TO: Chair and Members
Audit and Administration Committee

WARD(S) AFFECTED: CITY WIDE

COMMITTEE DATE: February 3, 2010

SUBJECT/REPORT NO:
Follow Up of Audit Report 2007-06 – Investments (AUD10003) (City Wide)

SUBMITTED BY:
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City Manager's Office

PREPARED BY:
Ann Pekaruk 905-546-2424 x4469

SIGNATURE:

RECOMMENDATION:

That Report AUD10003 respecting the follow up of Audit Report 2007-06, Investments, be received.

EXECUTIVE SUMMARY

Audit Report 2007-06, Investments, was originally issued in September, 2007 and management action plans with implementation timelines were included in the Report. In January, 2009, Internal Audit conducted a follow up exercise to determine that appropriate and timely actions had been taken. Regarding the implementation of the six (6) recommendations made in the original Report and Addendum, all six (6) recommendations have been completed.

Alternatives for Consideration – Not Applicable
Vision: To be the best place in Canada to raise a child, promote innovation, engage citizens and provide diverse economic opportunities.
Values: Honest, Accountability, Innovation, Leadership, Respect, Excellence, Teamwork

FINANCIAL / STAFFING / LEGAL IMPLICATIONS (for Recommendation(s) only)

Financial: None.
Staffing: None.
Legal: None.

HISTORICAL BACKGROUND (Chronology of events)

Audit Report 2007-06, Investments, was originally issued in September, 2007. The report indicated six (6) recommendations regarding the annual review of written procedures, database and systems functionality to meet users’ needs and investment holdings review to ensure completeness and accuracy of records.

It is normal practice for Internal Audit to conduct follow up reviews within a 12-18 month period following the issuance of the original report in order to determine whether action plans committed to by department management have been implemented. In January, 2009, Internal Audit followed up the report to confirm appropriate and timely actions had been taken.

POLICY IMPLICATIONS

Statement of Investment Policies and Procedures (SIP&P)

RELEVANT CONSULTATION

The results of the follow up were provided to management and staff responsible for the investment of the City’s reserve/revenue funds and Hamilton Fund account (Investments – Budgets & Finance Division – Corporate Services Department).

ANALYSIS / RATIONALE FOR RECOMMENDATION

(include Performance Measurement/Benchmarking Data, if applicable)

The report attached as Appendix “A” to Report AUD10003 contains the first three columns as originally reported in Audit Report 2007-06 along with an added fourth column indicating Internal Audit’s follow up comments. One (1) item in the Addendum has also been followed up with the appropriate detail provided.
All six (6) of the recommendations have been fully implemented. They are: the review of Finance and Administration procedures and staff responsibilities; the replacement of the outdated Focus software with an updated Access database; the completion of a cost benefit analysis regarding preparation of the annual Treasurer’s report; and the review and comparison of investment holdings as noted in internal and external records.

**ALTERNATIVES FOR CONSIDERATION:**

(include Financial, Staffing, Legal and Policy Implications and pros and cons for each alternative)

Not Applicable.

**CORPORATE STRATEGIC PLAN** (Linkage to Desired End Results)


**Financial Sustainability**

- Delivery of municipal services and management capital assets/liabilities in a sustainable, innovative and cost effective manner

**APPENDICES / SCHEDULES**

Appendix “A” to Report AUD10003

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<th>#</th>
<th>OBSERVATIONS OF EXISTING SYSTEM</th>
<th>RECOMMENDATION FOR STRENGTHENING SYSTEM</th>
<th>MANAGEMENT ACTION PLAN</th>
<th>FOLLOW UP (January 2009)</th>
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<td>1.</td>
<td>The responsibility of investing the assets of the City’s Reserve Fund and the Hamilton Future Fund (Funds) is delegated to the Investments Section of the Corporate Services Department. The custody over the assets of the Funds is outsourced to a third party custodian (Custodian) who provides financial statements and reports as required. The investment details, as determined by the Chief Investment Officer (CIO) or the Senior Investment Fund Manager (SIFM), are entered into an Access database by the Investment Assistant (INA) on a daily basis and two trade tickets are produced. One ticket is sent to the Custodian who then contacts the brokers to complete the transaction. A photocopy of the other trade ticket is forwarded to Finance &amp; Administration (F&amp;A) where the information is entered into Focus, a system used to track the investments and as a basis for journal entries to be posted in the general ledger (GL). The audit observation has identified that the information included in the above two trade tickets is basically identical. Hence, printing out both is not economical. Also, there have been instances in which a few trade tickets went missing during transition or were misplaced. As a result, the investment records in both Focus and GL would be incomplete. In addition, all investment performance reports such as the Investment Compliance Report and Issuer Exposure Report are currently prepared by the Custodian for an extra charge to the City. It has been discovered that some of the reports could be generated from the Access database since all the investment details (such as cost, interest rate, maturity date, rating, etc.) have been keyed in by the INA. At the time of audit, the City’s IT Services Division was working on updating the Access database currently in use by the INA.</td>
<td>That the users’ needs be communicated effectively to the IT Services Division while the functionality of the Access database is under review. For example, the new Access database should enable the investment details entered into it to be exported and sent to the F&amp;A staff electronically so that manual errors could be minimized and duplicate entry is not necessary. A reporting function should be added to accommodate the requests from the CIO. The function of producing redundant printouts should be eliminated.</td>
<td>Agreed. The access database will be ready by June 30, 2007 for the purpose of entering trades. The reporting functionality will be available December 31, 2007. The database will be used to verify transactions against the RBC data, and used for the purpose of generating journal entries.</td>
<td>Completed. Currently, investment details are entered into the Access database by the Investments staff and are accessible electronically to the Senior Financial Analyst – Investments (SFAI). Reporting functions have also been added to develop certain reports at the request by the CIO. The information from the Access database is now used by the SFAI to verify transactions against the RBC custodial statements and to generate monthly journal entries for accounting purposes.</td>
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<td>2.</td>
<td>Treasurer’s Report</td>
<td>That a cost-benefit analysis be conducted before deciding on whether to prepare the Treasurer’s report internally. The qualification of the designated internal staff should be evaluated based on the content and requirements of the report.</td>
<td>Agreed. A cost-benefit analysis will be completed by March 2008, before the next Treasurer’s Report is due. If found to be of benefit, an internal procedure will be put into place for April 2008.</td>
<td>Completed. A cost benefit analysis was performed by staff in March 2008 which indicated that savings would not be realized if the Treasurer’s report were to be produced internally. Therefore, an external investment consultant will continue to prepare the Treasurer’s report.</td>
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<td>3.</td>
<td>Investment Holdings Review</td>
<td>That the comparison between the SOM and the ADR be performed on a monthly basis by the F&amp;A staff and reviewed by the Business Administrator (BA) to ensure the process has been completed properly. Evidence of review and follow up should be indicated on both the SOM and the ADR.</td>
<td>Agreed. Since more than one employee worked on completing the reconciliations in 2006, inconsistent methods were used. However, the holdings were reconciled. A consistent method has been implemented, effective June 2007, including Business Administrator review and sign-off.</td>
<td>No longer applicable. Focus is no longer being used to track investments. An updated method of reconciliation as described below has been implemented by F&amp;A.</td>
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<td>If the SOM is not available, an alternative review should be conducted by the F&amp;A staff. For example, the Statement of Transaction (SOT) received from the Custodian can be reviewed against the trade tickets received from the INA to ensure completeness and accuracy. In this case, evidence of review and follow up should be indicated on both the SOT and the trade tickets.</td>
<td></td>
<td>Completed. Currently, trade details entered into the Access database by the Investments staff are reconciled to the data from the RBC custodial statements on a monthly basis by the Senior Financial Analyst – Investments (SFAI). Such reconciliations are reviewed and approved by the Manager, Finance &amp; Administration.</td>
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<td>4.</td>
<td>Finance &amp; Administration Procedures</td>
<td>That F&amp;A procedures be reviewed annually to ensure that they remain current and are appropriately and consistently applied.</td>
<td>Agreed. A process with specific dates and responsibilities for reviewing F&amp;A procedures will be developed for implementation by September 30, 2007.</td>
<td>Completed. F&amp;A procedures pertaining to investments were last revised in October 2008 with next review date scheduled for October 2009.</td>
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<td>5.</td>
<td>System Development</td>
<td>That a decision for a new system (either developed in house or purchased externally) be made in the immediate future after the users' needs are clarified and a cost-benefit analysis is performed. The irresolution of this issue could result in inefficient use of resources.</td>
<td>Agreed. A decision has been made not to implement a sub-ledger system. Procedures will be developed to ensure the accuracy of the custodial reports by September 30, 2007.</td>
<td>Completed. Focus is no longer being used to track investment records. Instead, an Access database has been upgraded, which is used by the Investments staff to enter investment details on a daily basis and is also used by the Senior Financial Analyst – Investments (SFAI) to verify data from the RBC custodial statements on a monthly basis.</td>
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ADDENDUM

The following item was noted during the course of the audit. Although it does not present an internal control deficiency, it is indicated in this Addendum so management is aware of the issue and can address it as necessary.

1. In accordance with the most recent departmental organizational chart provided by the Manager, Finance & Administration (F&A), there is one employee (FA1) designated exclusively to the Investments area. Currently, a review of the Access database and a review aimed at replacing the Focus application are being conducted. Thus, the entries to Focus, monthly posting to the general ledger (GL) and the reconciliation of various investment accounts which represent a considerable portion of the duties originally assigned to this designated staff person have not been carried out at all for the 2007 fiscal year. Once the system review is completed, the current accounting process pertaining to investments will likely change.

*It is recommended:*
*That the responsibilities of the designated staff person be reviewed now and after the new process is implemented to ensure an appropriate allocation of staff resources.*

*Management Response:*
*Agreed. Staff responsibilities are currently under review.*

*Follow Up Comment:*
*Completed. The staff responsibilities were reviewed and a new position, Senior Financial Analyst – Investments (SFAI), was created in October 2007.*