



TO: Audit Committee
FROM: City Auditor's Office
SUBJECT: Report providing the Summary of Audit Results - Investments

Report Number: CA-01-14 Wards Affected: none
File Numbers: 430-03-Finance
Date to Committee: February 26, 2014 Date to Council: March 17, 2014

Recommendation:

For Information Only

Purpose:

Address other area of responsibility - Considering reports from the City Manager and the City Auditor identifying audit issues and the steps taken to resolve them including the adequacy of the management responses to audit concerns

Background:

This is the second audit of the investments area as it is considered a high risk area according to the inherent risk assessment and is subject to audit every 36 months. The previous audit was reported in August 2010 resulting in an excellent audit rating.

Discussion:

Overall Audit Rating – **EXCELLENT** (details of the overall audit ratings are located on **page 10** of this report)

Summary of Audit Findings & Severity (Measure of Residual Risk)

Category	High	Medium	Low
Compliance	0	0	0
Operating Efficiency & Effectiveness	0	0	1
Management Oversight & Reporting	0	0	0

Details of Audit Finding Severity Scale are located on page 21 of this report.

The audit report is as follows:

- Summary of Audit Results is located on **page 4** of this report
- Detailed Audit Report is located on **page 5** of this report.
- Detailed Audit Findings, Recommendations & Management Action Plans are located on **page 8** of this report.

The audit closing meeting was conducted on December 9, 2013 between the Controller & Manager of Financial Services, the Accountant and the City Auditor.

Financial Matters:

- Estimated audit hours for completion: 125 hours
 - Actual hours required to complete: 100 hours
-

Public Engagement Matters:

Not required.

Conclusion:

The inherent nature of these financial assets requires effective management. With continued strain in the economic markets, management oversight and reporting ensures that the limited resources available for cash and investments-related activities are used in the most effective and efficient manner. Management and staff continue to demonstrate their commitment to strong internal controls

Respectfully submitted,

Sheila Jones, City Auditor

335-7600 ext. 7872

Appendices:

- a. Investments Summary of Audit Results and Detailed Audit Report
 - a.1 Detailed Findings, Recommendations & Management Action Plans
 - a.2 Additional Observations

Notifications: (after Council decision)

Name:	Mailing or E-mail Address:

Approved by:

Jeff Fielding, City Manager

Reviewed by:



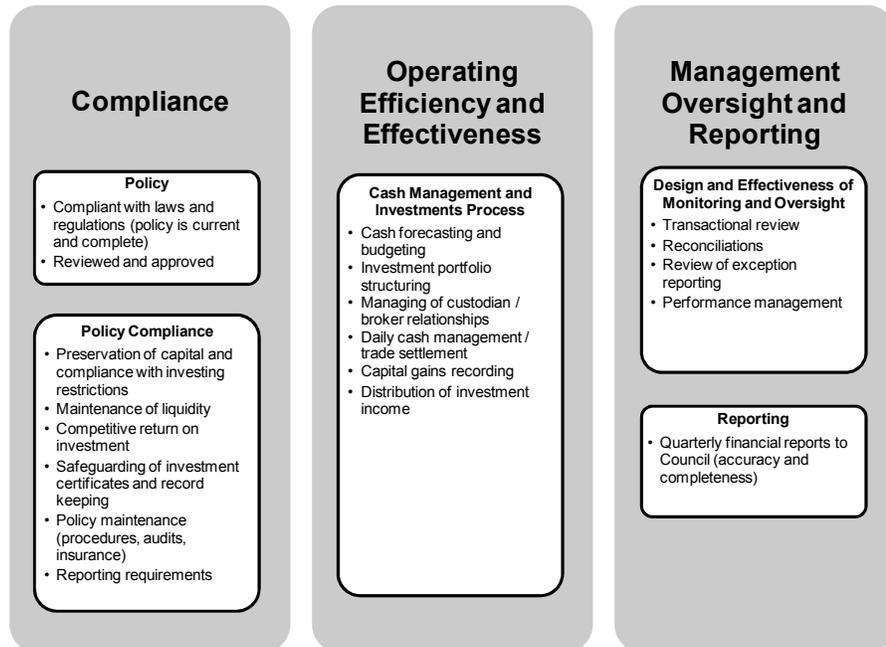
Appendix A

AUDIT INFORMATION

Audit Unit	Investments	Distribution	Tony Bucca, Accountant
Department	Finance		Sandy O'Reilly, Controller & Manager Financial Services
Division	City Manager	cc	Joan Ford, Director
Date Issued	December 9, 2013		Nancy Shea-Nicol, City Solicitor
Author	Sheila M. Jones, City Auditor		

SUMMARY OF AUDIT RESULTS

Area of Focus



Audit Period July1, 2012 to July 31, 2013

- What is Working Well**
- regular monthly monitoring of the investment portfolio by the Director Finance and Controller & Manager Financial Services with the Investment Officer ensures preservation of principal, maintenance of liquidity and competitive return on investments.
 - with traditional front- and back-office transactions performed by the Investment Officer, appropriate compensating management controls are in place to minimize the risk associated with a single person responsible for managing the investment portfolio.

- management is continuing its efforts to develop an appropriate strategy to mitigate the impact of the key person dependency risk and related succession planning issue associated with the current tenured Investment Officer.

Findings by Severity
(see definitions on Page 10 of this report)

Category	High	Medium	Low
Compliance	0	0	0
Operating Efficiency & Effectiveness	0	0	1
Management Oversight & Reporting	0	0	0

Refer to **Appendix A-1** (page 8 of this report) for details of the audit findings and recommendations

Overall Rating
(see definitions on Page 10 of this report)

EXCELLENT

Closing Comments

We thank management and staff of Investments for the cooperation and support extended to us during this audit.

Management Comments

Management appreciates the professionalism and consideration extended by audit staff. Regular review of this high risk area is warranted.

DETAILED AUDIT REPORT

Investment Portfolio

The City's investment portfolio of over \$240 million (as of October 31, 2013):

- a short-term portfolio (\$60 million) - this portfolio contains bank account balances and investments with maturities of less than a year;
- a long-term portfolio (\$180 million) – this portfolio contains investments with maturities of greater than 1 year up to 31 years and is funded in part from capital funds, reserve funds and cemetery perpetual care and markers funds.
- a cemetery portfolio (\$1,083,331) – this portfolio contains Trust Funds collected as part of the sale of cemetery lots and are invested in perpetuity to earn interest to assist with the cemetery operating costs in accordance with provincial legislation
- weighted average rate of return was 3.07% with capital gains of \$2.3 million recorded in addition to \$6.5 million in investment income

Investment Policy

The investment policy outlines:

- authorized short- and long-term investments (e.g. money market instruments issued by schedule I and II banks and bonds issued by

governments, school boards and schedule I and II banks respectively.

- specific credit ratings, term and position limits based on the issuer.

Investment Strategy	Volume of trading is minimal, in keeping with a “buy and hold” strategy for long-term funds. Trades are typically executed to recognize capital gains when advantageous for the City.
Debentures	<p>Outstanding debt is \$77 million (as of October 31, 2013).</p> <p>The Region of Halton issues debentures on behalf of the City.</p>
Investments	<p>The Financial Services section of the Finance Department is charged with investing and overseeing the investment management of the City’s funds with the objective of:</p> <ul style="list-style-type: none">• preserving principal,• maintaining liquidity, and• achieving a competitive return on investments.
Staffing	<p>Accountant/Investment Officer – directly responsible for liquidity, cash management, portfolio management and debt issuance and repayment coordination.</p> <p>Manager Financial Services & Controller – directly responsible for monitoring and oversight of the accountant/investment officer responsibilities.</p>
Partnerships	RBC Dexia – broker/dealer/custodian
Audit Objectives	<p>This audit is being conducted to assess:</p> <ul style="list-style-type: none">• the alignment of investment policy with laws and regulations and compliance of activities with the investment policy,• the design and operational effectiveness of controls in place to manage risks in cash management and investment operations, and• design and operational effectiveness of oversight and monitoring controls.
Audit Scope	<p>Specifically, the review will focus on:</p> <ul style="list-style-type: none">• interviews with relevant management and staff• review of job descriptions, policy and procedures• examination of transactions and records• re-testing of reconciliation controls, and• spreadsheets and applications used to manage and transact business.
Role of	Responsible for designing internal controls to mitigate the inherent risks and

Management & Inherent Risk

to meet the following objectives:

- Safeguarding of assets (including reputation)
- Compliance with laws, regulations and corporate policies
- Reliability and integrity of financial and operational information
- Efficiency and effectiveness of operations.

Risk Category	Risk Rating
Legislative/Regulatory Risk	High
Community Trust/Confidence Risk	High
Market Risk	High
Performance & Responsibility Risk	High
Theft and Fraud – Internal Risk	High
Unauthorized Activity Risk	High
Process Risk	Medium
Efficiency Risk	Low
Systems Failures Risk	Low

Legend:

High – significant/large/critical impact on City operations, financial results and/or image

Moderate – moderate/modest/sensitive impact on City operations financial results and/or image

Low – insignificant/little/subtle impact on City operations, financial results and/or image



APPENDIX A-1 – DETAILED FINDINGS, RECOMMENDATIONS & MANAGEMENT ACTION PLANS

No.	Audit Finding	Risk Category & Severity Rating	Recommendations	Management Action Plan
1	<p>Processes to manage cash flow projection, interest distribution and compliance monitoring are in place yet are not documented.</p> <p>Procedures are the “how to” directions to guide managerial decision making (e.g. setting priorities, etc.) and help promote consistency by providing a common reference point.</p> <p>In this situation, documented procedures minimize the impact of key person dependency.</p>	<p>Performance & Responsibility</p> <p>Low (Green)</p>	<p>✓ Document operating procedures for these processes.</p>	<p>Comment: Management agrees with the observation.</p> <p>Action Plan: Procedures will be developed as required</p> <p>Responsibility: Investment Officer</p> <p>Target Date: End of Q1, 2014</p>



APPENDIX A-2: ADDITIONAL OBSERVATIONS

Observation	Recommendations
<p>Ontario Regulation 438/97 - Eligible Investments And Related Financial Agreements. s. 8 (2) require:</p> <p>(b) a description of the estimated proportion of the total investments of a municipality that are invested in its own long-term and short-term securities to the total investment of the municipality and a description of the change, if any, in that estimated proportion since the previous year's report;</p> <p>(c) a statement by the treasurer as to whether or not, in his or her opinion, all investments are consistent with the investment policies and goals adopted by the municipality;</p> <p>While the Quarterly Financial Status reports to Council includes:</p> <ul style="list-style-type: none"> - the outstanding amount of Halton Region debentures held in the investment listing, the report does not specifically address the amount in proportion to the total investments - the signature of the Director/Treasurer, there is no explicit statement regarding the opinion of the treasurer regarding holdings in compliance with policy and goals. 	<p>Include in the quarterly report:</p> <ul style="list-style-type: none"> • specific details regarding investment in Halton Region debentures up to the limit of capital funding received from debenture issues. • a statement of the opinion of the treasurer that holdings are in compliance with policy and goals

Overall Audit Rating

Rating	Description
Excellent (Green)	<ul style="list-style-type: none"> No internal control weaknesses noted. Good adherence to laws, regulations, and policies. Good control environment. Operations are considered efficient and effective.
Good (Yellow)	<ul style="list-style-type: none"> Several low and/or one or two medium findings. Minor contraventions of policies and procedures with compensating controls in place. No violation of laws. Minor opportunities for improvement in efficiency and effectiveness.
Fair (Orange)	<ul style="list-style-type: none"> Many medium findings and/or one or two high findings. Several contraventions to policy. Minor violations of regulations/laws with minimal impact to City. Moderate opportunities for improvement in efficiency and effectiveness.
Weak (Red)	<ul style="list-style-type: none"> Several high findings and some medium and/or low findings Controls weak in one or more areas. Noncompliance with policies put the City at risk. Violation of law/regulation put the City at risk. Substantial opportunities for improvement. Operations are considered consistently inefficient and/or ineffective

Audit Finding Severity Scale

Severity	Details
High (Red)	<ul style="list-style-type: none"> Key control does not exist, is poorly designed or is not operating as intended Serious non-compliance to policy or regulation May result in immediate or material loss/misuse of assets, legal/regulatory action, material financial statement misstatements, etc. Indicates a serious business control weakness/deficiency requiring immediate action
Medium (Yellow)	<ul style="list-style-type: none"> Key controls are partially in place and/or are operating only somewhat effectively Some non-compliance to policy or regulation May negatively affect the efficiency and effectiveness of operations and/or financial reporting accuracy. Indicates a business control concern requiring near-term action be taken
Low (Green)	<ul style="list-style-type: none"> Key controls are in place, but procedures and/or operations could be enhanced. Minor non-compliance to policy or regulation May result in minor impact to operations. Indicates a business control improvement opportunity for which longer-term action may be acceptable
Nominal	<ul style="list-style-type: none"> Housekeeping

Internal Audit Standards

- Audit Methodology** The audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing. The City Auditor relied upon interviews with and observation of key personnel, examination of information, data, and other documentary evidence and re-testing of controls.
- Audit Conclusions** The conclusions reached in this report are based upon information available at the time. The overall conclusion is only applicable to the function/area of this audit. It reflects the professional judgment of the Office of the City Auditor based on a comparison of situations as they existed at the time against audit criteria as identified in the scope of the audit.
- Reasonable Assurance** This conclusion is intended to provide reasonable assurance regarding internal controls. There are inherent limitations in any controls, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective controls may provide only reasonable assurance with respect to City operations.