



REGIONAL MUNICIPALITY OF WATERLOO AUDIT COMMITTEE AGENDA

Tuesday, February 28, 2012

2:30 p.m.

(Time is approximate, meeting follows Community Services Committee)

Room 218

150 Frederick Street, Kitchener, Ontario

1. MOTION TO GO INTO CLOSED SESSION

That a closed meeting of Audit Committee be held on Tuesday, February 28, 2012 at approximately 2:30 p.m. in accordance with Section 239 of the Municipal Act, 2001, for the purposes of considering the following subject matter:

- a) labour relations

2. MOTION TO RECONVENE INTO OPEN SESSION

3. DECLARATIONS OF PECUNIARY INTEREST UNDER THE MUNICIPAL CONFLICT OF INTEREST ACT

4. DELEGATIONS

5. PRESENTATION

- a) Evan McDade, Deloitte re: [2011 Audit Service Plan](#) 1

6. INTERDEPARTMENTAL REPORTS

- a) [CA-12-002/E-12-017](#), Region of Waterloo International Airport – Program Review 2011-2012 24

REPORTS – Chief Administrative Officer

- b) [CA-12-001](#), 2011 Internal Audit Report 39

7. INFORMATION/CORRESPONDENCE

8. OTHER BUSINESS

- a) [Council Enquiries and Requests for Information Tracking List](#) 44

9. NEXT MEETING – May 29, 2012

10. ADJOURN



Region of Waterloo

2011 Audit Service Plan



For the year ending December 31, 2011
Presented to the Audit Committee
February 28, 2012



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February 28, 2012

To the Chair and Members of the Audit Committee of Region of Waterloo

Dear Audit Committee Members:

Audit service plan for the year ending December 31, 2011

We are pleased to present our audit service plan for the Region of Waterloo (sometimes called the “Region”) for the year ending December 31, 2011. This plan describes the Deloitte & Touche LLP (“Deloitte”) audit approach, our team, our audit scope and our planned communications with you.

Our audit of the Region of Waterloo’s consolidated financial statements for the year ending December 31, 2011 prepared in accordance with Canadian public sector accounting standards (“PSAS”) will be conducted in accordance with Canadian generally accepted auditing standards (“Canadian GAAS”). Our responsibilities under Canadian GAAS are described in more detail in our audit engagement letter dated January 31, 2012.

We are proud of our relationship with the Region of Waterloo and are pleased to be reappointed as auditors for another 5 years. Our objective at Deloitte is to set the standard of excellence and our team is committed to providing an efficient, high-quality audit. We recognize and are sensitive to your expectations regarding cost management and quality. We will focus our efforts on higher risk areas and co-ordinate our activities with management and make every effort to achieve audit efficiencies.

We are providing this audit service plan to the Audit Committee on a confidential basis. It is intended solely for the use of the Audit Committee and City Council to assist them in discharging their responsibilities with respect to the consolidated financial statements and is not intended for any other purpose. We accept no responsibility or obligation to any third party who may rely on this report.

We look forward to discussing our audit service plan with you and answering any questions you may have.

Yours very truly,

Chartered Accountants
Licensed Public Accountants

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Executive summary

The Deloitte audit approach adheres to applicable professional auditing standards and, accordingly, is risk-based and tailored to address the risks to financial reporting – the audit risks. Our audit approach involves consideration of the following:

Audit service plan – Key elements

Audit scope	The audit planning and the preliminary risk assessment activities we conduct enable us to set the scope of our audit and to design procedures tailored to that scope. The scope of this audit will be a full-scope audit as discussed in our detailed plan.
Materiality	<p>Materiality is the magnitude of misstatements, including omissions, in the consolidated financial statements that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the financial statement users. Judgments about materiality are made in the light of surrounding circumstances, and are affected by our perception of the information needs of the financial statement users, and by the size or nature of a misstatement, or a combination of both. We are responsible for providing reasonable assurance that your consolidated financial statements as a whole are free from material misstatement.</p> <p>Materiality levels are determined on the basis of the Region of Waterloo's consolidated revenue. Our preliminary estimate of materiality for the year ending December 31, 2011 is \$14,900,000 (2010 – \$14,700,000).</p> <p>We will report to the Audit Committee all uncorrected misstatements greater than an amount of \$745,000, (2010 – \$735,000) and any misstatements that are, in our judgment, qualitatively material. In accordance with Canadian GAAS, we will request that misstatements detected as a result of our audit be corrected.</p>
Audit risks	<p>Our audit scope reflects the risks that we have identified for the Region of Waterloo and our planned audit response to them.</p> <p>The more significant of the risks that we identified as part of our strategic audit planning activities, together with our planned audit response, are set out in the body of this report.</p>
Fraud risk	<p>In determining our audit strategy to address the assessed risks of material misstatement due to fraud, we will:</p> <ol style="list-style-type: none">1. assign and supervise personnel, taking account of the knowledge, skill and ability of individuals with significant engagement responsibilities and the auditor's assessment of the risks of material misstatement due to fraud for the engagement2. evaluate whether the selection and application of accounting policies by your organization, particularly those related to subjective measurements and complex transactions, may be indicative of fraudulent financial reporting resulting from management's effort to manage earnings, and3. incorporate an element of unpredictability in the selection of the nature, timing and extent of our audit procedures. <p>We will inquire directly of the Audit Committee regarding its views about the risk of fraud and whether the Audit Committee has knowledge of any actual or suspected fraud affecting the Region of Waterloo.</p> <p>If we suspect fraud involving management, we will communicate these suspicions to the Audit Committee and discuss the nature, timing, and extent of audit procedures necessary to complete the audit.</p>
Internal control matters	<p>We will obtain an understanding of internal control relevant to the audit. Although most controls relevant to the audit are likely to relate to financial reporting, not all such controls are relevant to the audit. It is a matter of professional judgment whether a control, individually or in combination with others, is relevant to the audit.</p> <p>We will communicate in writing significant deficiencies in internal control identified during the audit to the Audit Committee on a timely basis.</p>

Audit service plan – Key elements

Group audit	<p>When designing our audit strategy, we also considered:</p> <ul style="list-style-type: none"> • the financial significance or relative importance of each of the consolidated entities (listed in Appendix A) to your organization as a whole • the complexity and nature of the operations, internal controls and accounting issues at each of the consolidated entities. • the degree of centralization or decentralization of processes and controls including the extent of relevant enterprise-level controls, and • the extent and nature of internal control deficiencies and financial statement misstatements identified in current and previous periods at each of the consolidated entities. <p>For the Region, we are the auditors for the related entities, so we are able to co-ordinate the group audit internally, including identifying risks and materiality. Any issues arising from these audits will be communicated to the Audit Committee in the audit results presentation.</p>
Use of the work of experts	<p>Our audit engagement partners are supported with online resources as well as practice office and national office experts who assist our audit engagement teams when dealing with more complex technical, accounting, auditing and reporting issues.</p>
Audit team	<p>The engagement team that will serve the Region of Waterloo provides a balance of continuity of existing members with knowledge of and experience with your organization and new members who will provide fresh perspectives and insights. Our team also includes high-quality technical specialists and other professionals. We are committed to continuing to serve the Region with quality and distinction.</p>
Engagement letter	<p>The terms and conditions of our engagement are included in the engagement letter included under separate cover.</p>
Complete engagement reporting	<p>We will provide to you an audit report on your consolidated financial statements. We will also provide reports to the Audit Committee to assist it in fulfilling its responsibilities, as required by applicable auditing standards. Appendix B summarizes required communications between the Audit Committee and Deloitte.</p>
Communications	<p>We have summarized our required communications with the Audit Committee in Appendix B. We expect to enjoy open and forthright communications with both management and the Audit Committee and will be pleased to respond to questions that are within our competencies as your auditor.</p>
a) Other matters	
Audit fees	<p>We propose audit fees for 2011 in accordance with our response to the 2011 request for proposal. Our objective is to conduct an efficient audit in accordance with Canadian GAAS. The time we have estimated for our audit assumes an optimum level of assistance from the Region of Waterloo staff and our commitment to fulfill our professional responsibilities and duties in an efficient manner. We have carefully considered all elements included within our audit plan and confirm that, in our judgment, all such procedures are appropriate and in line with Canadian GAAS.</p>
Independence	<p>We have developed important safeguards and procedures to protect our independence and objectivity.</p> <p>We are independent of the Region of Waterloo and we will reconfirm our independence in our final report to the Audit Committee.</p>
Management representations	<p>We will obtain written and oral representations from management to complement our audit procedures. These representations are intended to confirm the information that is provided to us and reduce the possibility of misunderstanding.</p>
New financial reporting standards	<p>We have included, in Appendix D, the Deloitte Standard-setting Activities Digest, which summarizes the standards (both finalized and in development) that we believe are particularly relevant to the Region.</p> <p>New Public Sector Standards include:</p> <ul style="list-style-type: none"> • Section PS 3260, Liability for Contaminated Sites • Section PS 3510, Tax Revenue • Section PS 4400, <i>Government organizations applying the standards for not-for-profit organizations</i>

Audit service plan – Key elements






Client service commitment

Deloitte's client service principles have been designed to help us exceed the expectations of the Region and its Audit Committee. These principles are our framework for providing guidance to members of our engagement team and identifying our clients' unique preferences regarding the ways they want to work with us. Our client service commitments to serve the Region have been developed together with management.

We have also provided management and the Audit Committee with access, through a specially designed portal, to Deloitte's knowledge and other value-added resources. These resources are designed to provide you with valuable insights and support an efficient audit. We are prepared to provide other appropriate assistance regarding the Region's needs that may be required, if appropriate given our professional responsibilities.

As part of our client service commitment to you, we have developed a communication calendar in Appendix C that depicts our action plan to deliver outstanding client service. The calendar identifies the meetings required to support both the efficient and effective execution of our audit processes and deliver additional benefits through the audit relationship.

We will:

-  **make** and meet our commitments to you
-  **understand** your business and what is important to you
-  **provide** value and build trust through technical competence and consistent results
-  **demonstrate** professionalism through effective interaction and communications
-  **provide** a no surprises experience

We invite you to assess our performance against these principles through our Client Feedback process.

The Deloitte risk-based audit approach

A consistent approach that supports a dynamic environment

Deloitte's audit approach is a systematic methodology that enables us to tailor our audit scope and plan to address the unique issues facing the Region of Waterloo. Our risk-based audit approach is:

- **Partner-led** – driven by our partners' experience and their detailed knowledge of an organization, with significant partner input at all stages of the audit
- **Focused** – by identifying and designing appropriate audit procedures that focus on risks to the audit process for significant accounts, transactions and disclosures as well as material misstatements to the financial statements
- **Quality focused** – with a commitment to provide an uncompromisingly high level of professional and technical quality, and
- **Dynamic** – tailored to respond to changing circumstances.

There are four key phases within our systematic approach:

- Initial planning
- Assessing and responding to risk of material misstatement
- Developing and executing the audit plan, and
- Reporting and assessing performance.

These steps are not necessarily chronological nor are they mutually exclusive. For example, once we've developed our audit plan and the audit is being performed, we may become aware of a risk that was not identified during the planning phase. Based on that new information, we would reassess our planning activities and adjust the audit plan accordingly.

1. Initial planning

The Deloitte audit approach begins with an extensive planning process that includes:

- assessing your current business and operating conditions
- understanding the composition and structure of your business and organization
- understanding your accounting processes and internal controls
- understanding your information technology systems
- identifying potential engagement risks
- planning the scope and timing of internal control and substantive testing that take into account the specific identified engagement risks, and
- co-ordinating our activities with external parties and experts.

Our audit will take into account specific items of particular interest raised by the Audit Committee as well as areas of concern identified by the Audit Committee or management.

2. Assessing and responding to engagement risk

Our audit approach combines an ongoing identification of risks with the flexibility to adjust our approach when additional risks are identified. Since these risks may impact our audit objectives, we consider materiality in our planning to focus on those risks that could be significant to your financial reporting.

Risk assessment

The risks that we have identified to date, and which will be addressed when conducting the audit, are summarized in the Audit Scope section below. As we perform our audit, we will update our risk assessment and will inform the Audit Committee and management of significant changes to our risk assessment and any additional risks that are identified.

Consideration of the risk of fraud

Fraudulent acts include the deliberate failure to record transactions, forgery of records and documents, and intentional misrepresentations made to our audit engagement team. Fraud may include intentional acts by management or employees acting on behalf of the Region of Waterloo, as well as employee fraud if management or employees are involved in actions that defraud the Region. Deloitte does not assume that management is dishonest nor do we assume unquestioned honesty. Rather, in accordance with Canadian GAAS we exercise professional scepticism and recognize that the conditions we observe and evidential matter we obtain, including that obtained from prior audit engagements, need to be objectively evaluated to determine whether the consolidated financial statements are presented fairly in all material respects.

Maintaining an attitude of professional scepticism means that we carefully consider the reasonableness of the responses we receive to our inquiries from those charged with governance, and evaluate other information obtained from them in light of the evidence we obtain during the audit. We consider whether any misstatement or control deficiency that we identify may be indicative of fraud and what the implications of fraud and significant error are in relation to other aspects of the audit, particularly the reliability of management representations.

The Audit Committee has oversight responsibilities for management's efforts to create a strong internal control environment, including the design and implementation of antifraud programs and controls. Since antifraud controls influence the tone of the entire organization, they will be considered as part of our assessment of the overall Control Environment.

Deloitte's approach to evaluating the **design** and **implementation** of antifraud controls includes:

1. gaining an understanding of the Region of Waterloo policies and procedures designed to address fraud risks
2. determining whether the programs are designed to prevent, detect or deter fraud, and
3. performing walkthroughs of significant processes.

Deloitte's approach to evaluating the **operating effectiveness** of antifraud controls includes:

1. analyzing antifraud controls to determine whether they are operating, in all material respects, as designed, and
2. evaluating management's consideration of fraud in its risk assessment process.

As required by professional auditing standards, we also make enquiries of the Audit Committee regarding:

- their views about the risk of fraud,
- their knowledge of any actual, suspected, or alleged fraud, and
- the role they exercise in the oversight of management's antifraud programs.

Because of the inherent limitations of Internal Control over Financial Reporting, including the possibility of collusion or improper management override of controls, it is possible that material misstatements due to error or fraud may not be prevented or detected on a timely basis. Accordingly, the assurance an auditor provides concerning the lack of misstatements arising from fraud is necessarily lower than the assurance provided concerning those arising from an error.

Information technology

When we perform an audit, we consider if it would be efficient to obtain appropriate audit evidence each year to assess the effectiveness of controls in achieving their objectives. Our assessment examines each component of internal control, including:

1. entity-level components of internal control
2. relevant assertions related to all significant account balances or disclosures in the consolidated financial statements, and
3. relevant areas of general computer controls.

Accordingly a key part of our audit planning process is to gain an understanding of how the computer environment is important relative to the risk of material misstatement.

A key part of our audit planning process involves gaining an understanding of:

1. the way in which that environment supports the control procedures we intend to rely on when conducting our audit, and
2. the computer based information that supports our substantive procedures.

The objective of our review of computer controls is to identify potential areas of risk and assess the relevance, reliability, accuracy and completeness of the data produced by the systems. We also assess the operating effectiveness of the computer environment and determine the reliability of the financial information used to generate the consolidated financial statements. To accomplish this, we gain an up-to-date understanding of your organization's computer processing environment and our understanding of the relevant general computer controls. We then conduct tests to support our conclusion on the operating effectiveness of controls considered relevant to the audit.

We will assess the design and effectiveness of general computer controls in the following areas:

1. Data centre and network operations
2. System software acquisition, change and maintenance
3. Program change
4. Access security
5. Application system acquisition, development, and maintenance.

3. Developing and executing the audit plan

The performance of an audit includes evaluating the design and implementation of controls, and testing the operational effectiveness of controls, where it is determined to be efficient to do so, as well as performing substantive audit procedures.

Audit procedures

The timing of our audit procedures is dependent upon a number of matters including coordination with management for the provision of supporting analysis and other documentation. Generally, we perform our audit procedures to allow sufficient time to surface significant issues early thereby allowing more time for analysis and resolution.

Tests of controls

Our tests of controls will evaluate the design and test the operational effectiveness of controls related to relevant assertions for significant accounts and disclosures. Our evaluation will take into consideration our assessment of the audit risk. However, we may choose to adopt a substantive approach to the audit of certain accounts and assertions in connection with our audit of the consolidated financial statements where this is more practical (for example, where there have been changes in systems during the year and where it is possible to obtain substantive assurance with less audit effort).

Control deficiencies identified either by us or by management will be evaluated to determine whether they are significant deficiencies. We will inform management and the Audit Committee of all significant deficiencies that are identified in the conduct of the audit, regardless of whether they were identified by us or management. We will also inform management of any other control deficiencies that we identify during our audit that were not previously reported by us, or other parties.

Substantive audit procedures

Our substantive audit procedures consist of a tailored combination of analytical procedures and detailed tests of transactions and balances. These procedures take into account the results of our controls testing and are designed to enable us to obtain reasonable assurance that the consolidated financial statements are free from material misstatements. To obtain this assurance, misstatements that we identify while performing substantive auditing procedures will be considered in relation to the consolidated financial statements as a whole. Any misstatements that we identify, other than those that are clearly trivial (the threshold has been set at \$745,000), will be reported to management and the Audit Committee. In accordance with Canadian GAAS, we request that misstatements be corrected.

Audit evidence to be obtained from component auditors

For the Region of Waterloo, we are the auditors for the related entities. Therefore, we are able to coordinate internally on matters such as risks and materiality. Any issues arising from these audits will be communicated to the Audit Committee in the audit results presentation.

Use of work of experts

Our audit engagement team is supported with online resources as well as practice office and national office experts who will assist the team in dealing with more complex technical, accounting, auditing and reporting issues.

4. Reporting and assessing performance

Perform post-engagement activities

We will analyze the results of the audit procedures performed throughout the year and, prior to rendering our report, we will conclude whether:

- The scope of the audit was sufficient to support our opinion, and
- The misstatements identified during the audit do not result in financial statements being materially misstated.

Material adjustments and control deficiencies

Our audit plan allows for constructive, timely feedback to management regarding matters deserving their attention, including information about material adjustments to the consolidated financial statements and/or disclosures and/or control deficiencies. The majority of our auditing procedures are performed throughout the year and updated at year-end. Appendix C outlines our timing for the 2011 audit.

As discussed, our audit procedures focus on the risks of material misstatement. If there are additional areas of concern or interest to the Audit Committee or management, we will adjust our audit plan to include those areas.

Obtain management representations

We will obtain written and oral representations from management to complement our audit procedures. These representations are not a substitute for the application of our audit procedures; instead, they are intended to confirm the information provided to us and reduce the possibility of misunderstanding.

Complete engagement reporting

We will provide to you an audit report on your consolidated financial statements. We also provide reports to the Audit Committee to assist it in fulfilling its responsibilities as required by applicable auditing standards. Appendix B summarizes the required communications between the Audit Committee and Deloitte.

Deloitte's client service principles include providing management and the Audit Committee with insights into the condition of the business and offering meaningful suggestions for improvement. We will report these insights and suggestions to the appropriate members of management and/or the Audit Committee for their consideration.

To enable us to determine how well we have achieved our client service objectives, including an assessment of the quality of our audit engagement, we actively solicit feedback from our clients. This feedback is obtained either through meetings with members of the Audit Committee and management or their completion of questionnaires.

Your feedback enhances our understanding of your expectations of us through your evaluation of our performance. The information you provide to us allows us to refine our client service objectives to help us remain focused, responsive, and proactive in meeting your needs while fulfilling our professional responsibilities.

Deloitte enjoys a strong reputation for our **commitment to quality**. Key factors supporting that reputation include:

- A strong tone at the top
- A comprehensive ethics and compliance program
- An uncompromising approach to client service
- Communication of and adherence to professional standards and client service principles
- A mature client feedback program
- A multifaceted approach to monitoring independence
- A robust technical consultation approach
- National office consultation regarding areas of high risk or areas that require significant judgment
- Technical training for our professionals
- An annual internal inspection process for audit engagements
- Continuous improvement based on lessons learned and client feedback.

Audit scope

Designed to obtain reasonable assurance and address the risks of material misstatements.

An audit is designed to search for potential misstatements that, individually or collectively, are material. This is done by determining a specific threshold for each engagement and considering other qualitative factors. The threshold amount is also used to evaluate the significance of uncorrected misstatements (“passed” misstatements and reclassifications) and control deficiencies that are noted during the audit.

Materiality

Our overall materiality level is used in our assessment of significant accounts and locations where audit effort is necessary and is based on consolidated revenue for the Region of Waterloo. Our materiality for planning and determining the audit scope for 2011 has been initially set at \$14,900,000 (2010 – \$14,700,000). We will design our work so as to consider material items appropriately and to detect potential adjustments that, individually or in combination with others, would be material to the consolidated financial statements. In accordance with Canadian GAAS, we will request that misstatements be corrected.

If the amount of uncorrected misstatements detected when conducting our audit exceeds that which we anticipated when we planned the audit, we may need to revise the scope of our audit. Should such a situation arise, we will discuss the matter with management on a timely basis in order to agree upon the appropriate course of action.

Risk assessment

We compile information from a variety of sources, including discussions with management and the Audit Committee, to identify risks to the Region’s financial reporting process that may require attention. Our preliminary risk assessment took into account:

- key business developments and transactions (internal and external)
- current business, regulatory and accounting pronouncements and developments
- key management strategies and business plans
- prior years’ audit results, and
- areas of significant judgment and risk.

Our audit planning activities and our preliminary identification of audit risks enables us to set the scope of our audit and to design audit procedures tailored to the identified risks to financial reporting. The table below sets out the more significant risks to financial reporting that we have identified, with management’s support, during our preliminary planning activities. The table also includes our proposed response to each risk. Our planned audit response is based on our assessment of the likelihood of a risk’s occurrence, the significance should a misstatement occur, our determination of materiality and our prior knowledge of the Region of Waterloo.

Areas of audit risk	Our proposed audit response
<p>Accounts payable and accrued liabilities Description: Accounts payable and accrued liabilities may be understated due to improper cut-off.</p>	<ul style="list-style-type: none"> • Test disbursements subsequent to year-end to determine the reasonableness of accounts payable and accrued liabilities. • Test the supporting assumptions for accruals. • Review the outcome of prior year estimates and accruals.
<p>Actuarially determined liabilities Description: Actuarial liabilities may be misstated due to improper inputs used in valuation. In addition, the financial statement disclosure may not contain all required items.</p>	<ul style="list-style-type: none"> • Review actuary report, including related assumptions. • Ensure appropriate accounting treatment has been applied. • Review related financial statement note disclosure for accuracy and completeness. • Communicate with actuary on our reliance on their report for audit purposes.
<p>Contingencies Description: Contingent liabilities are not properly accrued for or disclosed in the financial statements.</p>	<ul style="list-style-type: none"> • We will contact the Region's external law firms to obtain the status of any outstanding claims and review evaluation of claims to ensure proper recognition.
<p>Council and senior management expenses Description: Council and Senior management may expense items not in line with the Region's expense policy.</p>	<ul style="list-style-type: none"> • Review of sample of expense reports for validity and proper approval.
<p>Estimates Description: Management estimates are not calculated in accordance with GAAP or properly supported.</p>	<ul style="list-style-type: none"> • Test the supporting assumptions for estimates. • Review the outcome of prior year estimates and accruals.
<p>Infrastructure Stimulus Fund Description: Funding spent on projects under ISF is not in line with the Region's procurement policy.</p>	<ul style="list-style-type: none"> • Test contracts to determine if monies received should be reported as revenue or deferred revenue. • Substantive testing on expenditures. • Perform compliance testing on procurement policy.
<p>Payroll Description: Payroll expense is not accurately recorded.</p>	<ul style="list-style-type: none"> • Focused detail testing on payroll expenditures and accruals. • Substantive testing on variances.
<p>Reserves and Reserve Funds Description: Transfers to and from reserves and reserve funds have been completed without council approval.</p>	<ul style="list-style-type: none"> • Substantive testing on the continuity and material transactions to determine if transfers are in accordance with Council approvals and applicable legislative requirements.
<p>Revenue/deferred revenue Description: Revenue recognition/cut-off issue relating to amounts to be deferred.</p>	<ul style="list-style-type: none"> • Review grants charges, contributions or other monies received during the year and determine if the amount should be recorded as revenue or as deferred revenue.
<p>Taxation revenue Description: Management's estimate of allowance for doubtful accounts is understated.</p>	<ul style="list-style-type: none"> • Recalculation of assessments based on verified property value and tax rates. • Review and evaluate management's estimate of the allowance for doubtful accounts to ensure it is reasonable and consistent. This will include review of assumptions/supporting documents used to determine estimate, a retrospective review and testing of subsequent receipts.
<p>Tangible capital asset disposals Description: Assets disposed of by the Region of Waterloo have not been recorded.</p>	<ul style="list-style-type: none"> • Work with management to determine a method of confirming disposals with the Region's departments. • Review disposal schedule prepared by management for reasonability.

Group audit considerations

An audit is designed to search for potential misstatements that, individually or collectively, are material. Some of the factors we consider in determining the audit scope at the consolidated entities include:

- the existence of significant risks at the consolidated entities
- a consideration of significant accounts and disclosures using materiality levels that are appropriate to support our audit opinion on your organization's consolidated financial statements
- the complexity and nature of the operations, internal controls and accounting issues at the consolidated entities
- the degree of centralization or decentralization of processes and controls, including the extent of relevant enterprise-level controls, and
- the extent and nature of internal control deficiencies and financial statement misstatements identified in current and previous periods at the consolidated entities

Based on our analysis of these risks, we have determined the scope of work we consider necessary to provide an appropriate basis for our audit opinions on the consolidated financial statements.

Full-scope audits will be performed using the materiality level specified for the individual entities that are individually significant to the consolidated financial statements.

Audit scope uncertainty

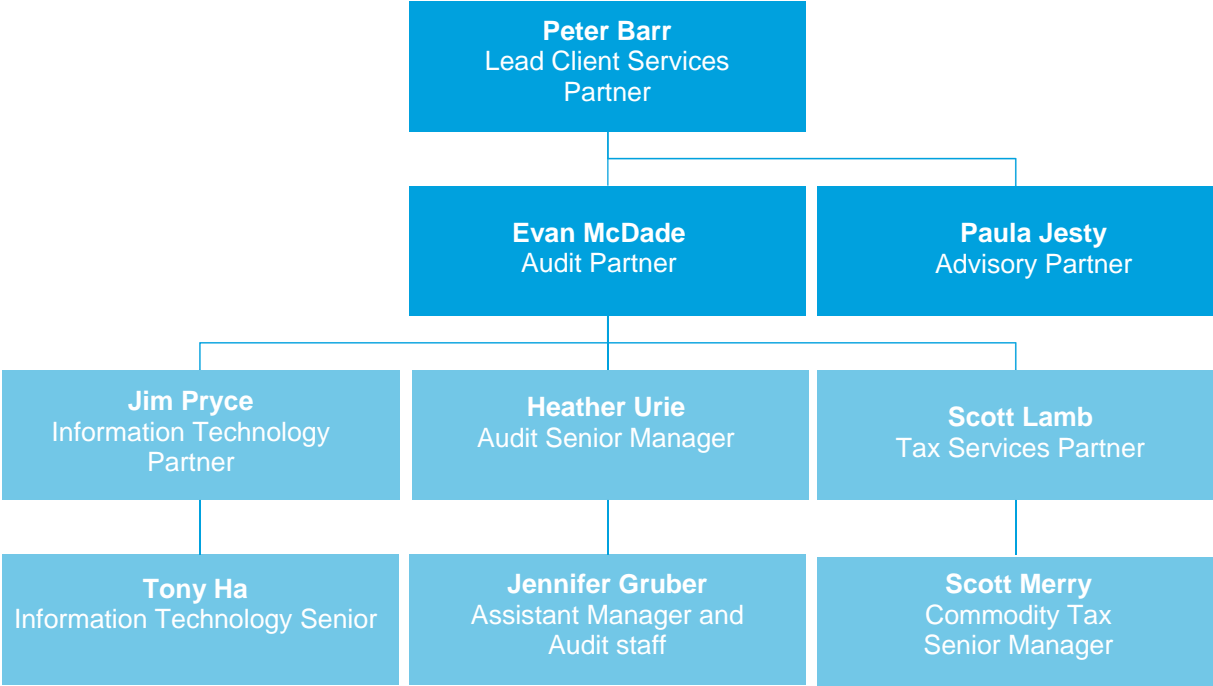
Our audit service plan is based on several assumptions. Circumstances may arise during the engagement that could significantly affect our scope and the extent and timing of our audit procedures. These circumstances may include, but are not limited to, the following:

- the quality of the Region's accounting records deteriorates during the current year engagement compared to the prior-year engagement
- significant deficiencies are identified in the Region's internal control that result in the expansion of our audit procedures
- a significant level of proposed audit adjustments is identified during our audit
- significant new issues or changes arise, such as:
 - new accounting issues
 - changes in accounting policies or practices from those used in prior years
 - events or transactions not contemplated in our budgets
 - changes in the Region's financial reporting process or IT systems
 - changes in the Region's accounting personnel, their responsibilities, or their availability
 - changes in auditing standards
 - changes in the Region's use of experts or the specialists and/or their work product does not meet the qualifications that Canadian GAAS requires for us to be able to use their work
- changes in the audit scope caused by events that are beyond our control

If any of these or similar such circumstances arise during the course of our audit we will discuss them on a timely basis with management and provide the Audit Committee with a report regarding the impact on our audit at its next scheduled meeting. Matters that we consider to be significant and that may be sensitive from a reporting timing perspective will be communicated immediately to the Chair of the Audit Committee.

Your audit team

The roles and responsibilities of the individuals who lead our audit team are:



Appendix A – Sources of audit evidence in a group audit

This section indicates where full-scope audits will be performed.

Entity	Location and notes
Full-scope audits	
Region of Waterloo	Kitchener - Deloitte
Trust Funds	Kitchener - Deloitte
Sinking Fund	Kitchener - Deloitte
Region of Waterloo Community Housing Inc.	Kitchener- Deloitte
Waterloo Region Heritage Foundation	Kitchener – Deloitte
Waterloo Regional Arts Fund	Kitchener - Deloitte

Appendix B – Communication requirements

Required communication	Timing of communication
1. Our responsibilities under Canadian GAAS	February 2012
2. Our audit strategy and scope, including our approach to auditing financial information of components of the group audit and our planned involvement in work performed by component auditors.	February 2012
3. Management judgments and accounting estimates.	June 2012
4. Financial statement adjustments.	June 2012
5. Uncorrected misstatements.	June 2012
6. Significant accounting policies.	June 2012
7. Alternative treatments for accounting policies and practices that have been discussed with management during the current audit period.	June 2012
8. Our views about significant qualitative aspects of the Region of Waterloo's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.	June 2012
9. Our responsibility for other information in documents containing audited consolidated financial statements (e.g., Annual Report), any procedures performed, and the results.	As available
10. Disagreements with management.	June 2012
11. Our views about significant matters that were the subject of consultation with other accountants.	June 2012
12. Major issues discussed with management prior to our retention.	June 2012
13. Significant difficulties, if any, encountered during the audit.	June 2012
14. Material written communications between management and us.	June 2012
15. All relationships between the Region of Waterloo and us that, in our professional judgment, may reasonably be thought to bear on independence.	June 2012
16. A statement that, in our judgment, the engagement team and others in our firm and, when applicable, network firms have complied with relevant ethical requirements regarding independence.	June 2012
17. Illegal or possibly illegal acts.	June 2012
18. Fraud or possible fraud identified through the audit process.	June 2012
19. Significant transactions inconsistent with ordinary business, including related party transactions.	June 2012
20. Non-compliance with laws and regulations that come to our attention.	June 2012
21. Communication in writing to the Regional Council regarding any areas we became aware of where the oversight of the Region of Waterloo's external financial reporting and internal control over financial reporting by the Region's Audit Committee may be ineffective.	June 2012
22. Limitations placed on our scope.	June 2012
23. Written representations we are requesting.	June 2012

Appendix C – Communication calendar

This calendar includes planned interactions that will support the efficient and effective execution of our audit as well as those that provide value-added content to the Region of Waterloo. We will finalize the Calendar with input from you.

	September	October	November	December	January	February	March	April	May	June	July	August
Audit execution – meetings with Audit Committee												
Audit Committee meeting to present Audit Service Plan						●						
Interim Fieldwork						●						
Final Fieldwork							●	●	●			
Final Audit Committee meeting											●	
Annual year-end issues meetings											●	
Client feedback												
Audit continuous improvement meetings						●					●	
Annual client feedback process												●

Appendix D – Standard setting digest

Final standards

Public sector accounting standards

PSAB Introduction to Public Sector Accounting Standards – Government Not-for-Profit Organizations

Effective date: Fiscal years beginning on or after January 1, 2012

Standard: Introduction to Public Sector Accounting Standards

Transitional provisions: Fiscal years beginning on or after January 1, 2012

Published by: PSAB

Last updated: April 2011

Applicable to: Government Not-for-Profit Organizations

In summary

In April 2011, a Summary Comparison of the PS 4200 Series to the other standards in the CICA PSAB Handbook has been issued by CICA Staff to assist government not-for-profit organizations in their transition to the PSAB Handbook.

In December 2010, the Introduction to Public Sector Accounting Standards, paragraph .07, has been amended to direct government not-for-profit organizations to follow either:

1. the CICA Public Sector Accounting Handbook with Sections PS 4200 to PS 4270; or
2. the CICA Public Sector Accounting Handbook without those Sections.

The change is effective for fiscal years commencing on or after January 1, 2012.

Previously government not-for-profit organizations were required to follow the CICA Accounting Handbook, Part V, Sections 4400 to 4470.

Available resources and links

- CICA PSAB Handbook, Introduction to Public Sector Accounting Standards, paragraph .07
- Summary Comparison of the PS 4200 Series to the other standards in the CICA PSAB Handbook

Final standards

Public sector accounting standards

PSAB Introduction to Public Sector Accounting Standards – Government Business Enterprises

Effective date: Fiscal years beginning on or after January 1, 2011

Standard: Introduction to Public Sector Accounting Standards

Transitional provisions: Fiscal years beginning on or after January 1, 2011

Published by: PSAB

Last updated: April 2011

Applicable to: Government Business Enterprises

In summary

In April 2011, a decision tree outlining the different classifications for a government organization and its appropriate basis of GAAP has been published to assist a government organization in applying the Introduction to Public Sector Accounting Standards.

In December 2010, the Introduction to Public Sector Accounting Standards, paragraph .06, has been amended to clarify the source of GAAP for GBEs

- Government business enterprises (GBEs) will be required to adhere to standards for publicly accountable enterprises as determined by the Accounting Standards Board (i.e., the CICA Handbook, Part I, being International Financial Reporting Standards (IFRSs)) for fiscal periods beginning on or after January 1, 2011;
- The government business-type organizations (GBTOs) classification in the Public Sector Accounting (PSA) Handbook has been eliminated and requires the reclassification of GBTOs to either government not-for-profit organizations or other government organizations (OGOs);
- Other government organizations (OGOs) will generally base their financial reporting on the PSA Handbook;
- Government not-for-profit organizations should adhere to the standards for not-for-profit organizations in the CICA PSAB Handbook.

Available resources and links

- Determining an Organization's Basis of GAAP (www.psab-ccsp.ca)
- CICA PSAB Handbook, Introduction to Public Sector Accounting Standards, paragraph .06
- Basis for conclusions (www.psab-ccsp.ca)

Final standards

Public sector accounting standards

PSAB 3260, Liability for Contaminated Sites

Effective date: Effective for fiscal years beginning on or after April 1, 2014

Standard: PS 3260, Liability for contaminated sites

Transitional provisions: Effective for fiscal years beginning on or after April 1, 2012. Prospective or retroactive application of the revised standard will be permitted.

Published by: PSAB

Last updated: May 2010

Applicable to: Public sector

In summary

PSAB issued CICA Public Sector Accounting Handbook Section 3260, Liability for Contaminated Sites. This new Section establishes recognition, measurement and disclosure standards for liabilities relating to contaminated sites of governments and those organizations applying the CICA Public Sector Accounting Handbook.

Section PS 3260, Liability for Contaminated Sites, addresses the recognition criteria, measurement and disclosure requirements for reporting liabilities associated with remediation of contaminated sites that either are not in use or resulted from unexpected environmental events (such as a toxic spill or natural disaster). It also provides guidance on each of the recognition criteria, as well as issues related to initial and subsequent measurement based on the principles in Sections PS 3200, Liabilities, PS 3300, Contingent Liabilities, and PS 3390, Contractual Obligations.

Available resources and links

- CICA PSAB Handbook, Section PS 3260
- Exposure draft
- Issues Analysis
- Proposed Statement of Principles

Final standards

Public sector accounting standards

PSAB Section PS 3410 (Revised), Government Transfers

Effective date: Effective for fiscal years beginning on or after April 1, 2012

Standard: PS 3410, Government Transfers

Transitional provisions: Effective for fiscal years beginning on or after April 1, 2012. Prospective or retroactive application of the revised standard will be permitted.

Published by: PSAB

Last updated: April 2011

Applicable to: Public sector

Recent activities

In April 2011, PSAB published a Basis for Conclusion.

In December 2010, PSAB approved a final standard to replace existing Section PS 3410, *Government Transfers*. Section PS 3410 establishes standards on how governments should account for and report government transfers to individuals, organizations and other governments from both a transferring government and recipient government perspective. The revised Section PS 3410 was expected to be issued in March 2011.

The Board reviewed responses to the 2010 Re-exposure Draft as well as changes proposed to address issues raised. While views among senior government respondents remained mixed regarding the accounting for capital transfers received, PSAB concluded that all alternatives had been explored and that the proposed final standard was a significant improvement over the existing standard.

In finalizing the standard, PSAB provided clarification that the authority to pay may need to be considered in order for a transferor to have exercised its authority and lost its discretion to avoid proceeding with a transfer.

In summary

The new standard provides guidance for accounting and reporting government transfers from both a transferring government and a recipient government perspective. It clarifies the difference between eligibility criteria and stipulations and their roles in the recognition of government transfers by the transferring and recipient government. It explains how the definition of liabilities in Section PS 3200, *Liabilities*, should apply to the recognition of government transfers by a recipient government. It addresses what evidence would be required to support the authorization of a government transfer from the perspective of the transferring government.

With the issuance of this new Government Transfers standard, governments will not be allowed to apply guidance in Section PS 3100, *Restricted Assets and Revenues*, for reporting government transfers.

Available resources and links

- CICA PSAB Handbook, Section PS 3410 (Revised)
- Basis for Conclusions (<http://psab-ccsp.ca>)
- PSAB's exposure-draft (www.psab-ccsp.ca)
- Questions and answers (www.psab-ccsp.ca)
- Issues Analysis document (www.psab-ccsp.ca)
- PSAB Decision Summary, December 9 – 10, 2010 (www.psab-ccsp.ca)

Final standards

Public sector accounting standards

PSAB 3510, Tax Revenue

Effective date: Effective for fiscal years beginning on or after April 1, 2012

Standard: PS 3510, Tax Revenue

Transitional provisions: Effective for fiscal years beginning on or after April 1, 2012. Prospective or retroactive application of the revised standard will be permitted.

Published by: PSAB

Last updated: May 2010

Applicable to: Public sector

In summary

This new Section establishes recognition, measurement, presentation and disclosure standards relating to tax revenue reported in financial statements. The main features of the new Section are as follows:

- Tax revenue should be grossed up for transfers made through the tax system;
- Tax revenue should not be grossed up for the amount of tax concessions that are often referred to as tax expenditures;
- Tax revenue should be recognized when it is authorized and the taxable event occurs;
- Tax revenue should be recognized by the government that imposes the tax except in flow-through arrangements;
- Guidance is provided for identifying and distinguishing between tax concessions and transfers made through a tax system.

Implications of the new section

It may affect current accounting practices. As well, they may affect budgets and estimates as additional expenses may have to be voted.

- For some governments, it could mean that transfers made through a tax system would be recognized as expenses rather than netted against tax revenue. In contrast, tax revenue should not be grossed up for the amount of tax concessions. A distinction is made between tax concessions and transfers paid through a tax system (see paragraphs PS 3510.07 and PS 3510.33-.43);
- Regarding the attribution of tax revenue, it requires the government that imposes a tax to recognize the related revenue except in the case of purely flow-through arrangements (see paragraphs PS 3510.14-.17).

It requires that any expenses incurred in relation to a tax transaction, such as administrative costs or commissions on tax collection, be separately recognized in expenses and not netted against tax revenue (see paragraph PS 3510.29).

Available resources

- CICA PSAB Handbook, Section PS 3510

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REGION OF WATERLOO

**OFFICE OF THE CHIEF ADMINISTRATOR
Internal Audit
TRANSPORTATION AND ENVIRONMENTAL SERVICES
Transportation**

TO: Chair Tom Galloway and Members of the Audit Committee

DATE: February 28, 2012

FILE CODE: A10-20, A35-01

SUBJECT: REGION OF WATERLOO INTERNATIONAL AIRPORT - PROGRAM REVIEW 2011-2012

RECOMMENDATION:

THAT the Audit Committee endorse the recommendations and proposed actions of the Region of Waterloo International Airport Program Review 2011-2012 as noted in Report CA-12-002/E-12-017 dated February 28, 2012, including the change of the one contract administrative position to a permanent position, all at a decrease of approximately \$15,000 to the 2012 Airport operating budget.

SUMMARY:

In 2011, the Internal Auditor together with the Transportation Division initiated a comprehensive program review to ensure services and operations at the Region of Waterloo International Airport (herein referred to as "Airport") are managed and delivered effectively and efficiently. A specialist consulting firm, with experience at airports of all sizes across Canada and around the world, was retained to help assess good value for resources invested for the Region, its residents, airlines, airport customers and end-users. A detailed assessment of processes was undertaken in four distinct areas at the Airport. These include (1) Operations, (2) Security and Safety, (3) Finance and Administration, (4) Marketing. A review of this nature was timely given the Airport's administration and operations program areas have assumed significant additional responsibilities and duties since the approval of the Master Plan in 2000 with the addition of passenger and charter scheduled services, ongoing increasing regulatory requirements, additional tenants, etc. The program review provided the opportunity to optimize the manner in which the Airport's services and operations are delivered and to maximize the achievement of divisional objectives for the Transportation Division.

The results of the review indicated that overall, the services and operations are being managed and delivered effectively and efficiently. However, there are many opportunities to increase the efficiency and effectiveness of the Airport's services and operations. There are a number of recommendations contained in the report that, when implemented, will help the Airport meet its objectives and also optimize the efficiency and effectiveness of the operations. The areas for improvement are centered on three key themes:

- Need for Increased Automation: Management systems to automate data and reports are suggested in a variety of areas (e.g. financial, safety, operations, etc.). The efficiencies of streamlining workflow and implementing new tools to reduce paper reports will ultimately help enable management decisions, and improve staff efficiency and effectiveness.

- Clarify Roles, Structures and Communications: The scale and complexity of operations at the Airport would benefit from a renewal of organizational structure and interaction with stakeholders. With a larger number of tenants and new requirements from the regulator, there is a greater need for clearly defined roles, structures and effective communication both within the organization and externally with stakeholders, community and the federal government.
- Long Term Capital/Operations Planning: An airport the size of the Region of Waterloo International Airport needs a cohesive set of plans that can meet long-term ambitions for the Airport.

REPORT:

Background and Overview of Operations:

Transportation and Environmental Services is made up of six Divisions:

- Design and Construction
- Rapid Transit
- Transit Services
- Waste Management
- Water Services
- Transportation
-

Within the Transportation division operates the Region of Waterloo International Airport.

The Region of Waterloo International Airport has been owned and operated solely by the Regional Municipality of Waterloo since 1996. In the last 14 years, the Airport has served an ever-increasing role as a community airport. Today, the Airport is a modern full service international airport with well-established general and corporate aviation activity. In 2011, for example, the Airport hosted approximately 101,000 passengers travelling both outbound from, and inbound to, the Waterloo Region. This is expected to increase to approximately 125,000 inbound and outbound passengers in 2012.

The Program Review focussed on the effectiveness and efficiency of the Airport's operations, maintenance, safety and security, finance and administration, marketing and communications. The review also evaluated staffing, planning and administration of all Airport services to ensure that they are efficient and effective. The review also identified opportunities for improvement and a strategy for optimizing service delivery and organizational value while making the best use of resources.

Purpose of the Program Review:

Program reviews are intended to provide an objective assessment of the extent to which a program is achieving its intended results, the proficiency with which resources are administered, and the manner in which associated risks have been managed. In this case, risk means the activities and events that could potentially prevent programs from achieving defined goals. Program reviews support the strategic objective of ensuring that all Regional programs and services are responsive, efficient, effective, and accountable to the public. In 2011, Internal Audit together with Transportation Management determined that a program review would be helpful in determining what improvements, if any, could be made to processes supporting the achievement of the Region of Waterloo International Airport's objectives.

The Region of Waterloo International Airport was selected for a program review for the following reasons:

- Since the Airport became a municipally owned and operated airport in 1996, the growth and use of the Airport by the community has steadily increased.
- The Airport administration and operations program areas have assumed significant additional responsibilities and duties since the approval of the Master Plan in 2000 with the addition of passenger and charter scheduled services, increasing regulatory requirements, additional tenants, etc.
- The responsibilities of these program areas will continue to grow and it was recommended that a program review of these areas be completed in 2011 with the purpose of identifying the most effective and efficient way of organizing the program area and achieving some operational efficiencies.

The scope of the review and the work plan were developed to provide a framework to:

- Assess whether administrative policies and procedures contribute to achieving the Airport's goals and objectives, i.e., is the program effective and "doing what it is supposed to do"?
- Assess whether the resources used to achieve the Airport's objectives are appropriate to the services being provided, i.e., is the program operating efficiently and achieving good value for the resources invested;
- Assess whether policies and procedures are in place to assist in complying with applicable legislation and regulations and to ensure continued compliance;
- Assess the risks and interdependencies associated with the Airport and evaluate the effectiveness of the Division's risk management.

Findings and Discussion of the Report:

Overall, most of the feedback from the four areas reviewed was generally positive in the way the Airport is run. The consultant team found that:

- The Airport is delivering quality services that are consistent with industry standards and best practices.
- Some practices at the Airport exceeded the norm found at other Canadian airports, such as in the quality of documentation and relationship with federal regulators.
- The provision of specialized airport maintenance on site and technical maintenance throughout the Airport appears to be working efficiently.

Major findings from the interviews, review of documentation and other practices identified the following:

- Technical drawings (e.g. "as-built" computer aided design files) are not currently and consistently kept up to date.
- A number of Airport committees exist, which may have a potential for duplication or overlap.
- There is a greater need for clearly defined roles, structures and effective communication within the organization.
- Lack of quality of service indicators for reviewing the contracted groundside snow removal.
- Airport tenant community is not actively engaged with the overall safety and security plan at the Airport.
- Overuse of manual data collection processes.
- A relatively recent Business Plan 2009-14 for the Airport, but an outdated Master Plan from 2000 that is limited in relevance to guiding capital planning processes.

- The process for calculating tenant utilities and lack of common area maintenance fee is highly labour intensive for the Airport to administer, particularly with a growing number of land tenants.
- Some cash handling processes need greater audit trail.
- Lack of automated management reporting regarding landing fees and other revenue.
- Insufficient funds budgeted to address passenger leakage concerns.
- Inadequate attention given to Airport blogging and social media, particularly as it relates to competitive dynamics of airports industry.

Recommendations:

The recommendations parallel the findings and will affect most areas of the Airport as well as other program areas.

The Program Review consultant developed twenty-four recommendations for improving the efficiency and effectiveness of the Airport:

Airport Operations:

1. Strengthen Technical Drawing Management
2. Evaluate Airport Committees for Future Growth
3. Clarify Reporting Roles and Relationships
4. Develop Quality of Service Standards and Periodically Review Contractors
5. Review Current Groundside Layout
6. Continue Public Parking Improvements

Safety & Security:

7. Develop an Airport Community-Wide Communication Strategy on Safety and Security
8. Incorporate Long-term Planning in Safety and Security
9. Automate Data Collection

Finance & Administration:

10. Remove Duplication of Efforts in Tracking Administration and Operations Data
11. Develop a Long-Range Plan to Guide Capital Plans
12. Utilize Region's Financial Reporting System
13. Address Concept of Common Area Maintenance Fees
14. Resolve Onerous Calculation of Tenant Utilities and Property Taxes
15. Implement Lease Management System
16. Improve Handling of Cash Deposits
17. Address Cash Reconciliation Process
18. Develop Automated Management Reports
19. Improve Documentation for Aviation-Related Revenue Management System and Processes

Marketing:

20. Fill Vacancy in Marketing/Communications
21. Renew Approach for Airport Website/Social Media Marketing
22. Add Budget for Catchment Area Marketing
23. Maximize Blogging by Posting Various Topics
24. Maximize Billboard Opportunities

The benefits to implementing the recommended changes will materialize in different ways:

- Improved long-term management of the Airport towards a solid business strategy and industry-standard Master Plan approach
- Greater degree of staff effectiveness through more automated data-intensive review of operations and incidents
- Net financial savings through improved efficiencies in business processes and reduction of staff time to handle day-to-day operations
- Avoidance of future costs through greater quality of financial, operational and technical information about the Airport
- Maximization of marketing efforts to realize the potential of the Airport for air traffic generation

In summary, implementation of Program Review recommendations will assist the Airport to become more effective and efficient, relative to comparable airports. The delivery of these recommendations will lead to net financial savings and help the Airport further grow into the additional land development and fully meet its economic and social role for the Region of Waterloo.

The following recommendations and action items have been grouped based on the areas review: Operations, Security and Safety, Finance and Administration, Marketing.

Discussion of Recommendations and Proposed Actions**Airport Operations:**

a) Recommendation 1

Strengthen Technical Drawing Management

One of the findings of the Program Review was that technical drawings (e.g. “as-built” computer aided design files) are not currently and consistently kept up to date. “As-built” drawings are critical to new structures (e.g. apron layouts and buildings). As the pace of development increases, it will be important to maintain updated drawings to reflect any changes and aid in the orientation of new aprons. The risk for not having adequate document management is the potential conflict of new proposed builds with existing structures (e.g. underground utilities). For example, other airports where inadequate drawing management has occurred, they have been exposed to lost time and increased expense for delays in development, or exposure to safety issues associated with unforeseen location of existing electrical wiring.

Recommendation 1 proposes strengthening the process for maintaining up to date technical drawings as well as scheduling a target time period to clear out the backlog of drawings to be filed electronically and accessible for future use.

Action:

Airport staff has recognized this as an issue and have enlisted the support of the Design & Construction Division to manage all of the existing drawings, and help convert them to AutoCAD. Airport staff expects that all of the drawings will be converted, sorted, catalogued and stored electronically before the end of 2012. Going forward Design and Construction Technical Services staff will manage and create all Airport technical drawings.

b) Recommendation 2

Evaluate Airport Committees for Future Growth

One of the findings of the program review was that a number of committees are currently in use at the Airport: Airport Operations, Health & Safety / Safety Management Systems, Noise Management, NAV CANADA, Emergency Response, Air Terminal Building Fire Wardens and Security.

Recommendation 2 proposes that an evaluation of committees be undertaken to ensure that the mandate and agenda for each committee, their specific objectives and interconnectivity are appropriate to support growth at the Airport. By ensuring there is no duplication of effort by committees it will improve the efficiency and use of Airport resources. The Airport will also benefit from the sharing of information between committees.

Action:

A complete review of Airport committees, including terms of reference, membership, Chairperson appointments and schedule has recently been completed, resulting in a streamlined set of meetings, eliminating some duplication, and providing a better focus on communication with the stakeholders. Some of the changes implemented include merging the Air Terminal Fire Wardens meeting with the Airport Safety Committee, better aligning the Safety Management System & Occupational Health & Safety meetings and eliminating the Airport / Airline Operations Committee. The airlines have been invited to the Airport Operations Committee meetings, which are held quarterly.

c) Recommendation 3

Clarify Reporting, Roles and Relationships

One of the key findings of the program review is that there is currently a lack of clarity regarding reporting roles, relationships and responsibilities at the Airport. In addition, the chain of command at the Airport was found to be generally understood, but not perfectly clear. This lack of clarity is susceptible to risks of miscommunication as supervisors and shift schedules change frequently.

Recommendation 3 proposes to clarify, communicate and document, to staff, day-to-day operations and chain of command.

Action:

The Airport has implemented an organizational change with respect to emergency response in response to this recommendation by providing the existing Airfield Maintenance Lead Hands with additional responsibilities and specific training related to these responsibilities. This change has helped clarify the chain of command, as well as streamlined reporting roles and responsibilities. Additional organizational changes are being implemented in the Airport administration and finance areas to clarify roles and responsibilities.

d) Recommendation 4

Develop Quality of Service Standards and Periodically Review Contractors

One of the findings of the program review was that there was some dissatisfaction reported by the Airport and tenants related to level of service of the contracted groundside snow removal. However, there was no indication of dissatisfaction regarding other contracted services.

Recommendation 4 proposes that quality of service indicators be created and implemented to review contracting of groundside snow removal. This will improve response time and service levels from the snow removal contractor. In addition, other service standard related contractors could benefit in performance review through the recommended approach.

Action:

The Airport contracts with many third parties to provide certain services, such as security, groundside snow removal and wet well pumping services. During 2012, the Airport will endeavor to proactively look at key performance indicators, and design a tool to better evaluate the many contractors of the Airport, with the input of stakeholders.

e) Recommendation 5 & 6

Review Current Groundside Layout and Continue Public Parking Improvements

One of the findings from the program review relating to groundside facilities was the current groundside layout, while not a problem at current traffic levels, will become sub-optimal as passenger traffic increases. This includes challenges to access points, the loop road configuration and terminal frontage/curb operations. Recommendation 5 proposes a review of potential traffic and reconfiguration options based on projected passenger growth which will improve access to the terminal and enhance passenger service and satisfaction levels. Also, addressing needs early on will help avoid future issues with air traffic growth and provide sufficient lead time to manage future terminal access problems.

The other finding related to ground side facilities was related to the Airport public parking. Improvements to public parking have been identified by management as a requirement and plans are being developed to address this issue. The current parking fee collection system is based on a "Pay and Display" process which requires a certain amount of voluntary compliance by the Airport's customers. While a business case for a gated system has not shown sufficient benefits to outweigh costs, the status quo is not the most efficient and effective parking fee collection system. Recommendation 6 proposes to conduct a comprehensive review of parking layout and payment method. A business case for replacing the "pay-and-display" parking system with a gated system should be further reviewed to ensure that a longer-term solution towards paying for parking is instituted. The benefit of this recommendation is a potential for increased parking revenues to the Airport and improved parking access to the terminal, thus improving customer service and satisfaction levels.

Action:

An engineering consultant was hired in 2011 to help Airport staff come up with appropriate concepts for a new groundside design as well as a gated parking barrier system. The initial budget estimate of this project shows this work can be completed within the existing capital budgets. The business case for such a system is currently underway and it is expected that the capital payback of the new system will be approximately 5 years with the additional revenues generated from short and long term parkers.

Safety & Security:

f) Recommendation 7

Develop an Airport Community-Wide Communication Strategy on Safety and Security

Potential unmitigated safety and security risks were identified in the review. Specifically, the Airport tenant community is not actively engaged with the overall safety and security plan at the Airport. All stakeholders on the Airport should be pro-active towards addressing any potential deficiencies.

Recommendation 7 proposes increased focus on education and awareness by developing a communication strategy. This recommendation also includes using the established security committee as a mechanism to assist with communications to tenants and other airport users. The benefit of this recommendation is increased airside and groundside safety.

Action:

The Chair of the Airport's Security Committee will add this item to the standing agenda and it is expected that by the end of 2012 the Committee will come up with an appropriate education and awareness campaign for Airport tenants.

g) Recommendation 8

Incorporate Long-term Planning in Safety and Security

While the Airport has strong operational processes in safety and security, the long-range planning process for safety and security needs should be augmented based on the anticipated tools needed to increase safety and security effectiveness. For example, incremental upgrades to systems such as closed-circuit television could provide added capabilities and quality of meeting surveillance needs over time.

Recommendation 8 proposes that long-term needs should be projected to increment operational/capital solutions in safety and security. Both areas of managing security and safety are moving into greater demands on technology, data gathering and performance measurement. With a rapidly changing set of techniques and tools used in both areas, ensuring that solutions are scalable to different operating environment in safety and security over the long term is needed to augment the effectiveness of staff in this area. The benefit of this recommendation is that long-range costs will be better managed to ensure that solutions and capital built to support safety and security roles are incremental to a long-term view.

Action:

The tenants of the Airport have enjoyed many years of unfettered access to their hangars and the entire airside complex. However, as the Airport grows and the airline operations become more frequent and complicated, General Aviation security will have to become more of a focus at the Airport, and restrictions may be placed upon tenants and the General Aviation community. Transport Canada has already informed the airport community that in the very near future, there will be a large focus placed on General Aviation safety at airports. This may have impacts for the airport operators to secure the entire tenant community, and possibly have security check points and guards 24 hours a day. It is unknown at this time what the new regulations will dictate.

This new reality needs to be addressed during the proposed Airport master planning process (recommendation # 11) to ensure General Aviation security is thought about well in advance so a proper consultation process can be conducted, and infrastructure built. It is also acknowledged that this will become an issue at all airports and the fact that we expect additional legislation will aid in the attempts to persuade tenants that this increased security is happening. The Airport Security Committee will address this in 2012.

h) Recommendation 9

Automate Data Collection

A review of data collection processes at the Airport indicates there are several areas where manual data collection processes could be further automated or improved upon. For example, paper forms are currently used for incident reports. Recommendation 9 proposes to take steps to automate data collection processes and/or undertake a review of existing data collection processes to determine which can be automated in a cost effective way.

The benefits to this recommendation are increased effectiveness and better use of existing resources. More specifically, it will reduce staff time spent collecting data to work on other tasks – namely the value-added interpretation of data. With the federal government placing greater onus on airport management systems in safety and security, the ability to automate data collection and to reduce labour hours to review reports becomes critical to management performance.

Action:

The Airport is legislated to develop a Safety management System (SMS) which at the end of March 2012 should be complete. Part of the approach taken in the SMS is to better document items such as runway inspections, airfield lighting inspections, safety concerns and wildlife reports. These were all previously handled on paper and Airport staff has developed its own electronic checklists and data collection which has greatly improved record keeping. Currently, 75% of the Airport's forms are submitted and stored electronically, with a goal of 100% by the end of 2012.

Finance & Administration:

i) Recommendation 10 & 12

Remove Duplication of Efforts in Tracking Administration and Operations Data and Utilize Region's Financial Reporting System

There are a number of different business and regulatory requirements for data associated with airport operations and administration. One of the findings of the program review is that there was some duplication of efforts in tracking administration and operations data. Recommendation 10 proposes that the Airport review data sources that could eliminate duplication in budgeting, passenger numbers, finance/administration and operations. The revision of the current processes would reduce the potential for data errors and eliminate the duplication of efforts, thus improving process efficiency and freeing up resources for other critical tasks.

Another finding from the program review indicates that reports used by the Airport's Finance Team are from a different system than the financial reports used by the Region's Finance Team. The reason for this is due to a difference in level of detail and specific nature of airport operations (e.g. number of landings versus planned). Having reports from two different systems may result in some inconsistencies in how the results are shown in reports. Recommendation 12 proposes that the Airport utilize Finance's financial reports and have any additional requirements incorporated into the Region's corporate financial system. Furthermore, it is recommended that the Airport's Finance Team and Region's Finance Team spend additional time together to promote a closer working relationship and address nuances in the level of detail for information collected.

With the Airport and the Region's Finance Team using the same financial reports, all users of the financial reports will be using the same format. Additionally, it is expected that this recommendation will free up staff time for other activities. This recommendation will be bolstered through a stronger relationship and better communication between the Airport and the Region's Finance staff, resulting in more effective financial reporting.

Action:

Airport staff has already begun to work with the air carriers, Nav Canada and others to streamline the data sources and will continue to work towards efficiency in collecting data.

The Airport has initiated discussions with the Region's Finance Team to work towards the goals of reducing duplication of efforts and having more effective financial reporting.

j) Recommendation 11

Develop a Long-Range Plan to Guide Capital Plans

Currently, the Airport's 10 year capital plans are established based on projected capital needs. This allows for proper financial planning on behalf of the Region. Similar to comparable sized airports, there needs to be a renewal of the long-range planning approach to drive Airport business and infrastructure needs. Typically airports the size of Region of Waterloo International Airport have a 20-year vision to guide long-range scenarios for airport development. The last time that the Airport Master Plan was updated was in 2000, and those recommendations are now substantially complete. There are major changes that now render this document limited in relevance to recent changes. Although a 2009 – 2014 Business Plan was subsequently completed, there are fundamental shifts in aircraft size, government requirements, planning standards, opportunities and the outlook for air carrier demand. Further careful long-range planning is needed to ensure short-term capital plan funds are fully justified and incremental to long-term end state.

Recommendation 11 proposes that the Airport undertake long-range planning processes. A strategic plan is needed to ensure that the Airport is able to outline its future outlook and specific business strategies and a Airport Master Plan, comparable to those submitted by other airports to Transport Canada, is recommended to ensure that long-term (20+ years) infrastructure and facility requirements are coordinated.

While the Airport has a capital planning approach integrated with the Region, an airport needs a master plan to ensure that all capital planning decisions lead to an ultimate development concept for the facility and prevent costly ad hoc decisions. The benefit to the Region is to reduce the risk of over/under budgeting for capital requirements. When capital plans are not updated frequently to reflect current needs and conditions, the Airport risks assigning unnecessary capital assets and incorrectly budgeting for required capital improvements. Improving the mechanism to ensure timely updates to the Capital Plan will ensure that future needs will be appropriately met and sufficient funding will be available when needed. It is also important to ensure that future expansion of the Airport will not be hampered by the growth and development of the surrounding area, such as Breslau, Guelph, East side employment lands or the new residential areas adjacent the Grand River in Kitchener.

Action:

Airport staff is planning to undertake a long-range planning process for the Airport and funding for this project is included in the 2012 approved Airport Capital budget for a Master Plan update in 2012 and 2013. A strategic vision of the Airport will be developed in conjunction with the Airport Master Plan and will be the basis for an update to the Airport Master Plan.

k) Recommendation 13

Address Concept of Common Area Maintenance Fees

Due to the lack of common area maintenance fees, the Airport must break down these costs and allocate them to each individual tenant. This needlessly complicates the billing process. For example, snow removal is charged only for the driveways and parking spots directly related to tenant access and the Airport needs to track the time spent on these specific areas.

Recommendation 13 suggests that over time, as leases are modified, the Airport should consider introducing common area maintenance fees. This may result in increased revenue to the Airport and reduced workload related to the tracking of time, to cost allocations and the billing process.

Action:

The idea of a common area maintenance fee has been explored in the past and was not supported by the tenants. The tenants preferred the current fees and charges setup however Airport staff will consider this concept again as part of the next Airport fee review that is typically done on an annual basis.

l) Recommendation 14

Resolve Onerous Calculation of Tenant Utilities and Property Taxes

One of the key findings of the program review was that the Airport must calculate and bill the property taxes, water and sewage charges, and utilities (e.g. hydro) individually for each tenant. This represents a significant administrative burden to the Airport and could be handled more efficiently. A number of airports in Canada have already moved away from this practice.

Recommendation 14 suggest that the Airport pursue having the utility company take over billing Airport tenants directly and have the Township of Woolwich take over billing tenants directly for property taxes and water and sewage charges. By eliminating the onerous task of calculating and billing these third party items, there will be weeks of staff time saved from collecting, reconciling and processing utilities. The Airport will likely benefit from better recapture of costs as the utility company and Township of Woolwich may be more effective at capturing these costs.

Action:

The Airport has previously discussed having the Township of Woolwich and Waterloo North Hydro take over the billing of the Airport tenants directly and both parties were not prepared to do it at that time. Airport and Finance staff will be pursuing this issue again in 2012.

m) Recommendation 15

Implement a Lease Management System

One of the key findings from the program review was that there is lack of structure and due diligence in the management of leases. Currently the Airport does not have a comprehensive system in place to manage airline and lease agreements at the Airport. This can include lease expiry dates, milestone dates for increasing rental revenues, percentage rent paid, etc.

Recommendation 15 proposes that the Region's current system for managing leases be reviewed to ensure it has the capability to meet the Airport's needs for lease management. The Airport relies upon the ALFA system (Airport Landing Fee & Revenue Management) for this functionality. However a region-wide system could provide centralized management and help reduce the risk of missed items for invoicing. The benefits for the Airport program include reduced risk of a missed expiry date and resulting loss in potential rent or rate increase to a tenant. Other benefits include reduced resource time to manage leases. More importantly in the operations of an airport, improved lease management can ensure that the Airport receives maximum amount of revenue from tenants which have similar operations and that the fees charged to these tenants is consistent throughout the Airport.

Action:

Airport staff has started to investigate software options in conjunction with other departments (Finance, Legal, etc) at the Region who also have a similar need to track contracts, leases and other agreements. It is expected that a lease management system could be in place by the end of 2012.

n) Recommendation 16 and 17

Improve Handling of Cash Deposits and Address Cash Reconciliation Process

Currently cash deposits are limited to a specified amount per pickup (bi-weekly basis). Limiting deposits in this way, by amount and timing, requires storage of cash at the Airport and causes deposits to be aggregated rather than deposited separately by source of cash.

With respect to the cash reconciliation process, once counted and reconciled to source documents, cash is no longer kept separate as to the source and is combined with cash from other sources. This makes reconciliation of cash located at the Airport difficult. Recommendation 16 suggests that cash can be delivered and deposited when required without a limitation to the value and timing. Recommendation 17 suggests keeping cash separate with source documents and depositing cash separately so that cash can be reconciled between bank statements and source documents. This will

create a clearer audit trail between cash deposits and source allowing the Airport to reconcile cash deposits against source documents.

Action:

Airport and Finance staff will explore potential options for streamlining these processes in accordance with existing financial policies.

o) Recommendation 18

Develop Automated Management Reports

The current process of downloading data from the NAVCAN site - matching data to current customers, generation of new customers, and the creation of invoices – is a complex and time consuming process. Genivar's Airport Landing Fee & Revenue Management (ALFA) System does this systematically with good exception reports that provide strong support to the reconciliation process required between the NAVCAN data and the ALFA system. However, currently, there is no report writer in ALFA, and any new report requirements must be custom made by the external application developer. The alternative is to export information into spreadsheets and generate ad hoc reports, which are time consuming and not an efficient use of time.

Recommendation 18 proposes that the Airport perform a review of the type of reports and information currently lacking in ALFA and request a quote from the supplier to have the needed reports developed within the ALFA system. An alternative is to work with the Region's Finance Team to establish access to a simple report writer (or identify report writing resources) or to generate the needed reports directly from the Region's finance systems, where possible. The benefit of this recommendation is that it allow for more effective reporting of information.

Action:

Airport staff working with Finance and IT staff will investigate what options exist with the ALFA system and determine if the functionality is adequate and if ALFA can be upgraded or if it is necessary to move to another system.

p) Recommendation 19

Improve Documentation for Aviation-Related Revenue Management System and Processes

The current reliance on key individuals could leave the Airport vulnerable to significant disruption in an unanticipated event. This is especially true for revenue and invoicing processes, as a disruption could result in losing the ability to invoice and reduced cash flows for a period of time. Recommendation 19 proposes that the Airport create and document the detailed process to allow personnel to take over the invoicing in case of a disruption. This will ensure continuity, should there be any disruption of the Airport's Finance Team, and enable replacement personnel or additional hires to quickly understand and carry out the necessary processes.

Action:

Airport staff plan to document in 2012 the detailed process of ALFA (i.e. the Airport's revenue management system) to ensure continuity should there be a disruption of the Airport's Finance Team. Currently the day to day activities of the Airport's revenue management system and processes are mostly completed by the two administrative staff positions of which one is full time and the other is a contract position. In order to ensure that the ongoing work required with the Airport's revenue management system and processes is being completed it is recommended that the contract position which has been in place for 3 years be changed to a full time position. This position would also be expected to complete the documentation process and keep it updated.

Marketing:

q) Recommendation 20

Fill Vacancy in Marketing/Communications

The Airport's Marketing and Communications Team handles a wide variety of responsibilities and would benefit from immediately filling the existing vacancy. Recommendation 20 encourages expediting the filling of this position to aid existing marketing and communications staff. Upon filling the existing vacancy, all responsibilities for marketing and communication will receive the appropriate attention.

Action:

The filling of this position was put on hold until the program review was completed. It is anticipated that this position will be posted shortly and that an Airport Marketing Assistant will be in place by April 1, 2012.

r) Recommendation 21 and 23

Renew Approach for Airport Website/Social Media Marketing and Maximize Blogging by Posting Various Topics

Responsibility for social media currently resides with a student employee. Over time it is expected that social media will become a more integral part of the Airport marketing and communications function and should be in the hands of a fully trained, consistent and reliable employee well versed in the airport industry. Recommendation 21 proposes to move responsibility for Airport website/social media to a more experienced Airport employee. This will reduce the risk of having the Airport's image and relationship with the community in the hands of a student.

Another finding from the program review is that while the Airport Manager does blog, it is primarily in response to air service related concerns that have been raised by passengers. Findings indicate that other similar sized airports are now using blogging for a wide variety of topics. Recommendation 23 proposes that blogging be used more comprehensively at the Airport, as observed at other similar sized airports. The Airport should be using blogging to communicate on a variety of topics, including potential weather delays, labour disruptions, traffic or roadway pattern changes and other issues of immediate impact to passengers. This will allow the Airport to connect with a variety of different passenger and community groups and increase exposure for the Airport. Blogging and other forms of social media have replaced some of the more traditional means of communications and travellers have now come to expect this from their airport. This trend is likely to continue over time and the Airport can only benefit from remaining ahead of passenger expectations.

Action:

The new Marketing and Communications Assistant position will have full responsibility for the Airport's Social Media Program, including managing blogging.

s) Recommendation 22 and 24

Add Budget for Catchment Area Marketing and Maximize Billboard Opportunities

The Airport loses the overwhelming majority of its traffic to neighbouring airports. Studies have indicated that in excess of 99% of transborder and international traffic from the Airport's catchment area is lost to other airports. While this is due to insufficient air service frequencies, mitigating this loss to build up a sustainable critical mass is a key to the Airport's development. The Program Review Consultant's feel there are insufficient funds budgeted to address passenger leakage concerns. Recommendation 22 proposes that the Airport should add passenger marketing funds to complement existing marketing initiatives used for routes. Reducing passenger leakage may allow the Airport to introduce more passengers to what the Airport has to offer regarding convenience, ease of use and generate satisfied repeat customers.

There are many avenues available to help recapture passenger traffic. Recommendation 24 proposes that outdoor advertising could be used more comprehensively to accomplish this. The benefit is such that it may increase passenger traffic at the Airport as well as increased airport exposure.

Action:

Passenger leakage is a common problem facing many Canadian Airports. While it is true that the majority of passengers from the primary catchment area fly from neighbor airports, this is only true because of the limited amount of options available to passengers from the Airport. The service currently in place at the Airport does well, proving that as the destination choices increase from the Airport, so will the passengers. It is therefore more prudent to focus on attracting additional air service options from new or existing carriers. Airport Management believes the existing Marketing budget is sufficient in order to continue to attract additional air service, however will monitor over the next couple years and request additional funds through the normal budget process if required.

Implementation Considerations

The implementation of these recommendations will involve a considerable effort on the part of staff. Significant changes to work processes and associated interdependencies, the organization of the work, and the associated technology are discussed in this report. The time commitment required to effectively implement these recommendations will be considerable. The implementation will require interaction and support from several other departments and many of the sections within the Airport.

Implementation Benefits

The 24 recommendations provided by the consultant in this report have the potential to help take the Region of Waterloo International Airport to a new level of airport management in the effectiveness and efficiency of staff. There are several key benefits that can be derived from recommendations:

- **Improved long-term management of the Airport:** Growing new services and bringing facilities at the optimal time to meet capacity requirements are some of the most sizable challenges any airport has. Some of the benefits of the recommendations will ensure long-range business strategy and Airport Master Plan approaches that are recognized in the industry are adopted to limit any infrastructure overinvestment/underinvestment.
- **Net financial savings through improved efficiencies in business processes:** A reduction of staff time to handle day-to-day operations, including duplication and centralization of certain functions will result from some of the key recommendations in this report.
- **Greater degree of staff effectiveness through automation:** In addition to time savings are expected through automation of key data collection activities, staff will be more effective through improving the value-added tasks of recognizing trends and patterns in airport operations.
- **Avoidance of future costs:** The improvement of quality of financial, operational, technical, drawing and other data about aviation activity will help to avoid future costs of operations and capital requirements.
- **Maximization of marketing efforts:** to realize the potential of the Airport for air traffic generation as well as resulting revenues in fees, leasing of properties and other revenue generation activities

As described in the Financial Implications section of this report, the efficiency improvements will result in cost savings in both day to day operations and future cost avoidance.

Reporting

Staff will report back to Council on the various stages of implementing the recommendations from this Program Review through the development of an annual reporting process. Staff will track the various implementation actions and report on the actual costs and benefits. The first report should be anticipated by the end of 2012.

CORPORATE STRATEGIC PLAN:

The completion of the study was done in keeping with Focus Area 5.3: Ensure Regional programs and services are efficient and effective and demonstrate accountability to the public.

FINANCIAL IMPLICATIONS:

It is expected that the implementation of the actions that are to be completed in 2012 will have an annual savings of approximately \$85,000 to the Airport operating budget through more efficient use of staff and improved business processes, however the change of the one administrative staff position from a contract to a permanent FTE, at an annual cost of approximately \$70,000, would result in a net reduction of approximately \$15,000. The four contract positions that have now been eliminated were funded for the past several years from one-time funding approved by Council in an annual amount of approximately \$248,000 and this funding is no longer required. The implementation of the actions noted beyond 2012 is expected to result in additional savings to the Airport operating budget.

OTHER DEPARTMENT CONSULTATIONS/CONCURRENCE:

In addition to the staff from the Airport who participated in this program review staff from Corporate Resources, Legal Services, Finance, and Human Resources were directly involved in this review through interviews or workshops.

ATTACHMENTS:

NIL

PREPARED BY: *David A. Young, Manager, Internal Audit*
John Hammer, Director, Transportation
Chris Wood, General Manager, Region of Waterloo International Airport

APPROVED BY: *Thomas Schmidt, Commissioner, Transportation and Environmental Services*
Michael L. Murray, Chief Administrative Officer



REGION OF WATERLOO

**OFFICE OF THE CHIEF ADMINISTRATOR
Internal Audit**

TO: Chair Tom Galloway and Members of the Audit Committee

DATE: February 28, 2012

FILE CODE: A35-01

SUBJECT: 2011 INTERNAL AUDIT REPORT

RECOMMENDATION:

For information.

SUMMARY:

Nil.

REPORT:

Background:

A system of internal controls assists management staff in meeting their responsibilities for the efficient and effective operation of an organization. A well managed control function is dependent upon many factors including organizational processes established to ensure that program objectives are met, clearly defined management responsibilities, external audits of financial information and systems, and internal audits of programs, systems, and processes. In order to ensure an effective control function these components must work in a constructive and mutually supportive manner.

Internal Audit is one key element in a system of internal controls that are part of the Region's management practices. Internal Audit provides an independent, objective assurance and consulting activity that, together with management practices and external audits, ensures that programs and services are delivered efficiently, effectively, and in compliance with internal policies and external regulations.

In 2011, Internal Audit's activities included administrative and organizational tasks, compliance audits, control consultations, and program reviews. Activities in the latter three categories are briefly described below. In addition to the summary of work activities for 2011 a preliminary work plan for 2012 is contained in this report.

Compliance Audits:

Two compliance audits were conducted in 2011. As in previous years, both petty cash and purchase card procedures and accounts were tested and evaluated for compliance with the Region's Policies.

The petty cash audit resulted in suggestions for improving key administrative processes within a particular fund and some minor follow-up issues to be undertaken by Finance. Overall, there has been marked improvement with petty cash compliance over the past 3 years and with few exceptions, petty cash funds are being operated as intended.

The 2011 purchase card review is still in progress and a draft report is anticipated in early March 2012.

Control Consultations:

In 2011, Internal Audit provided consulting services to Children's Services in an ongoing effort to help this program area validate claims made to the Region regarding wage subsidy usage. Internal Audit assisted Children's Services senior management by providing detailed analysis of child care operators (contracted by the Region) payroll records showing how, when and to whom wage subsidy was being paid out. As a result of this analysis, Children's Services have strengthened their control mechanisms within the wage subsidy program.

A second consulting review was provided to GRT and Waste Management regarding their cash handling controls. The review's objective was to document the current practices and controls in place and note any significant gaps with the design and existence of the controls.

Our review showed that there aren't any significant control gaps that require immediate attention. However, Internal Audit has made some recommendations for future consideration which will enhance oversight controls, thus, mitigating the risk of misappropriation of funds.

Program Reviews:

Program reviews provide an objective evaluation of the efficiency and effectiveness of the program under review and an assessment as to the identification and management of risk. In this case, risk means the things that could potentially prevent the program from achieving program goals.

A program review attempts to answer the following questions:

1. Is the program effective? Are appropriate results being achieved? Are there ways to make it more effective?
2. Is the program achieving results in an efficient manner? Are we getting good value for the money invested? Are there ways to make it more efficient?
3. Are the program risks being managed effectively? Is there a process in place to identify risks and are there control systems and processes in place to assist us in mitigating risks in an efficient manner?

In 2011, the Facilities - Maintenance and Operations Program Review was completed. A Report outlining the results of the Facilities - Maintenance and Operations Program Review, together with high level plans for implementing the recommendations was provided to Audit Committee in August 2011. As well, the Region of Waterloo International Airport Program Review and Rent Supplement Program Review started in 2011. A Report outlining the results of the Region of Waterloo International Airport Program Review, together with high level plans for implementing the recommendations will be provided to Audit Committee at its February 28, 2012 meeting. As well, the Rent Supplement Program Review started in 2011. Reporting on the Rent Supplement Program Review should be ready in the spring of 2012.

Brief summaries of the 2011 program reviews are provided below. The findings of the Facilities - Maintenance and Operations Program Review are described in more detail in Report CA-11-005.

1. Facilities – Maintenance and Operations (FMO) – Program Review

The Facilities – Maintenance and Operations Program Review focused on the delivery of FMO services including structures and administrative processes required to provide an effective and efficient maintenance and operations program for all Regional facilities. A review of this nature was timely given the increasing portfolio of buildings owned by the Region of Waterloo which is expected to continue to increase over the coming years. The program review provided the opportunity to optimize the manner in which the FMO Program is delivered and to maximize the achievement of divisional objectives for Facilities Management and Fleet Services Division.

Industry data suggests that the Region of Waterloo places in the middle of the fourteen upper tier and single tier municipalities in the OMBI (Ontario Municipal Benchmarking Initiative) reporting for various facilities related performance measures. However, the results of the review indicated that there are many opportunities to increase the efficiency and effectiveness of the FMO Program. There are a number of recommendations contained in the report that, when implemented, will help the FMO Program meet its objectives and also optimize the efficiency and effectiveness of the operations. The recommendations are encompassed in 5 key focus areas (Facilities Business Model; Business Transformation Team; Business Systems; Service Improvement & Accountability Framework and Asset Management Program). These focus areas balance customer service, asset sustainability and cost effectiveness while enhancing the supporting data management and systems.

Since August 2011, Facilities staff has established a Business Transformation Team which has been primarily focused on redefining the Facilities Business Model and developing an implementation plan to align the Facilities Asset Management Program with the TES Asset Management project to ensure a consistent organizational approach to asset management.

2. Region of Waterloo International Airport – Program Review

The Region of Waterloo International Airport Program Review (herein referred to as “Airport”) focused on the delivery of its services and operations to ensure that they are being managed and delivered effectively and efficiently, and to demonstrate good value for resources invested for the Region, its residents, airlines, airport customers and end-users. A detailed review was completed in four distinct areas at the Airport. These include (1) Operations, (2) Security and Safety, (3) Finance and Administration, (4) Marketing.

The results of the review indicated that overall, the services and operations are being managed and delivered effectively.

The major recommendations resulting from the review are indicated below:

- Clarify, communicate and document, to staff, their roles and responsibilities during day-to-day operations and emergency situations.
- Developing an Airport community-wide communication strategy on safety and security in order to enhance the safety and security at the Airport.
- It is recommended that the airport undertake two long-range planning processes. A strategic plan is needed to ensure that the airport is able to outline its future outlook and specific business strategies. Second, an Airport Master Plan comparable to those submitted by other airports to Transport Canada is recommended to ensure that long-term (20+ years) infrastructure and facility requirements are coordinated.
- It is recommended that the current system for managing contracts be reviewed to ensure it has the capability to meet the Airport’s need for lease and contract management.

- The airport must calculate and bill the property taxes, water and sewage charges, and utilities (e.g. hydro) individually for each tenant. It has been recommended that the Airport pursue other options for billing airport tenants directly, such as having the Township of Woolwich or Region's Finance Department take over billing of property taxes. The Airport should also consider other options such as having the Utility or Region's Finance Department bill airport tenants directly for the water and sewer charges.

In summary, implementation of the program review recommendations will assist the airport to become more effective and efficient, relative to comparable airports. The delivery of these recommendations will lead to net financial savings and help the airport further grow into additional land development and fully meet its economic and social role for the Region of Waterloo.

3. Rent Supplement – Program Review

The Region's Rent Supplement Program offers eligible community housing applicants, rent-geared-to-income (RGI) accommodation in existing community housing, new affordable housing strategy (AHS) units or privately owned buildings. The Rent Supplement Program Review will evaluate staffing, planning and administration of all Rent Supplement Program services to ensure that they are efficient and effective. The review will identify opportunities for improvement and a strategy for optimizing service delivery and organizational value while making the best use of resources. The review will also assess that the risks associated with the delivery of the program are being managed effectively. The review is currently in the data collection and review stage, and therefore, preliminary findings are not available. Reporting on the Rent Supplement Program Review should be ready in spring of 2012.

Proposed Activities for 2012:

Activities outlined in the Internal Audit work plan for 2012 will include most or all of the following:

- Completion of and reporting on the Rent Supplement Program Review
- Program review of Cultural Sites
- Completion of a Region-wide risk assessment as a part of the Enterprise Risk Management Phase 1 initiative
- Compliance audit of purchase card use
- Compliance audit of petty cash
- Compliance audit of Purchasing and Procurement Process
- Control consultation of Provincial Offences Court Administration cash handling process
- Control consultation of Expropriations Act Procedures
- Control consultation of Children's Services Wage Subsidy Program

In addition to these items ad hoc consultation and review assignments will be accommodated as the need arises and as circumstances change.

CORPORATE STRATEGIC PLAN:

Focus Area 5.3: Ensure Regional programs and services are efficient and effective and demonstrate accountability to the public.

FINANCIAL IMPLICATIONS: Nil.

OTHER DEPARTMENT CONSULTATIONS/CONCURRENCE: Nil.

ATTACHMENTS: Nil

PREPARED BY: *David A. Young*, Manager, Internal Audit

APPROVED BY: *Michael L. Murray*, Chief Administrative Officer

COUNCIL ENQUIRIES AND REQUESTS FOR INFORMATION

AUDIT COMMITTEE

Meeting date	Requestor	Request	Assigned Department	Anticipated Response Date
23-Oct-08	Committee	Overview of internal controls to detect fraud and error	Joint: Internal Audit & Finance	Fall2011/Winter 2012