

**CITY OF HAMILTON  
INTERNAL AUDIT REPORT 2013-18  
CORPORATE SERVICES - INVESTMENTS  
FOLLOW UP**

<b>OBSERVATIONS OF EXISTING SYSTEM</b>	<b>RECOMMENDATION FOR STRENGTHENING SYSTEM</b>	<b>MANAGEMENT ACTION PLAN</b>	<b>FOLLOW UP (JULY 2016)</b>
<p><u>Investment Portfolio-Signing Authority</u> The current "Certificate of Authorized Signatories" is dated 2012. There have been several personnel changes in the Corporate Services Department. One individual that is listed as an authorized signatory left the organization over a year ago.</p> <p>All permissions granted on this listing require only one of any of the listed individuals to sign in order to direct the Custodian to take action on behalf of the City. This includes the ability to grant or remove individuals from the "Certificate of Authorized Signatories" and to complete investment trades.</p>	<p>1. That management review the listing of authorized signatories regularly and particularly when there has been a personnel change that involves an authorized individual. Appropriate adjustments should be made to the listing.</p> <p>2. That management evaluate the risks associated with each permission and modify the signing authority requirements (including number of individuals that are required to sign). The revisions should be based on the level of risk associated with each permission.</p>	<p>Agreed. The signatories list will be reviewed and adjusted as to required signatures by December 31, 2014.</p> <p>Agreed. A review to allocate permissions based on business risk, risk parameters and individual parameters required to fulfill the function will be completed by December 31, 2014.</p> <p><b>July 2016 Revised Management Action Plan:</b> Disagreed. Management has decided to maintain existing permissions that require one signature of listed individuals to take actions on trades and transfers as trades are ultimately reviewed by generally two other staff. Relevant risks and general practices have been assessed and no revisions to the number of individuals that are required to sign have been made.</p>	<p>Completed. The signatories list has been updated to reflect recent changes in personnel.</p> <p>No Longer Applicable. Management has completed research on this item with three other municipalities and completed a risk assessment and has revised the Management Action Plan. The permissions granted on this listing have not been modified, based on the risk assessment and research that was completed. Audit Services met with management in the Financial Planning and Policy Division to discuss this matter in July 2016.</p> <p>Management understands and has accepted the residual risks associated with their decision.</p>

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<p><u>Investment Portfolio-Signing Authority (Continued)</u> While many of the current permissions may be appropriate, the organization exposes itself to unnecessary risk by not assessing and updating the listing of authorized signatories.</p>	<p>3. That the ability to add or remove authorized signatories require at least two individuals to sign.</p>	<p>Agreed. Effective in March 2014, the two authorizing signatures required to add or remove signatories are the General Manager of Finance and Corporate Services (and City Treasurer) and the Chief Investments Officer.</p> <p><b>July 2016 Revised Management Action Plan:</b> Disagreed. Management has decided to maintain existing permissions. Relevant risks and general practices have been assessed and no revision to permissions is recommended.</p>	<p>No Longer Applicable. Managed has revised the Management Action Plan.</p> <p>Signature of the Chief Investments Officer has been added to the Certificate of Authorized Signatories. However, management has not provided any formal notice of this change (from one to two individuals to modify who has signing authority) to the Custodian.</p> <p>Existing controls would not prevent a single authorized signatory to add or remove individuals to the Certificate of Authorized Signatories (includes the ability to direct or approve trades).</p> <p>Audit Services met with management in the Financial Planning and Policy Division to discuss this matter in July 2016.</p> <p>Management understands and has accepted the residual risks associated with their decision.</p>

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<p><u>Procurement of Investment Custodial Services</u> Over 12 years have passed since the agreement in effect with the Investment Custodian was entered into.</p> <p>This service has not been assessed through the City's procurement process since that time. Even though the Procurement Policy provides for exemptions from the prescribed procurement processes, it is not clear whether the safekeeping of assets and property (as per the Custodial agreement) would qualify for an exemption.</p> <p>Reporting to Council on the benefits of the current agreement and the rationale for keeping the agreement in force for such an indefinite term would provide disclosure for transparency and accountability purposes.</p>	<p>4. That management define a frequency for periodic assessments for custodial services and conduct them at this specified interval.</p> <p>5. That the Investments Section consult with the Procurement Section to clarify exemptions and the Investments Section's responsibilities in ensuring compliance with the City's Procurement By-law.</p> <p>6. That the Investments Section provide Council with an Information Report that outlines the current agreement, benefits of the agreement and information gathered regarding other similar service providers.</p>	<p>Disagreed. Formal reviews with our custodian are completed annually and services are rated very highly. Informal assessments have taken place over the past five years and other custodial service providers have not been competitively priced.</p> <p>Agreed. Procurement staff have advised that this item falls under Procurement Policy #5 Section 4.5 (5) due to the sensitive nature and risk of financial loss when dealing with an incumbent vendor. Council direction is required as to the use of Direct Negotiation or another method. A report will be completed by December of 2014 to the appropriate committee.</p> <p>Agreed. As per above.</p>	<p>Not Applicable. No follow up work was performed as management disagreed with the original recommendation.</p> <p>Completed. A request to negotiate with the service provider was sent to Council and approved on January 21, 2015.</p> <p>Completed. The request above included rationale for choosing the recommended provider as well as analysis of main alternatives.</p>

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<p><u>Treasurer's Investment Report</u> The 2012 Treasurer's Investment Report was not submitted to Council by the required deadline (May 31, 2013). The report was submitted in July 2013.</p> <p>The 2012 report did not meet the content requirements set out in the City's Statement of Investment Policies and Procedures document. The description of the change in the proportion of holdings in the City's own securities since the previous year's report was not disclosed. The report did not contain specified information relating to transactions of its own securities.</p>	<p>7. That the 2013 Treasurer's Investment Report (and future years) be submitted to Council by the required deadline (May 31 following the year being reported on).</p> <p>8. That the 2013 Treasurer's Investment Report include all required content relating to disclosure of holdings in the City's own securities.</p>	<p>Agreed. The annual Treasurer's Investment Report has been submitted Committee and Council by the deadline for seven (7) of nine (9) years but the deadline was not met two (2) of the nine (9) years including 2012. The 2013 Treasurer's Investment Report will be completed by May 31, 2014.</p> <p>Agreed. The 2013 Treasurer's Investment Report will include all required content relating to disclosure of holdings in the City's own securities.</p>	<p>Completed. The Treasurer's Investment Report for years 2013 and 2014 has been submitted before the deadline.</p> <p>Completed. All content requirements set out in the Statement of Investment Policies and Procedures has been included.</p>