments to gather all the necessary information). |
| Other | <ul style="list-style-type: none">• The Public Sector Accounting Board has other outstanding projects. These projects are not outlined in this document as they are not expected to have an impact on the Board’s financial reporting in the foreseeable future. We will keep you abreast of any changes to the Standards that may have a significant impact on the Board as we become aware of them. |

Other Required Communications

Generally accepted auditing standards in Canada require the auditor to ensure that the committee of the Board having oversight responsibility for the financial reporting process receives additional information regarding the scope and results of the audit that may assist them in fulfilling their responsibilities.

| Area | Comments |
|--|---|
| <p>Auditors' Responsibilities Under Generally Accepted Auditing Standards (GAAS)</p> <p>As set out in the section on audit approach, we designed our audit to express an opinion on your organization's financial statements.</p> <p>The financial statements are the responsibility of management. Our audit was designed in accordance with GAAS which provides for reasonable, rather than absolute, assurance that the financial statements are free from material misstatement.</p> <p>As a part of our audit, we obtained a sufficient understanding of the internal control structure to plan our audit and to determine the nature, timing and extent of testing performed.</p> | <p>We anticipate issuing an unqualified audit opinion dated March 9, 2005 upon approval of the financial statements by the Library Board of Directors and completion of certain outstanding procedures.</p> |
| <p>Adoption of – or changes in - Significant Accounting Policies</p> <p>Initial selection of and changes in significant accounting policies or their application and new accounting and reporting standards during the year must be reported.</p> <p>We ensure that the Board is informed about the initial selection of, and changes in, significant accounting policies or their application occurring during the year and the reasons for the change.</p> | <p>None.</p> |
| <p>Auditors' Judgments About the Quality of Accounting Principles</p> <p>The preparation of financial statements may require management to select from more than one acceptable approach to accounting. We comment on the quality, not just the acceptability of accounting principles selected by management, the consistency of their application and the clarity and completeness of the financial statements, including related disclosures.</p> | <p>We did not identify any areas where management's approach to accounting was significantly different from industry practice. We believe that the accounting policies are clear and complete and that they have been applied consistently with the prior year.</p> |

Other Required Communications (continued)

| Area | Comments |
|--|---|
| <p>Management Judgments and Accounting Estimates</p> <p>The preparation of financial statements requires the use of accounting estimates. Certain estimates are particularly sensitive due to their significance to the financial statements and the possibility that future events may differ significantly from management’s expectations.</p> <p>We determine that the Audit Committee is informed about management’s process for formulating particularly sensitive accounting estimates and about the basis for our conclusions regarding the reasonableness of those estimates.</p> | <p>There are significant judgments and estimates required to prepare the financial statements where actual amounts may be significantly different from the estimates around the actuarial calculation of employee benefit costs. We review the assumptions made to our internal guidelines to ensure they are within acceptable boundaries and we confirm with the Board’s Human Resource department to ensure no significant changes in the year. We are comfortable with the provisions made.</p> |
| <p>Major Issues Discussed with Management Including Accounting for Significant Unusual Transactions</p> | <p>We are not aware of any significant unusual transactions recorded by the Library or of any significant accounting policies used by the Library related to controversial or emerging areas for which there is a lack of authoritative guidance.</p> <p>See “Items of Audit Significance Discussed with Management”.</p> |
| <p>Significant Audit Adjustments and Uncorrected Misstatements Determined by Management to be Immaterial</p> <p>We provide the Board with information about adjustments arising from the audit (whether recorded or not) that could in our judgment either individually or in the aggregate have a significant effect on the organization’s financial statements.</p> <p>We inform the Board about unadjusted audit differences accumulated by us during the current audit and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.</p> | <p>There were no significant recorded audit adjustments related to the current year.</p> <p>There were no unrecorded audit adjustments that could, in our judgment, either individually or in the aggregate, have a significant effect on the financial reporting process. Further, there were no unadjusted audit differences in excess of our scope of \$15,500 which were determined by management to be material.</p> <p>See “Summary of Audit Differences”</p> |
| <p>Significant Disclosures Not Made</p> | <p>None identified.</p> |
| <p>Disagreements with Management on Financial Accounting and Reporting Matters</p> | <p>None.</p> |
| <p>Serious Difficulties Encountered in Performing the Audit</p> | <p>None. There were no restrictions placed on the approach to or extent of our work. We have received the full cooperation of the officers and employees and were provided complete and timely access to all books and records, documents and other supporting data which we required.</p> |

Other Required Communications (continued)

| Area | Comments |
|--|---|
| <p>Material Weaknesses in Internal Controls</p> | <p>No material weaknesses in internal control were discovered during the normal course of the audit that would inhibit our ability to express our opinion.</p> |
| <p>Fraud and Illegal Acts We report to the Board fraud and illegal acts involving senior management and fraud and illegal acts (whether caused by senior management or other employees) that cause a material misstatement to the financial statements.</p> | <p>Testing of the financial records and enquiries made of personnel did not reveal any instances of fraud or illegal acts that had an impact on the 2004 results. However, we were made aware through the Auditor General's Office of an attempt to cash a fraudulent cheque by an individual at the bank – unsuccessfully and therefore no loss to the Board -- and have been kept updated on the fraudulent activity brought to our attention during the 2003 year.</p> |
| <p>Consultation with Other Accountants</p> | <p>None.</p> |
| <p>Other Information in Documents Containing Audited Financial Statements</p> | <p>None.</p> |
| <p>Related Party Transactions Related party transactions identified by the auditor that are not in the normal course of operations and that involve significant judgments made by management concerning measurement or disclosure must be disclosed to the Audit Committee.</p> | <p>The Library has regular transactions with the City of Toronto. We have confirmed these balances directly with the City.</p> |
| <p>Matters Relating to Component Entities of the Library When the financial statements of a primary entity include financial information from financial statements of a component entity (a subsidiary, investee (other than a portfolio investment), or joint venture; or an entity whose financial information from financial statements is included with those of the primary entity), the auditor communicates with the Audit Committee those matters relating to the component entities that in the auditor's judgment are of significance in the context of the primary entity (for example, weaknesses in systems of internal control that have resulted, or could result, in material errors in the primary entity's consolidated financial statements).</p> | <p>None of which we are aware.</p> |

Other Required Communications (continued)

| Area | Comments |
|--|---|
| <p>Auditors' Independence</p> <p>Canadian generally accepted auditing standards (GAAS) require that we communicate at least annually with you regarding all relationships between your organization and Ernst & Young that, in our professional judgment, may reasonably be thought to bear on our independence.</p> <p>In determining which relationships to report, these standards require us to consider relevant rules and related interpretations prescribed by the appropriate provincial institute / ordre and applicable legislation, covering such matters as:</p> <ul style="list-style-type: none"> (a) holding a financial interest, either directly or indirectly, in a client; (b) holding a position, either directly or indirectly, that gives the right or responsibility to exert significant influence over the financial or accounting policies of a client; (c) personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client; (d) economic dependence on a client; and (e) provision of services in addition to the audit engagement. <p>Further, GAAS requires that we must confirm our independence to the appropriate committee of the Board in the context of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.</p> | <p>We are not aware of any relationships between Ernst & Young and your organization that, in our professional judgment, may reasonably be thought to bear on our independence that have occurred from March 23, 2004 to March 9, 2005.</p> <p>We hereby confirm that we are objective with respect to your organization within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario, as of March 9, 2005.</p> |
| <p>Other Audit and Non-Audit Services Provided to Your Organization</p> | <p>None.</p> |
| <p>Fees</p> | <p>Audit</p> <p style="text-align: right;">\$23,365</p> <p>This fee is inclusive of expenses.</p> |

Items of Audit Significance Discussed with Management

During the course of planning and executing our audit, the following items/matters of audit significance were discussed with management:

| Item | Description | Audit Results and Comments |
|--|---|--|
| Wage Harmonization | <ul style="list-style-type: none"> During 2004, final settlement was received for the wage harmonization giving retroactive pay to September 2003. The retroactive portion of this award amounted to \$7,992,000 and has been recorded in the 2004 financial statements. | <ul style="list-style-type: none"> We reviewed all the documentation with respect to the harmonization – from the arbitrator, management, the Board and City agreement on funding. We agree with the accruals made within the 2004 statements and the disclosures made within the notes to the financial statements. |
| New Debt from the City of Toronto | <ul style="list-style-type: none"> During 2004, the City issued debentures as part of its normal course of financing capital projects. Within the by-law approval on the new debt, \$11, 479,000 was allocated to the Toronto Public Library Board. Capital funding approved by the City for the Library in 2004 amounted to \$9.8 million – leaving debt financing in excess of approved funding by \$1.5 million. Essentially, the City has debt financed some of the Library’s previous capital projects financed through grant funding. The difference of \$1.5 million has been recorded as a transfer back to the City of Toronto in 2004. | <ul style="list-style-type: none"> We reviewed the transaction for the financing and the funding, and agreed the amounts with the City of Toronto. We concur with the presentation made in the 2004 statements. |
| Employee Future Benefits | <ul style="list-style-type: none"> Significant changes resulted from the 2003 revaluation of the Library’s retirement benefits having an impact of \$10.6 million to its accrued benefit obligation. This amount, an actuarial loss, is being amortized over 13 years or approximately \$850,000 per year. For 2004, Mercer’s has provided an updated report based on changes in circumstances surrounding employee benefit costs. The changes with respect to the Library were minimal with an estimated impact of approximately \$100,000 to the obligation. The amount was deemed immaterial and therefore was not extrapolated for accounting purposes. | <ul style="list-style-type: none"> We agree with the approach taken and have ensured that the assumptions and estimates used within the current valuation are within acceptable ranges. |

Items of Audit Significance Discussed with Management (continued)

| Item | Description | Audit Results and Comments |
|---|--|---|
| Employee Benefits | <ul style="list-style-type: none"> • The Library is a Schedule 2 employer for workers safety and insurance board (“WSIB”) coverage – meaning that they are self-insured. During the course of the updated actuarial valuation by Mercer’s, WSIB indicated that there were no obligations by the Board and as such, no amounts were included within the new valuation. • Prior to 2003, WSIB had a confirmation for an obligation of approximately \$400,000. The employees for which that related are still at the Board and management finds it difficult that this amount no longer exists. As such, management has left the accrual on the books and it is included within the amounts to be recovered in future years. | <ul style="list-style-type: none"> • The amount in question is judgmental and something that we as auditors look for the rationale and skepticism used in setting up the accrual. • Given this liability dates back to 2002 and prior, as the years progress, the likelihood of this being a true payable diminishes. As such, we have taken this amount to the summary of audit differences as a judgmental error. • We will continue to monitor this in the next year and re-evaluate it again at that time for any changes. |
| Transfer of Trust Funds to the Library | <ul style="list-style-type: none"> • Effective December 31, 2004, the Trust Funds of the Toronto Public Library transferred certain funds to the Toronto Public Library Board for administration. The remainder of the trust funds are to be transferred to the Toronto Public Library Foundation for administration in 2005. | <ul style="list-style-type: none"> • We reviewed the transfer to ensure that the trust funds were properly recorded within the Library’s 2004 financial statements and appropriate disclosures made. • We concur with the recording and disclosing of this change in the 2004 financial statements. |
| Changes to Financial Statements | <ul style="list-style-type: none"> • The significant changes to the 2004 financial statements are as follows: <ul style="list-style-type: none"> ○ Cash and short-term investments were separately identified on the statement of financial position ○ Note 4 – Employee benefits. This note has been redone to show the continuity for the obligation and not just the liability. In addition, expanded disclosure was made to also disclose the amount of contributions paid during the year. ○ Note 11 – Wage Harmonization. New note for the disclosure of the change during the year. | <ul style="list-style-type: none"> • We concur with the changes made. |

Items of Audit Significance Discussed with Management (continued)

| Item | Description | Audit Results and Comments |
|--------------------|--|---|
| Investments | <ul style="list-style-type: none">• We understand that the Library has been directed to have any of its investments for 2005 to be held with City Treasury in order to maximize the returns. | <ul style="list-style-type: none">• This does not have any impact on the 2004 financial statements but we will consider this in our planning and executing of the 2005 audit. |

Summary of Audit Differences

During the course of our audit, we accumulate differences between amounts recorded by management and amounts that we believe are required to be recorded under generally accepted accounting principles. Following is a summary of those differences:

| | Recording Differences Would Have Increased (Decreased) Net Assets | |
|--|--|----------------|
| | <u>2004</u> | <u>2003</u> |
| | \$ | \$ |
| Known Audit Differences: | | |
| Unclaimed Cheques | 64,106 | — |
| Under-accrual for Capital Accruals | (47,259) | — |
| Likely Audit Differences: | | |
| WSIB Accrual | <u>404,609</u> | <u>404,609</u> |
| Total Unadjusted Audit Differences Before Turnaround Effect of Prior Year Differences | 421,456 | 404,609 |
| Turnaround Effect of Prior Year Differences in Net Assets | <u>(404,609)</u> | |
| Total Unadjusted Audit Differences in Income After Turnaround Effect of Prior Year Differences | <u><u>16,847</u></u> | |
| Planning materiality | <u><u>1,550,000</u></u> | |

- Management has concluded that these differences are not material, either individually or in the aggregate, to the financial statements taken as a whole.
- In evaluating these differences we considered both qualitative and quantitative factors. Materiality is a matter of professional judgment, but as a general rule is judged in relation to the reasonable prospect of an item's significance in the making of decisions by the readers of financial statements.
- We concur with management's conclusion that these differences are not material.

Engagement Letter



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August 23, 2004

Mr. Jeffrey Griffiths
Auditor General
City of Toronto
Metro Hall
55 John Street, 9th Floor
Toronto, ON M5V 3C6

Dear Mr. Griffiths:

1. This will confirm our statutory engagement to audit and report on the consolidated financial statements of the **City of Toronto** for the year ending December 31, 2004. The objective of our audit is to express an opinion on the fairness, in all material respects, of the presentation of the consolidated financial statements in conformity with Canadian generally accepted accounting principles.

Audit Responsibilities and Limitations

2. We will conduct our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we obtain reasonable rather than absolute assurance that the consolidated financial statements are free of material misstatement whether caused by error or fraud. As you are aware, there are inherent limitations in the audit process, including, for example, selective testing and the possibility that collusion or forgery may preclude the detection of material error, fraud, and illegal acts. Accordingly, a material misstatement may remain undetected. Also, an audit is not designed to detect error or fraud that is immaterial to the consolidated financial statements.
3. As part of our audit, we will consider, solely for the purpose of planning our audit and determining the nature, timing, and extent of our audit procedures, the City's internal control. This consideration will not be sufficient to enable us to provide assurance on internal control or to identify all weaknesses.

4. If we determine that there is evidence that fraud may exist, we will bring this matter to the attention of an appropriate level of management and the Auditor General's Office. If we become aware of fraud involving senior management or fraud (whether caused by senior management or other employees) that causes a material misstatement of the consolidated financial statements, we will report this matter directly to the Auditor General and to the Audit Committee. We will determine that the Audit Committee and appropriate members of management are adequately informed of illegal acts that come to our attention unless they are clearly inconsequential. In addition, we will inform the Audit Committee and appropriate members of management of significant audit adjustments and significant weaknesses noted during our audit procedures.

Canadian generally accepted auditing standards define a significant weakness in internal control as one in which, in the auditor's professional judgment, the deficiency is such that a material misstatement is not likely to be prevented or detected in the financial statements being audited.

5. We also may communicate other opportunities we observe for economies in or improved controls over the City's operations. In accordance with standards established by the Canadian Institute of Chartered Accountants, we will communicate certain matters related to the conduct and results of the audit to the City's Audit Committee. Such matters include, when applicable, disagreements with management, whether or not resolved; difficulties encountered in performing the audit; the auditor's level of responsibility under professional standards in Canada for the financial statements, for internal control, and for other information in documents containing the audited financial statements; unadjusted audit differences that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements as a whole; changes in the City's significant accounting policies and methods for accounting for significant unusual transactions or for controversial or emerging areas; our judgments about the quality of the City's accounting principles; our basis for conclusions regarding sensitive accounting estimates; management's consultations, if any, with other accountants; and major issues discussed with management prior to our retention.
6. We will communicate to the Audit Committee certain independence matters as required by professional standards.

Management's Responsibilities and Representations

7. The consolidated financial statements are the responsibility of the management of the City, which is also responsible for establishing and maintaining effective internal control, for properly recording transactions in the accounting records, for safeguarding assets, and for the overall fair presentation of the consolidated financial statements. Management of the City also is responsible for identifying and ensuring that the City complies with the laws and regulations applicable to its activities.
8. Management is responsible for adjusting the consolidated financial statements to correct material misstatements and for affirming to us in its representation letter that the effects of any unadjusted audit differences accumulated by us during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the consolidated financial statements taken as a whole.

9. Management is responsible for apprising us of the existence of any whistle-blower allegations involving financial improprieties received by management, the Auditor General's Office or the Audit Committee, and providing full access to these allegations and any internal investigations of them, on a timely basis. Allegations of financial improprieties include allegations of manipulation of financial results by management or employees, misappropriation of assets by management or employees, intentional circumvention of internal controls, inappropriate influence on related party transactions by related parties, intentionally misleading the auditors, or other allegations of illegal acts or fraud.
10. As required by Canadian professional standards, we will make specific inquiries of management about the representations contained in the consolidated financial statements. At the conclusion of the audit, we obtain representation letters from certain members of management about these matters. The responses to those inquiries, the written representations, and the results of our audit tests comprise the evidential matter we will rely upon in forming an opinion on the consolidated financial statements. Management is responsible for providing us with all financial records and related information on a timely basis, and its failure to do so may cause us to delay our report, modify our procedures, or even terminate our engagement.

Fees and Billings

11. Our fees, which we will bill as work progresses, are based on our original response to your request for proposal, which stated a fixed fee of \$750,000 inclusive of expenses and GST, for the 5-year term of our engagement, which ends with the fiscal year ending December 31, 2007.
12. Our estimated fees and schedule of performance are based upon, among other things, our preliminary review of the City's records and the representations City personnel have made to us and are dependent upon the City's personnel providing the agreed upon level of assistance under the terms of the request for proposal. Should our assumptions with respect to these matters be incorrect or should the condition of the records, degree of cooperation, or other matters beyond our reasonable control require additional commitments by us beyond those upon which our estimated fees are based, we shall promptly notify the City of this situation and with the consent of the City, not to be unreasonably withheld, may adjust our fees and planned completion dates in order to achieve the goal set out in paragraph 1 of this letter.

Other Matters

13. You will provide to us copies of the printer's proofs of your annual report prior to publication for our review. We will review the report for consistency between the annual financial statements and other information contained in the report, and to determine if the financial statements and our report thereon have been accurately reproduced. If we identify any errors or inconsistencies which may impact on the financial statements, we will advise management and the audit committee as appropriate.

14. In addition to reporting on the consolidated financial statements of the City, we will also audit and report on the undernoted financial statements. The fee for these services is included in the \$750,000 mentioned in part 7 of this letter. Our comments noted above setting out the terms of our engagement as auditors of the City of Toronto also apply to the entities/work listed below.

- Toronto Economic Development Corporation
- Toronto Community Housing Corporation
- Toronto Parking Authority (including Carpark #161)
- Police Museum Reserve Fund
- Police Services Board Special Funds
- Police Services Board Trust Funds
- City of Toronto Sinking Funds
- Investment Policy Compliance
- City of Toronto Trust Funds
- Homes for the Aged Interest Trust Fund
- Toronto Board of Health
- Various Subsidy Claims
- Toronto Public Health
 - Preschool Speech and Language Program
 - Healthy Babies Healthy Children Program
 - AIDS Bureau Program
 - Infant Hearing Program
- 10 Homes for the Aged
 - Albion Lodge
 - Bendale Acres
 - Carefree Lodge
 - Castleview Wychwood Towers
 - Cummer Lodge
 - Fudger House
 - Kipling Acres
 - Lakeshore Lodge
 - Seven Oaks
 - True Davidson Acres
- Community and Neighbourhood Services – “Supportive Housing and Community Support”
- Toronto Coach Terminal, Inc.
- Toronto Transit Commission

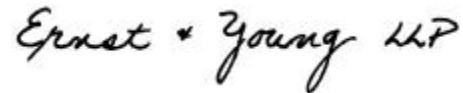
TTC Insurance Company Limited
Metropolitan Toronto Pension Fund
Police Supplemental Pension Benefits Trust Funds
Toronto Fire Department Superannuation and Benefit Fund
Toronto Pension Fund
Toronto Police Benefit Fund
TTC Pension Fund Society
TTC Sick Benefit Association
York Employees Pension and Benefit Fund
Hummingbird Centre
Toronto Zoo
Toronto Zoo Foundation
Board of Governors of Exhibition Place
Canadian National Exhibition Association
Canadian National Exhibition Foundation
St. Lawrence Centre for the Arts
North York Performing Arts Centre Corporation
Toronto Public Library Board
Toronto Public Library Foundation
Toronto Public Library Trust Fund
Toronto Track and Field Centre

15. By your signature below, you confirm that the City, through its Council, has expressly authorized you to enter into this agreement with us on the City's behalf.
16. The attached standard terms and conditions form an integral part of this agreement.

To confirm these arrangements are acceptable, please sign one copy of this letter and return it to us.

We very much appreciate the opportunity to serve as the **City of Toronto's** auditors and would be pleased to furnish any additional information you may request concerning our responsibilities and functions.

Yours very truly;



Martha Tory/Diana Brouwer
(416-943-3678/905-882-3037)
c.c: Audit Committee

The services and terms set out above are as agreed.

Original approved by the City Solicitor and signed by the CFO and City Clerk

Date

Signature of Authorized Individual

Standard Terms and Conditions

Except as otherwise specifically provided in the engagement letter or contract into which these terms and conditions are incorporated (collectively the “Agreement”), these terms and conditions shall apply to the engagement carried out by Ernst & Young LLP (“EY”). For the purposes of the Agreement the term EY includes EY and its subcontractors and their respective partners, directors, officers and employees.

1. **Timely Performance** - EY will use all reasonable efforts to complete the performance of the services described in the Agreement (the “Services”) within the time-frame stipulated. EY will exercise due professional care and competence in the performance of the Services, to the reasonable satisfaction of the Auditor General, CFO and Treasurer. EY shall not be liable for failures or delays in the performance of Services that arise from causes beyond its control, including the untimely performance by client, its representatives, advisors or agents, of its obligations under the Agreement.
2. **Client Responsibilities** - Client will provide to EY in a timely manner complete and accurate information and access to management personnel, staff, premises, computer systems and applications as is reasonably required by EY to complete the performance of the Services.
3. **Confidentiality** – EY shall not at any time before, during or after the completion of the engagement divulge any confidential information communicated to or acquired by EY or disclosed by any of the entities being audited in the course of carrying out the engagement, except as required by law. No such information shall be used by EY on any other project without prior written approval of the client. The client shall take all reasonable steps to maintain the confidentiality of any of EY's proprietary or confidential information.
4. **Auditor Oversight** - Client hereby acknowledges that EY may from time to time receive requests or orders from the Canadian Public Accountability Board or from professional, securities or other regulatory or governmental authorities, that fulfil similar functions (both in Canada and abroad) to provide them with information, documents and copies of our working papers, and other work-product relating to client's affairs and consents to EY providing or producing, as applicable, this information without further reference to, or authority from, client. EY may also be required to provide information relating to the fees that EY collects from client for the provision of audit services, other accounting services and non-audit services.
5. **Internet Communications** - Unless otherwise agreed with client, EY may correspond by means of the Internet or other electronic media. Because of the inherent risks associated with the electronic transmission of information on the Internet or otherwise, EY does not guarantee the security and integrity of any electronic communications sent or received in relation to this engagement. Whilst it is EY's policy to check its e-mail correspondence with anti-virus software, EY does not guarantee that transmissions will be free from infection and accepts no responsibility or liability for any damages as a result of communicating by means of the Internet or other electronic media.
6. **Right to Terminate Services** - Either party may terminate this Agreement, with or without cause, by providing written notice to the other party. In the event of early termination, for whatever reason, client will be invoiced for time and expenses incurred up to the end of the notice period together with reasonable time and expenses incurred to bring the engagement to a close in a prompt and orderly manner. EY shall also have the right, upon 7 days prior notice, to suspend performance of the Services in the event client fails to pay any amount required to be paid under this Agreement.
7. **Fees** - Any fee estimates by EY take into account the agreed-upon level of preparation and assistance from client personnel. EY undertakes to advise client management on a timely basis should this preparation and assistance not be provided or should any other circumstances arise which cause actual time to exceed estimated time.

8. **Expenses** - EY will bill for all reasonable expenses. Expenses such as long-distance telephone and telecommunication charges, photocopying, delivery, postage, clerical assistance and micro-computer technology costs are based on a percentage (included within our fixed fee) of our fees for professional services. Other major direct costs such as travel, meals, accommodation and other significant expenses will be charged as incurred.
9. **Billing** - Bills including expenses will be rendered on a regular basis as the assignment progresses. Accounts are due when rendered. Interest on overdue accounts is calculated at the rate noted on the invoice commencing 30 days following the date of the invoice.
10. **Taxes** - The fees, expenses and other charges payable pursuant to this Agreement do not include taxes or duties. All applicable taxes or duties, whether presently in force or imposed in the future, shall be assumed and paid by client without deduction from the fees, expenses and charges hereunder. *[Note that our agreement includes the taxes as noted in the letter – however, for billing purposes the fee will be broken out accordingly.]*
11. **Governing law** - This Agreement shall be governed by and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein. The parties hereby irrevocably and unconditionally attorn to the exclusive jurisdiction of the courts of the Province of Ontario and all courts competent to hear appeals therefrom.
12. **Working Papers/Reports** - EY retains all copyright and other intellectual property rights in everything developed by EY either before or during the course of an engagement including systems, methodologies, software and know-how. EY also retains all copyright and other intellectual property rights in all reports, written advice or other materials (the "Reports") provided by us to client. Audit reports are provided to client in accordance with the provisions of the *Municipal Act, 2001* and in particular with section 295 and 296 thereof and EY specifically acknowledges and agrees that the audit reports shall be public records and may be inspected by any person. EY does not assume any duties or obligations to third parties who may obtain access to any Reports. Any use which a third party makes of the Reports, or any reliance on or decisions to be made based on them are the responsibility of such third parties. All working papers and reports will be retained by EY, at its expense, for a ten (10) years, unless notified by the Client in writing of the need to extend the retention period.
13. **Limitation of Liability** - In any action, claim, loss or damage (whether in tort, contract or otherwise) arising out of the engagement to which these terms and conditions are attached ("Claim") the parties agree that:
 - (a) Subject to the limits set out in subsections 14(b) and 14(c), EY's liability shall be several and not joint and several and EY shall only be liable for its proportionate share of the total liability based on degree of fault;
 - (b) Under no circumstances shall EY be liable for damages in respect of any incidental, punitive, special, indirect or consequential loss, even if EY has been advised of the possibility of such damages including but not limited to loss of profits, loss of revenues, failure to realize expected savings, loss of data, loss of business opportunity, or similar losses of any kind; and
 - (c) EY's total liability for any Claim arising out of the performance of the Services, regardless of the form of Claim, shall in no event exceed an amount equal to the greater of (i) the total fees paid to EY for the Services; and (ii) \$2,000,000. This clause shall not limit EY's liability for death, personal injury or property damage caused by the negligent acts or omissions of EY and its partners and staff, or for loss or damage caused by their fraud or wilful misconduct.
14. **No Application** - Paragraph 13, or any portion of it, shall have no application to any liability for which exclusion or restriction is prohibited by law.

15. **Solicitation & Hiring of EY Personnel** – EY's independence could be compromised if client were to hire certain EY personnel. Without the prior written consent of EY, client shall not solicit for employment or for a position on its Board of Directors, nor hire, any current or former partner or professional employee of any of EY, any affiliate thereof or any other EY entity, if such partner or professional employee has been involved in the performance of any audit, review, attest or assurance service for or relating to client at any time since the date of filing of client's most recent financial statements with the relevant securities regulator(s) or stock exchange(s) (or, if the Company has not previously filed such financial statements, since the beginning of the most recent fiscal year to
16. **Severability** - If any of the provisions of these terms and conditions are determined to be invalid or unenforceable, the remaining provisions shall remain in effect and be binding on the parties to the fullest extent permitted by law.
17. **Global Resources** - From time to time EY may use the services of partners or staff from other member firms of Ernst & Young Global Limited ("EYG") or Ernst & Young International Ltd. ("EYI") to assist it in providing Services. When the services of such partners or staff are used in connection with Services provided pursuant to this Agreement they are deemed to be acting as EY's agents and not the partners, servants or agents of any other person (including any other member of EYG or EYI or EYG or EYI themselves) and EY shall assume liability for their activities as if they were in all respects the partners or staff of EY. Client agrees that any claim of any kind whatsoever, whether in contract, tort or otherwise, arising out of or in connection with this Agreement shall be brought only against EY and that no claims shall be brought personally against any persons involved in performance of the Services pursuant to this Agreement, whether actual or deemed servants or agents of EY or not, and the Client agrees not to bring any proceedings of any kind whatsoever arising out of or in connection with this Agreement in any jurisdiction against EYG, EYI or any other member firm of EYG or EYI or any partner or personnel thereof.
18. **Proceeds of Crime (Money Laundering) and Terrorist Financing Act** – Pursuant to this legislation, all accountants and securities dealers (including those providing portfolio management or investment counselling services) in Canada are required, in certain circumstances, to report any "suspicious transactions" to the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC), a government agency. Suspicious transactions are transactions which may relate to money laundering and the financing of terrorist activities.
19. **Legal Proceedings** - In the event EY is requested or authorized by client or is required by government regulation, subpoena, or other legal process to produce documents or personnel as witnesses with respect to the engagement for client, and provided that EY is not a party to the legal proceedings, client shall reimburse EY for reasonable professional time and expenses, as well as the reasonable fees and expenses of counsel, incurred in responding to such requests provided that such requests do not fall within the scope of this engagement..
20. **LLP Status** – EY is a registered limited liability partnership ("LLP") continued under the laws of the province of Ontario. A partner of an LLP has a degree of limited liability protection in that he or she is not personally liable for any debts, obligations or liabilities of the LLP that arise from the negligence of another partner or any person under that partner's direct supervision or control. As an LLP, EY is required to maintain certain insurance. EY's insurance exceeds the mandatory professional liability insurance requirements established by the various Institute/Orders of Chartered Accountants across Canada.
21. **Miscellaneous** - EY shall provide all Services as an independent contractor and nothing shall be construed to create a partnership, joint venture or other relationship between EY and client. Neither party shall have the right, power or authority to obligate or bind the other in any manner. This Agreement shall not be modified except by written agreement between the parties. The Agreement represents the entire and sole agreement between the parties. Any terms and provisions of this Agreement that by their nature operate beyond the term or expiry of this Agreement shall survive the termination or expiry of

this Agreement, including without limitation those provisions headed Confidentiality, Auditor Oversight, Limitation on Liability, Solicitation & Hiring of EY Personnel and Legal Proceedings.

22. **Other Relevant Documents** – The terms and conditions contained in the Request for Proposal No. 9155-03-7140 and the Proposal by EY in response to R.F.P. No. 9155-03-7140 are incorporated into and form a part of this agreement. In the event of any inconsistency between the terms of the documents which make up this agreement, the following shall be the order of priority of the documents to the extent of any inconsistency:

1. The Engagement Letter;
2. The Standard Terms and Conditions
3. the Proposal by EY referred to above;
4. R.F.P. No. 9155-03-7140

Independence letter



■ Ernst & Young LLP
Chartered Accountants
Ernst & Young Tower
Toronto-Dominion Centre
P.O. Box 251
Toronto, Canada M5K 1J7

■ Phone: (416) 864-1234
Fax: (416) 864-1174

March 9, 2005

Chair of the Board of the Toronto Public Library:

We have been engaged to audit the financial statements of the Toronto Public Library Board (“the Library”) for the year ending December 31, 2004.

Canadian generally accepted auditing standards (GAAS) require that we communicate at least annually with you regarding all relationships between the Library and us that, in our professional judgment, 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 appropriate provincial institute / order and applicable legislation, covering such matters as:

- (a) holding a financial interest, either directly or indirectly, in a client;
- (b) holding a position, either directly or indirectly, that gives the right or responsibility to exert significant influence over the financial or accounting policies of a client;
- (c) personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client;
- (d) economic dependence on a client; and
- (e) provision of services in addition to the audit engagement.

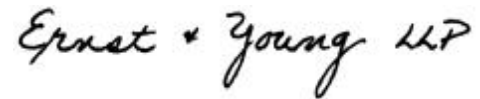
We have prepared the following comments to facilitate my discussion with you regarding independence matters arising since March 23, 2004, the date of our last letter.

We are not aware of any relationships between the Library and us that, in our professional judgment, may reasonably be thought to bear on our independence, that have occurred from March 23, 2004 to March 9, 2005

GAAS require that we confirm our independence to the audit committee, in the context of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario. Accordingly, we hereby confirm that we are independent with respect to the Library within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario as of March 9, 2005.

This report is intended solely for the use of the audit committee, the board of directors, management, and others within the Library and should not be used for any other purposes.

Yours truly,

A handwritten signature in black ink that reads "Ernst & Young LLP". The signature is written in a cursive, flowing style.

Diana Brouwer/Arthur Chen
905-882-3037 / 905-882-3067

Letter of recommendations



■ Ernst & Young LLP
Chartered Accountants
Ernst & Young Tower
Toronto-Dominion Centre
P.O. Box 251
Toronto, Canada M5K 1J7

■ Phone: (416) 864-1234
Fax: (416) 864-1174

March 9, 2004

Chair of the Board of the Toronto Public Library:

Our examination of the financial statements of the Toronto Public Library Board (“the Library”) for the year ended December 31, 2004 has been completed. As part of our examination we studied and evaluated the Library’s internal controls to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

While our examination was not designed to determine whether the Library’s internal controls are adequate for management’s purposes, certain matters came to our attention that we want to report to you. These matters are a combination of ones carried forward from the prior year plus new points as a result of observations made during our 2004 audit. Our observations, along with our recommendations, are described in the accompanying memorandum.

We would be pleased to discuss the above matters or to respond to any questions at your convenience.

Yours truly,

A handwritten signature in cursive script that reads 'Ernst & Young LLP'.

Diana Brouwer/Arthur Chen
905-882-3037 /905-882-3067

Letter of recommendations (continued)

Stale-Dated Cheques

Observation and recommendation:

During our audit, we observed that the Library continues to record old stale dated cheques dating back several years. For 2004, we took the total of these amounts to the summary of audit differences.

We recommend that management review these outstanding cheques and if it is determined the amount is not likely to be paid that the amounts be reversed back into income. Furthermore, we recommend that the Library consider a policy as to when these amounts should be typically recognized back into income.

Management comments:

Payroll and pay-equity cheques represent approximately 59% of the total stale dated cheques outstanding. These cheques will remain outstanding until the employees are contacted, or until a significant amount of time has passed. For the remaining stale dated cheques, in 2005, the Library will implement a general policy of reversing any cheques more than 2 years old.

Rental Revenue

Observation and recommendation:

After amalgamation, the responsibility of tracking all leases and payments of leases was given to the TPL - Finance Department. During the course of our audit, we were unable to find recent (non-expired) lease agreements or the files were not updated. As a result, we were unable to verify that certain lease payments were correct according to their lease terms. This leaves TPL subject to risk of underpayment by their tenants.

We recommend that management look at the processes around the leases and assign someone to be responsible to ensure the accuracy of the leases and their respective files.

Letter of recommendations (continued)

Management comments:

In 2003, the Library contracted with the Facilities and Real Estate Division of the City to assist with lease negotiations and property management. In an effort to speed up the process, a manager with the Library was also assigned to work on lease negotiations and property management issues on a full time basis in 2004.

The Library has two main sites with Tenants - Northern District branch and Deer Park branch. All leases at Northern District were renewed in 2004 and leases at Deer Park will be renewed in 2005.

Prior Year Points Carried Forward

Employee Future Benefits

Observation and recommendation:

During 2003 the Library was part of the revaluation of the actuarial liabilities of the City. Mercer Consulting was engaged to do an update to the original valuation done back during amalgamation. The result of the update was a \$10 million increase to the Library's obligation for post-employment and retirement benefits for its employees. The increase, as discussed within "Items of Significance Discussed with Management" within our audit result package, is being amortized over the expected remaining average service life of the related employee group.

On a go forward basis, management should ensure that it works closely with their human resource group to ensure that any changes to either management or union agreements for the provision of employee benefits is reviewed and evaluated for the impact it will have on the Library's obligation as of the date of the change in the plan. The Public Sector guidelines now require full accounting for all these costs as of January 1, 2004 (for post-employment) and currently required for all retirement benefits, and as such, the Library should ensure that it has the appropriate processes in place to ensure changes are identified on a timely basis.

2004 Update

This recommendation was made as a matter for management to consider on an annual basis. Our audit observations for 2004 have shown that management has worked with human resources appropriately with respect to this issue and have performed the appropriate procedures in the year with respect to the employee benefits.

Letter of recommendations (continued)

2003 Management comments:

The increased actuarial liability on the Library's post-employment and retirement benefits results from a number of factors related to the amalgamation of the Library's workforce. The most significant changes were an Ontario Labour Board decision which placed the Pages in the bargaining unit; and a provision in the first collective agreement for the Library which makes a Page with five (5) years service a permanent part-time employee and eligible to participate in the benefits plan. The changes increase the number of employees who are eligible for post-employment and retirement benefits, and thus increases the actuarial liability.

Human Resources and Finance will continue to work closely in estimating all current and future costs of changes to the benefits plans for both non-union and union employees, and such costs will be included in all appropriate reports and recorded in appropriate years.

Expense Report Approvals

Observation and recommendation:

During our review of various expenditures and the controls within the Library, we were advised that the Director of Finance approves the expenses of the City Librarian. We are not aware of any wrong doings or inappropriate expenses, but thought it would be an opportunity to indicate that in most organizations, the most senior person in management has their expenses reviewed and approved at the Board level. Approval at this level follows the lines of authority in that the most senior management position has no one else in management to whom they report – but they do report to the Board.

2004 Management comments:

A revised Expense Claim Policy was approved by the Library Board at its meeting on November 15, 2004. Approval of business expenses follow the lines of authority and the City Librarian's expenses are approved by the Board Chair.

2003 Management comments:

The Library's Expense Claim Policy is modeled after that of the City's, and was implemented by the Library in 1998, shortly after amalgamation. As the current policy does not require Board approval for business travel or for conferences or seminars if the amount is under \$3,500, the Director, Finance & Treasurer approves travel expenses for the City Librarian.

The Expense Claim Policy is scheduled for review in 2004. As part of the process, the current expense claim practices for City Departments, Agencies, Boards and Commissions will be reviewed, including the approval process for expense claims for the most senior management position.

Letter of recommendations (continued)

Information Technology – Program Changes

Observation and recommendation:

Based on our discussions with the IT department, there is no formal process in place to track all program changes and to ensure that all changes put into production are authorized. There is also no process to monitor changes on a regular basis.

Without a formal change management process program changes could be placed in a live production environment. This could negatively impact your live environment or corrupt data and files.

Management should ensure a formal change management process is put in place. As part of the process it is important to track all of the program changes, ensure proper testing in the test environment, and to have formal authorization before promoting changes into production. It is also important to control who has access to promote changes into production and to have a process in place to monitor all changes.

2004 Update:

The IT department started with an Acceptance into Environment process in 2004 used for RFP's, new products and services. Authorization is usually via e-mail, which is considered to be an appropriate level of sign-off at the Library before changes are promoted to the production environment. Therefore the Acceptance into Environment is the formal process for tracking changes that will be placed into production.

2003 Management comments:

The IT department has a process in place for upgrades to systems to ensure testing in the test environment and review and approval by IT managers and business unit managers before promoting upgrade changes into the production system. Management agrees with the Auditors' recommendation and will implement a formal change management process in 2004. The formal change management process will ensure that all steps and appropriate authorizations are documented.

Letter of recommendations (continued)

Information Technology – Disaster Recovery Plan

Observation and recommendation:

There is no current disaster recovery plan in place covering systems recovery in the event of the loss of the computer room. Without a defined, communicated and tested disaster recovery plan, Toronto Public Library may be unable to continue with critical operations in the event of a prolonged system outage or loss of central processing facility.

We recommend that IT management implement a formal and current disaster recovery plan to ensure continued operations of the organization.

2004 Management comments:

TPL is developing a disaster recovery plan in 2005 and will present the proposed policy and plan to the Library Board in 2005 for approval prior to implementation. Staff has been hired to coordinate this project.

2003 Management comments:

Aspects of security are currently in place which reduce the potential for disaster: physical security of the computer room with limited staff access, battery power backups for systems in the computer room, fire suppression systems for the computer room, network intrusion detection, user security / passwords, network / system security with desktop lock down, anti-virus protection at the server and desktop, data security (daily backups and off-site storage of data), network redundancy at single points of failure. Business continuity planning has been developed for specific situations in the past (*e.g.* Y2K and labour disruption).

Management agrees with the Auditors' recommendation to implement a disaster recovery plan. To achieve timely implementation, the development of a disaster recovery plan will require the assistance of external expertise. The Library will also consult with the City Information & Technology department to ensure that the Library's proposed Disaster Recovery Plan is in keeping with City guidelines. The disaster recovery plan will identify the extent to which the Library can tolerate service disruptions and the costs associated with meeting those expectations. Given the potential budget implications, full implementation may extend into 2005.

Letter of recommendations (continued)

Information Technology – User Access Controls

Observation and recommendation:

Based on our initial review of logical access there appears to be an efficient process in place; however it is a process that has not been formalized by using pre-defined forms with appropriate sign-offs.

Formalizing both the change management and logical access processes provides the Library with added assurance on the controls by providing accountability back and in addition, will provide controls from an audit perspective, allowing the external auditors to review and rely more on the IT controls than is presently done.

We recommend that the Library consider formalizing the process for granting, changing or revoking access to the network and to the applications by developing a pre-defined form and requiring appropriate sign-offs.

2004 Management comments:

In 2004, the Library has begun upgrading its user access controls process. For example, the Library issued *Guidelines for E-mail* usage which required Managers to submit work orders to initiate additions, deletions and changes to e-mail accounts. These work orders are tracked and stored in the work order database.

In 2005 the Library will be implementing new user access to its financial system, which will provide more structured access controls. The plan is to implement this structure by the end of 2005. Also in 2005, the Library is implementing Active Directory replacing its current Novell and Windows network access controls. As part of this process the Library will document current access and put controls into place for authorizing additions, deletions and changes to network access.

2003 Management comments:

Management will formalize the user access controls process in 2004 by developing forms with appropriate sign-offs. This will document and refine existing practice, which determines and limits logical access for IT and end-user staff by job function.



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