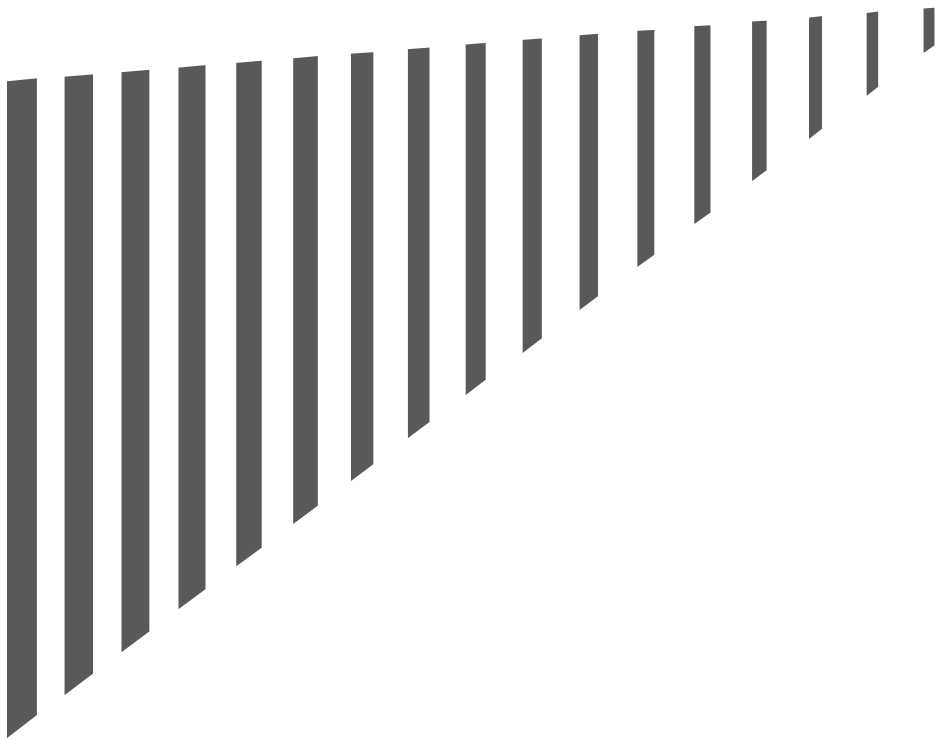


**City of Ottawa
Management Letter
Year ended 31 December 2007**





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Ms. Marian Simulik
Treasurer
City of Ottawa
110 Laurier Avenue West
Ottawa ON K1P 1J1

12 August 2008

Dear Ms. Simulik:

Re: Fiscal 2007 Management Letter

As part of our audit of the financial statements of the City of Ottawa for the fiscal year ended 31 December 2007, we evaluated the City's system of internal controls to the extent we considered necessary under Canadian generally accepted auditing standards. This is done to establish a basis for reliance on systems and determining the nature, timing and extent of other auditing procedures necessary to express an opinion on the City's financial statements. This study was not designed to determine whether the City of Ottawa's system of internal controls is adequate for management's purposes.

Our audit of the financial statements will not necessarily disclose all conditions requiring attention in the system of internal control because both the audit and study employed, as is customary, selected tests of accounting records and related data. Our procedures for your organization were primarily of a substantive nature. However, our audit identified areas where financial management and internal controls could be strengthened. The attached memorandum of observations and recommendations is enclosed for your information and consideration.

The suggestions and comments outlined in the memorandum concern processes and systems and are not intended to reflect in any way upon your personnel.

We would be pleased to discuss this document or to respond to any questions at your convenience.

Sincerely,

Ernst & Young LLP

Chartered Accountant
Licensed Public Accountants

Deanna Monaghan, FCA
Dave Boomer, CA

Enclosures

cc: Mr. Wayne Martin, Manager, Accounting and Financial Reporting, City of Ottawa

Assurance and Business Advisory Services
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Provision for Property Tax Appeals

Observation and Recommendation

The City does not provide for taxation revenue reductions resulting from successful assessment appeals where the decision is made in a future year. We believe that a reasonable historical basis could be established to estimate such adjustments on outstanding appeals at the end of a fiscal period. This would provide a better matching of taxation revenue adjustments with the period to which they relate.

The City should record taxation assessment adjustment provisions that exist at year-end.

Management's Comment

Management disagrees. Assessment appeals present a number of intrinsic difficulties. A number of appeals especially in the commercial, industrial and multi-residential tax classes, do not come before the Assessment Review Board until subsequent years (sometimes 3 or more years after the appeal year). Therefore, reasonableness can only be established on gathering statistical data on an historical basis.

Payables Cut-off

Observation and Recommendation

During our subsequent payments testing, we identified significant capital expenditures which were recorded in the wrong period. This is a result of timing differences between when the expenditure is incurred and when the City of Ottawa processes the related invoices.

The management of the City should strengthen its process for recording expense liabilities at year-end.

Management's Comment

Management agrees. Due to the volume of transactions associated with the City's capital program (approximately \$ 500 million of spending distributed to over 2000 capital projects) timing differences do occur. These timing differences are not significant relative to the City's total capital program.

Financial Services management will work with operating departments to inform and educate staff to ensure capital expenses are recorded in the proper period.

Landfill Liability Reports

Observation and Recommendation

The City's landfill closure and post-closure liability is based on actuarial valuations performed by two independent firms whose reports are dated January and February 2006. As per PS 3270, at least every three years, an assessment of the need for a comprehensive review of capacity should be completed. Given the PS 3270 requirement and volatility of the assumptions used in the related valuations, the City should engage in such a comprehensive review for the year ended December 31, 2008.

Management's Comment

Management agrees. Management will arrange to have actuarial valuations updated and completed by an independent firm for the year ended December 31, 2008.

Valuation of certain other post-employment benefits

Observation and Recommendation

In 2006, the City engaged a third party to value the liability related to pension top-ups to retirees below the poverty line, and payments to certain disabled Fire and Police employees as at December 31, 2006. In order to account for any change in the current year, management performed an analysis to extrapolate the 2006 valuation up to December 31, 2007.

The City should engage a professional valuator to perform a formal valuation and/or extrapolation, if applicable, of significant other post-employment benefits to accurately calculate the liability at the balance sheet date.

Management's Comment

Management agrees. Management will arrange to have a formal valuation and/or extrapolation of these liabilities as at the balance sheet date.

Amortization of Actuarial Gains and Losses

Observation and Recommendation

It was noted in the current year that the City of Ottawa amortizes actuarial gains and losses to income in the year the gain or loss occurs. This is inconsistent with PS 3250 which requires actuarial gains and losses be amortized over the expected average remaining service life of employees and that any unamortized balance be used to offset the impact of a plan amendment in the year amendment takes place.

The City should account for actuarial gains and losses in accordance with PS 3250.

Management's Comment

Management agrees. Management will account for actuarial gains and losses as required by Public Sector Accounting Guidelines for the 2008 financial statements.

Reconciliation of the Trial Balance to the Financial Statements

Observation and Recommendation

Numerous accounts within the general ledger are used to track transfers between departments and as such, are not reported in the financial statements. In addition, there are accounts within the general ledger which relate to subsidiaries of the City which are reported on a modified equity basis. As a result of the accounting method used, these accounts are not included in the final financial statements on an account by account basis.

The City should perform a reconciliation between the trial balance and the leadsheets which support the financial statements in order to adequately support that the financial statements are complete and include all relevant accounts.

Management's Comment

Management agrees. Management will provide the appropriate reconciliation between the trial balance and lead sheets for the 2008 financial statements.