



Office of the Auditor General

**Follow-up to the 2012 Audit of the Treasury
Function**

Tabled at Audit Committee – May 26, 2016

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Executive Summary

Introduction

The Follow-up to the 2012 Audit of the Treasury function was included in the Auditor General's 2014 Audit plan.

The key findings of the original 2012 audit included:

- It was determined that the City's Treasury function, which manages a portfolio valued at \$943 million, is meeting its legislative and policy requirements. The City's Treasury related policies and procedures are consistent with relevant legislation, and the rate of return on investments during 2011 was 3.98%.
- While the Treasury Unit is functioning well, the audit identified several areas that need to be addressed:
 - There is no documented and Treasury-specific operational plan, creating difficulties in observing the alignment between the risks identified through the risk assessment process and the function's priorities and plans.
 - A formal performance measurement methodology related to Treasury has not been developed and implemented. This reduces the efficiency and overall effectiveness with which actual performance results can be measured, monitored and reported on to Council.
- The audit recommends increasing the use of Electronic Funds Transfers which could lead to annual savings of as much as \$100,000. Total potential savings identified in the audit are \$185,000.

Summary of the level of completion

The table below outlines our assessment of the level of completion of each recommendation as of November 2015.

Table 1: OAG's assessment of level of completion of recommendations

Category	% Complete	Recommendations	Number of recommendations	Percentage of total recommendations
Little or no action	0 – 24	0	0	0
Action initiated	25 – 49	0	0	0
Partially complete	50 – 74	0	0	0
Substantially complete	75 – 99	3, 6	2	18%
Complete	100	1, 2, 4, 5, 7, 8, 9, 10, 11	9	82%
Total			11	100%

The table below outlines management’s assessment of the level of completion of each recommendation as of March 2016 in response to the OAG’s assessment. These assessments have not been audited.

Table 2: Management’s assessment of level of completion of recommendations

Category	% Complete	Recommendations	Number of recommendations	Percentage of total recommendations
Little or no action	0 – 24	0	0	0
Action initiated	25 – 49	0	0	0
Partially complete	50 – 74	0	0	0
Substantially complete	75 – 99	3, 6	2	18%
Complete	100	1, 2, 4, 5, 7, 8, 9, 10, 11	9	82%
Total			11	100%

Conclusion

Management has been proactive in addressing the recommendations. All the recommendations have either been fully or substantially completed.

Acknowledgement

We wish to express our appreciation for the cooperation and assistance afforded the audit team by management.

The following section is the detailed follow-up report.

Detailed Follow-up report

Introduction

The Follow-up to the 2012 Audit of the Treasury function was included in the Auditor General's 2014 Audit Plan.

Key findings of the original 2012 Audit of the Treasury Function

1. The Treasury function has participated in the initial implementation of the corporate risk assessment process in 2010. However, the Enhanced Risk Management Policy and Framework require individual departmental managers to embed risk management principles in their day to day activities. Though the Treasury Unit practices risk management through the course of their day to day operations, management has not devoted time and resources to more consistently documenting and conducting risk assessment and risk monitoring activities.
2. Although risks have been formally identified, measured, and considered in the development of the Finance Department Strategic Plan, the audit identified a need to continue to develop and implement mitigation strategies that reflect the Treasury-specific risks identified through the risk assessment process.
3. Although the City's Treasury related policies and procedures are consistent with relevant legislation, the audit noted some areas where the legislation provides additional detail that should be included in the City's policies to help further clarify the requirements and expectations of treasury management.
4. The portfolio performance and total values reported vary between the different reports due to the different methodologies utilised. Specifically, the City's financial statements are prepared in accordance with generally accepted accounting principles which require a disclosure of the weighted average yield of the investments held as of the financial statement date. In contrast, the yield reported in the Investment Report is based on the average portfolio value throughout the year which can result in a different yield percentage than that disclosed in the financial statements. There is no legislative requirement with respect to the methodology to be utilised to report the portfolio performance in the Investment Report. As the portfolio can vary considerably throughout the year

due to the timing of tax receipts, City management believes that a weighted average yield over the course of the year better reflects the actual yield of the portfolio throughout the year, rather than using an average at a specific point in time, as disclosed in the financial statements. As noted above, both methodologies being utilized are valid in the context of the related reports. However, these differences in reporting may lead to stakeholder confusion as to the validity and accuracy of the amounts reported.

5. The Treasury Unit has not implemented a formal process to benchmark its investment returns.
6. Two of the five positions in the Treasury Unit are at risk of becoming vacant in the near future due to upcoming retirements. The audit noted that the Treasury Unit does not have a current, documented succession or training plan. Consideration should also be given to combining the duties of the Analyst and Senior Investment Officer positions. If combining duties results in savings of one FTE based on an average annual salary (including benefits) this would result in savings of \$85,400.
7. The Treasury Unit does not have current job descriptions available for all positions. Because of this, there is a risk that the current organizational structure does not reflect the current needs of the Treasury Unit. This combined with the lack of a defined training and succession plan may result in an inability to optimize the role and allocation of responsibilities among current and future resources.
8. A formal performance measurement methodology related to Treasury has not been developed and implemented. This reduces the efficiency and overall effectiveness with which actual performance results can be measured, monitored and reported on to Council.
9. A formal process to periodically review and renew third party agreements on a regular basis to allow the City to take advantage of service offerings that provide best value and meets the City's current needs has not been implemented. In addition to improving the overall agreement, tendering banking services on a regular basis will reduce any perceptions of unfair tendering practices. The City should tender its banking services and require a re-tendering of these services at least every five years.
10. Management has implemented a number of key controls such as reconciliations and approvals to help ensure that transactions are completed in compliance with

relevant policies and legislation and to help ensure effectiveness in maximizing returns and minimizing financing. The testing of a sample of controls through this audit identified that evidence of reviews of reconciliations is not maintained in a consistent manner. As such, it is difficult to determine whether management reviewed the reconciliations and are aware of significant reconciling items.

11. Evidence of annual reviews of user access to RBC Express should be retained to support the existence of appropriate segregation of duties. In addition, the City should review its procedures to ensure that the Senior Investment Officer is automatically notified of any departing employees with access to Treasury systems to enable the timely removal of this access.
12. There are opportunities to improve the automation of cash receipts and payments to optimise the City's cashflow forecasting and generate cost savings.

Status of implementation of 2012 audit recommendations

2012 Recommendation 1:

That the City formally assess, measure, and monitor risks of specific relevance to the function on a regular basis.

2012 Management Response:

Management agrees with this recommendation.

All departments will be completing a detailed risk assessment by the end of Q4 2014 as part of a cyclical reporting framework that aligns with the Term of Council. As part of the cycle for the Corporate Risk Profile, departments will be required to complete an assessment of corporate, operational, strategic and project risks. As in the past, Treasury unit risks will be identified and monitored as part of the corporate risk assessment process.

Management representation of status of implementation of Recommendation 1 as of October 31, 2014:

This recommendation is complete.

Treasury continues to participate in the annual risk assessment initiative led by the Corporate Risk Branch.

Management: 100% complete.

OAG's Follow-up findings regarding recommendation 1:

The 2015 Departmental Risk Profile from the annual risk assessment identifies and assesses the key areas of risk for Treasury.

We consider this recommendation complete.

OAG: 100% complete

2012 Recommendation 2:

That the City continue to develop and implement a mitigation strategy that is aligned with the City's strategic objectives and reflects the Treasury-specific risks identified through the risk assessment process.

2012 Management Response:

Management agrees with this recommendation.

During the course of the audit, management provided the OAG with a copy of the Treasury-specific risks and mitigation strategies developed during the 2010 corporate-wide risk assessment exercise. Several risks were identified and mitigation plans for each of these were established.

Since the time of the audit, management has taken action to address these items. For example, one risk event identified is the failure to secure short-term and long-term financing and to adequately forecast funding requirements. The recommended mitigation plan includes maintaining good liquidity, standby short-term credit facilities, diversifying sources of financing and the ability to hedge interest rates. Management has taken action on these matters; good liquidity was maintained (improving it in 2012), a short-term loan facility was maintained and the City's sources of financing were diversified (Infrastructure Ontario, bank financing in addition to capital markets as well as FCM and CMHC and the PPP funding arranged for Light Rail).

Another risk event is identified as financial market risks which could lower the return on investments including the two pension funds. The mitigation strategy refers to the regulations governing investments, diversification of investments, controls in the investment process and asset mix required to meet actuarial obligations. Management has now implemented a new Treasury Management System and has engaged external parties to review and advise on our investment policies. Process mapping was also completed with respect to the banking arrangements.

Other risk items and mitigation strategies concern pensions. A new pension administration policy manual was developed and approved. Commodity Hedging was also identified as a risk, with a mitigation strategy requiring a more formal structure to approve hedging strategies. Hedging recommendations to the City Treasurer are now formally documented and agreement is sought and documented.

The semi-annual risk reporting process implemented by management in 2012 includes the requirement to identify actions and progress made on previously reported risks. The reporting process will be further refined in Q4 2013 with the establishment of a Risk Management Steering Committee that will provide executive oversight of the risk framework; monitor the status of risks and mitigations; provide strategic direction regarding risk-based decision-making, and recommend strategies that reflect the City's risk management values and tolerance for risk across the organization.

Management representation of status of implementation of Recommendation 2 as of October 31, 2014:

This recommendation is complete.

The Corporate Risk Practitioners Group continues to work with the Corporate Risk Branch in the City Manager's Office on the completion of annual updates to risk assessments. The Treasury Unit has completed a risk assessment for their operations. They have identified appropriate mitigation strategies, continue to assess and update them on an ongoing basis, and provide formal updates for the annual corporate exercise. This will continue as part of Treasury's operating mandate.

Management: 100% complete.

OAG's Follow-up findings regarding recommendation 2:

Mitigation plans have been prepared for all three of the risks identified for Treasury in the 2015 Departmental Risk Profile. The mitigation plans for two of the three risks have been implemented. The mitigation plan for the risk "Financial market risks which could lower returns" includes preparing a process map for banking arrangements. This process map had been drafted and management indicated that it will be included in a strategic procedures document in Q4 2015.

We consider this recommendation complete.

OAG: 100% complete.

2012 Recommendation 3:

That the City consider incorporating additional elements referenced in legislation in their upcoming revision of the Investment Policy to further strengthen the clarity of defined policies and their consistency with provincial regulations.

2012 Management Response:

Management agrees with this recommendation and will complete this work by the end of Q4 2014.

Management representation of status of implementation of Recommendation 3 as of October 31, 2014:

Treasury staff have reviewed the Municipal Act and the investment policies of comparable municipalities, selected three policies as preferred formats, conducted interviews with peers and prepared a draft City of Ottawa Investment Policy and separate procedure documents. The draft policy will be reviewed and finalized for presentation to Council in 2015.

Management: 75% complete.

OAG's Follow-up findings regarding recommendation 3:

Treasury has incorporated seven of the nine additional legislative requirements suggested in the 2012 Audit in the updated Investment Policy approved at Council in November 2015.

The OAG observed that the new Investment Policy does not list "Eligible Electric Utilities" in the approved list of long-term investments whereas it was listed in the former Investment Policy (approved in November 2011) as "subject to Council approval". Management has indicated that this investment will be included in the next update of the Investment Policy.

We therefore consider this recommendation 90% complete.

OAG: 90% complete.

Management representation of status of implementation of Recommendation 3 as of March 1, 2016:

Management agrees with the OAG's follow-up findings.

The Investment Policy is being revised to add wording to address “Eligible Electric Utilities”. This revision will be included in the June 2016 Investment and Endowment Report, which will be submitted to Council for approval.

This recommendation is expected to be fully implemented by the end of Q2 2016.

Management: 90% complete.

2012 Recommendation 4:

That the City disclose additional information in the Investment Report to explain the differences with the values and performance reported in the annual financial statements.

2012 Management Response:

Management agrees with this recommendation.

An explanation with respect to the return information used in the financial statements will be provided in the annual investment report scheduled for consideration at Council in June 2013.

Management representation of status of implementation of Recommendation 4 as of October 31, 2014:

This recommendation is complete.

The report went to Council in June 2013 and June 2014 as per the management response.

Management: 100% complete.

OAG’s Follow-up findings regarding recommendation 4:

OAG reviewed the 2013 and 2014 Investment and Endowment Fund Reports provided to Council and found additional information to explain the differences.

We consider this recommendation complete.

OAG: 100% complete.

2012 Recommendation 5:

That the City develop and implement a performance measurement framework including rate of return information. In addition, the City should identify benchmarks for the evaluation of its investment performance and conduct

regular, periodic reviews of actual performance against benchmarks to identify trends and any corrective action that may be required.

2012 Management Response:

Management agrees with this recommendation.

Performance measures and the evaluation framework will be developed and included in the next update of the Investment Policy, which is expected to be completed by the end of Q4 2014.

Management representation of status of implementation of Recommendation 5 as of October 31, 2014:

In June 2014, Treasury migrated from Reuters to Bloomberg because of its benchmarking, market intelligence, flow through trade processing and fixed income analytical capability. Portfolios are now automatically downloaded into Bloomberg and benchmarks are being developed and tested. Treasury anticipates benchmarks will be in place by Q2 2015.

Management: 75% complete.

OAG's Follow-up findings regarding recommendation 5:

Performance benchmarks are in place for the Money Market Fund, the Reserve Fund, and the Sinking Fund as required by the Investment Policy. Investment Executive Summaries, which are provided to the Treasurer, have presented the monthly performance of the City's three main funds against benchmarks and identified corrective actions since the end of August 2015.

We consider this recommendation complete.

OAG: 100% complete.

2012 Recommendation 6:

That the City expedite the succession and training planning process to assess its current and future skill requirements and the number of full time resources required and determine the means to fulfill them. This includes identifying opportunities to combine existing duties and responsibilities where applicable.

2012 Management Response:

Management agrees with this recommendation.

The City has committed to developing and implementing succession plans in all departments as part of its overall People Plan. Aligned with this corporate direction, the Finance Department has included succession planning in its 2012-2014 Strategic Plan. This activity will be completed by the end of Q3 2013.

With respect to the suggestion to identify opportunities to combine duties and responsibilities where applicable, this is something management reviews in the normal course once a position becomes vacant. At this time, based on the overall work requirements of the Unit, the continuing complexity of financing and investment alternatives, as well as the audit recommendations to more consistently document risk assessment and risk monitoring practises, implement investment benchmarks and monitor performance against benchmarks, Finance does not see an opportunity to reduce costs by combining positions. Furthermore as indicated in Section 6.4.1 of this audit, an analysis of peer organizations, concluded that “The City’s staff complement, including size, experience and training, was consistent with that of peer municipalities included in our benchmarking exercise.”

Management representation of status of implementation of Recommendation 6 as of October 31, 2014:

This recommendation is complete.

A comprehensive assessment has been completed and all critical and high risk positions have been identified and strategies developed including job design, cross training and recruitment options. The plans will be reviewed on a regular basis by the branch management team to ensure they are maintained.

Management: 100% complete.

OAG’s Follow-up findings regarding recommendation 6:

Management has provided a completed succession risk assessment of the five Treasury positions that currently have incumbents. Among these, positions with high succession risk have been identified and high level mitigation options have been documented for all positions.

Procedures for eighteen work processes have been drafted which will be used to strengthen transfer of knowledge. However, there is no formal training plan identifying how each staff member will be cross trained to ensure business continuity in the event of staff departure. Until such a plan is in place and work procedures are finalized, we consider this recommendation to be 90% complete.

OAG: 90% complete.

Management representation of status of implementation of Recommendation 6 as of March 1, 2016:

Management agrees with the OAG's follow-up findings.

Treasury has undertaken a detailed process initiative that has led to staff integrating cross training objectives into their ICA. The goal of adding the cross training objective to ICAs is to ensure sustainability through proper back-up and knowledge transfer with staff.

This recommendation is expected to be fully implemented by the end of Q3 2016.

Management: 90% complete.

2012 Recommendation 7:

That the City update job descriptions for all personnel in the function in conjunction with the development of succession and training plans and review the required number of full time positions given the potential to add new skill sets to the Unit.

2012 Management Response:

Management agrees with this recommendation.

The Senior Investment Officer and Treasury Analyst job descriptions have been reviewed and updated as part of a corporate-wide initiative undertaken with the respective unions, to update and evaluate all positions. The Manager and Capital Financing Analyst job descriptions require updates, which will be completed by the end of Q4 2014.

Please refer to the response to Recommendation 6 for additional comments with respect to a review of the number of required full-time positions.

Management representation of status of implementation of Recommendation 7 as of October 31, 2014:

The Senior Investment Officer job description was reviewed and updated as part of a corporate-wide initiative undertaken in conjunction with the respective unions to update and evaluate all positions. The Manager, Treasury position was recently reviewed and updated in preparation for the replacement of the former Manager who retired. The Treasury Analyst position was reviewed in 2014. The Business Analyst, Treasury position is new and is being reviewed in 2015. The Capital Financing Analyst position is currently not filled and may be eliminated.

Management: 75% complete.

OAG's Follow-up findings regarding recommendation 7:

Management has completed job descriptions for the Manager, Treasury, Senior Investment Officer and Treasury Analyst positions as well as the newly created Business Analyst position. Management indicated that it is considering eliminating the Capital Financing Analyst position.

We consider this recommendation complete.

OAG: 100% complete.

2012 Recommendation 8:

That the City go to tender to ensure it is receiving the best value for money for banking services and implement a process requiring the review and renewal of agreements with third party suppliers at least every five years.

2012 Management Response:

Management agrees with this recommendation.

A Request for Proposals for banking services will be completed by the end of Q4 2013. Given the resources required and the potential cost of transition to a new bank (estimated at \$160,000), the process to review existing banking arrangements should be undertaken no more frequently than every five years. As indicated in Section 6.5.3 of the full audit report, this timing is consistent with peer organizations, wherein a minimum five-year term is in place for four out of five organizations, with the fifth organization selecting 10 years with an indefinite term.

Management representation of status of implementation of Recommendation 8 as of October 31, 2014:

This recommendation is complete.

The City completed the tender and RBC was awarded the contract as of November 1, 2013.

Management: 100% complete.

OAG's Follow-up findings regarding recommendation 8:

A five-year contract was signed with RBC who was the successful proponent in the 2013 Request for Proposal. The contract may be extended at the City's option for an additional five-year term subject to fulfilment of the City's conditions for contract renewal including satisfactory performance.

We consider this recommendation complete.

OAG: 100 % complete.

2012 Recommendation 9:

That the City retain evidence supporting reviews of reconciliations of treasury related financial systems and reinforce the need for timely and complete authorization of investment trade tickets.

2012 Management Response:

Management agrees with this recommendation.

The City will retain copies of emails sent to the Accounting section and external auditors regarding investment reconciliations. Since the OAG acknowledges that the lack of review and documentation supporting resolution of reconciling items regarding the cash forecast is of low risk, management has determined that no further action is required on this item. Timely and complete authorization of trade tickets is current practice and management will continue to reinforce the need for this to continue.

Management representation of status of implementation of Recommendation 9 as of October 31, 2014:

This recommendation is complete as per the management response.

Management: 100% complete.

OAG's Follow-up findings regarding recommendation 9:

OAG reviewed copies of ticket trades from June 2015 and found that they were properly signed off by the Senior Investment Officer and the Business Analyst.

OAG reviewed the December 31, 2014 reconciliation of the City's investment income to the amount per SAP. While the review and approval of the reconciliation by Treasury management was not documented, there was evidence its review by both the external auditors and the Accounting section and as such we consider this recommendation complete.

OAG: 100% complete.

2012 Recommendation 10:

That the City retain evidence of annual user access reviews to RBC express and review its procedures to ensure that the Senior Investment Officer is automatically notified of any departing employees with access to Treasury systems to enable the timely removal of this access.

2012 Management Response:

Management agrees with this recommendation.

The City will retain evidence of annual user access reviews. Procedures will be reviewed by the end of Q4 2013.

Management representation of status of implementation of Recommendation 10 as of October 31, 2014:

This recommendation is complete.

The City retains evidence of annual user access reviews. Procedures were reviewed to determine how the Senior Investment Officer could be automatically notified of any departing employees with access to Treasury systems. This review determined that there is no practical solution that can be implemented at this time. There are duplicate approval requirements to initiate a transaction which prevent unauthorized access. Treasury will continue to validate the current users' access list on an annual basis.

Management: 100% complete.

OAG's Follow-up findings regarding recommendation 10:

A report from August 2014 shows that user access to RBC Express was removed or modified as a result of Treasury's annual review process. OAG also reviewed a sample of the latest annual review provided by Treasury that was completed in October/November 2015.

Since it is not possible for automatic notification of departure of staff with access to the Treasury systems, Treasury management indicates that in addition to the annual review, the Senior Investment Officer confirms the need to remove access for an employee whenever a request is received to add a new user. Email notifications from RBC provided evidence that this process is active.

Management indicates that during the 2015 annual review, six variations were found and addressed. Treasury considers this number to be low and therefore believes that current review processes are adequate.

We consider this recommendation complete.

OAG: 100% complete.

2012 Recommendation 11:

That the City implement further strategies to increase automation for payments where the potential savings outweigh the potential costs.

2012 Management Response:

Management agrees with this recommendation.

Finance has recognized the need to promote the use of electronic funds transfer (EFTs) where possible, and has already taken action to encourage vendors to switch to EFTs. Beginning in 2012, vendors offering a prompt payment discount have been required to accept payment by EFT. A targeted vendor list will be created periodically based on vendor payment analysis. Each vendor on the list will be contacted and encouraged to switch to electronic payment. This will be an ongoing exercise, the first of which will be completed by the end of 2013.

Management representation of status of implementation of Recommendation 11 as of October 31, 2014:

This recommendation is complete.

As per the Payments to Vendors Policy, EFT is the preferred method of payment for purchases over \$10K and low dollar purchases not paid by purchasing card. In Q2 2014, Accounts Payable also launched an EFT Expansion Project, which includes:

- Two mass mail solicitations to all active vendors receiving cheque payments encouraging EFT enrollment,
- A reduction of cheque runs and an increase in EFT runs phased in over a one-year period,
 - Requirement that new vendors register for EFT payments.
 - Management: 100% complete.

OAG's Follow-up findings regarding recommendation 11:

The Payments to Vendors Policy approved in March 2014, the Payments to Vendors Procedures approved in December 2014, and the mail out package sent to active vendors confirm that EFT is being promoted. EFT's are executed five days a week, cheques are now only issued twice a week and the number of vendors registered for EFT continues to increase.

We consider this recommendation complete.

OAG: 100% complete.

Summary of the level of completion

The table below outlines our assessment of the level of completion of each recommendation as of November 2015.

Table 3: OAG's assessment of level of completion of recommendations (Repeat of Table 1 in the Executive Summary)

Category	% Complete	Recommendations	Number of recommendations	Percentage of total recommendations
Little or no action	0 – 24	0	0	0
Action initiated	25 – 49	0	0	0
Partially complete	50 – 74	0	0	0
Substantially complete	75 – 99	3, 6	2	18%
Complete	100	1, 2, 4, 5, 7, 8, 9, 10, 11	9	82%
Total			11	100%

The table below outlines management's assessment of the level of completion of each recommendation as of March 2016 in response to the OAG's assessment. These assessments have not been audited.

Table 4: Management's assessment of level of completion of recommendations (repeat of Table 2 in the Executive Summary)

Category	% Complete	Recommendations	Number of recommendations	Percentage of total recommendations
Little or no action	0 – 24	0	0	0
Action initiated	25 – 49	0	0	0
Partially complete	50 – 74	0	0	0
Substantially complete	75 – 99	3, 6	2	18%
Complete	100	1, 2, 4, 5, 7, 8, 9, 10, 11	9	82%
Total			11	100%

Conclusion

Management has been proactive in addressing the recommendations. All the recommendations have either been fully or substantially completed.

Acknowledgement

We wish to express our appreciation for the cooperation and assistance afforded the audit team by management