



CITY OF HAMILTON
CITY MANAGER'S OFFICE
Audit Services

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| TO: | Chair and Members Audit, Finance and Administration Committee |
| COMMITTEE DATE: | May 12, 2014 |
| SUBJECT/REPORT NO: | Audit Report 2013-18 - Corporate Services - Investments (AUD14011) (City Wide) |
| WARD(S) AFFECTED: | City Wide |
| PREPARED BY: | Ann Pekaruk 905-546-2424 x4469 |
| SUBMITTED BY: | Ann Pekaruk Director, Audit Services City Manager's Office |
| SIGNATURE: | |

RECOMMENDATION

- (a) That the Management Action Plans, as detailed in Appendix "A" of Report AUD14011 be approved; and
- (b) That the General Manager of Finance and Corporate Services be directed to instruct the appropriate staff to have the Management Actions Plans (attached as Appendix "A" to Report AUD14011) implemented.

EXECUTIVE SUMMARY

The 2013 Internal Audit work plan approved by Council included an audit of investments. The audit included a review of the adequacy of controls and management of the City's Reserve Fund investment portfolio. Transactions were tested and internal controls were evaluated.

The results of the audit are presented in a formal Audit Report (2013-18) containing observations, eight recommendations and management responses. Audit Report 2013-18 is attached as Appendix "A" to Report AUD14011.

Alternatives for Consideration – Not Applicable

FINANCIAL – STAFFING – LEGAL IMPLICATIONS (for recommendation(s) only)

Financial: None.

Staffing: None.

Legal: None.

HISTORICAL BACKGROUND (Chronology of events)

The audit was scheduled as part of the 2013 Internal Audit work plan approved by Council. The audit fieldwork was completed in December 2013 and January 2014, with the period from January to September 2013 reviewed. The results of this audit are attached as Appendix “A” of Report AUD14011.

The Audit, Finance and Administration Committee receives and approves final audit and review reports as part of its responsibilities for the oversight of governance and control.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

City of Hamilton Procurement Policy

City of Hamilton Statement of Investment Policies and Procedures

RELEVANT CONSULTATION

Appendix “A” to Report AUD14011 includes action plans which reflect the responses of management responsible for the administration of investments in the City’s Financial Policy and Planning Division of the Corporate Services Department.

**ANALYSIS AND RATIONALE FOR RECOMMENDATION
(Include Performance Measurement/Benchmarking Data if applicable)**

The Investments Section of Corporate Services is responsible for investing the assets of the City's reserve/revenue funds and trust accounts. As of June 30, 2013, the investments of the Reserve Fund had a market value of over \$771 million. Investments of the Hamilton Future Fund had a market value of over \$70 million. The City also holds an investment in the ONE FUNDS Equity Account that has a market value of over \$7 million. During 2013, there were 48 purchases, 8 maturities and 14 sales that related to the Reserve Fund (where the majority of trading activity occurs). The par value of these purchase transactions was over \$164 million, maturing investments were over \$31 million and sales transactions were over \$132 million.

The audit reviewed the processes and procedures relating to initiating, tracking and maintaining the investments of the reserve/revenue funds (including the Hamilton Future Fund) and the accounting methods used for purchases, sales, capital gains/losses and interest income. The audit also determined whether current processes/controls in place were sufficient to ensure the completeness, accuracy and legitimacy of the investment activities as well as the safe custody of the assets of the funds. Compliance with relevant legislation and City policies was assessed. Areas for improvement in regard to financial and administrative controls as well as effective and efficient operations were identified.

A formal audit report containing observations, recommendations and management action plans was issued and is attached as Appendix "A" of Report AUD14011.

The main areas for improvement noted in Audit Report 2013-18 include:

- Review and update the signing authority document and evaluate risks associated with signing authority permissions;
- Consult with the Procurement Section to ensure compliance with the City's Procurement By-law in regard to custodial services;
- Provide Council with an Information Report that outlines the current custodial agreement, its benefits and information regarding other similar service providers; and
- Submit the 2013 Treasurer's Investment Report (and future years) to Council by the required deadline and include all required content.

Management and staff have already taken action or have agreed to take measures in the near future in order to implement all but one of the eight formal recommendations. Management disagreed with one recommendation so no further action will be taken for this item. Specific action plans can be found in the attached Audit Report.

Audit Services conducted this audit in conformity with the *International Standards for the Professional Practice of Internal Auditing*. These standards require that Audit Services plan and perform the audit to obtain sufficient, appropriate evidence to support the findings and conclusions based on the audit objectives. Audit Services believes that the work performed provides a reasonable basis for the audit findings and conclusions.

ALTERNATIVES FOR CONSIDERATION

(Include Financial, Staffing, Legal and Policy Implications and Pros and Cons for each alternative)

Not applicable.

ALIGNMENT TO THE 2012 – 2015 STRATEGIC PLAN

Strategic Priority #2

Valued & Sustainable Services

WE deliver high quality services that meet citizen needs and expectations, in a cost effective and responsible manner.

Strategic Objective

2.1 Implement processes to improve services, leverage technology and validate cost effectiveness and efficiencies across the Corporation.

Strategic Priority #3

Leadership & Governance

WE work together to ensure we are a government that is respectful towards each other and that the community has confidence and trust in.

Strategic Objective

3.4 Enhance opportunities for administrative and operational efficiencies.

APPENDICES AND SCHEDULES ATTACHED

Appendix "A" to Report AUD14011

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