



Office of the Auditor General / Bureau du vérificateur général

AUDIT OF THE TREASURY FUNCTION

2012

VÉRIFICATION DE LA FONCTION DE TRÉSORERIE

Table of Contents

EXECUTIVE SUMMARY	i
RÉSUMÉ.....	xiii
1 INTRODUCTION	1
2 BACKGROUND.....	1
3 AUDIT SCOPE AND OBJECTIVES	3
4 APPROACH	6
5 DETAILED FINDINGS, OBSERVATIONS AND RECOMMENDATIONS	7
6 POTENTIAL SAVINGS	33
7 CONCLUSION.....	34
8 ACKNOWLEDGEMENT.....	34

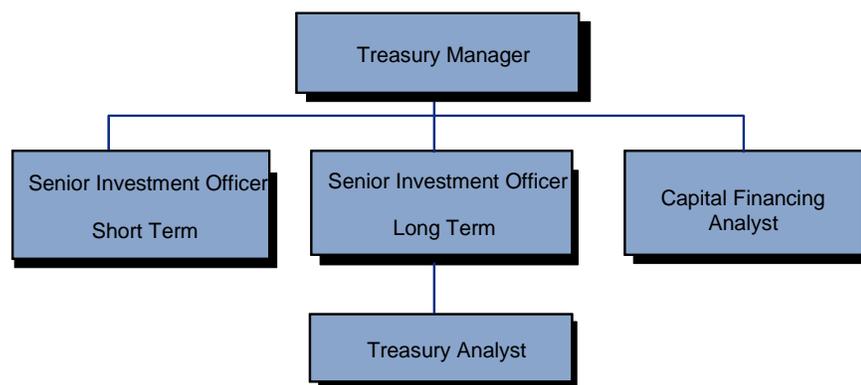
EXECUTIVE SUMMARY

Introduction

The Audit of the Treasury Function was included in the 2012 Audit Plan of the Office of the Auditor General, approved by Council on December 14, 2011.

Background

The Treasury Unit consists of five full-time equivalents reporting to the Deputy City Treasurer, Corporate Finance.



The Unit is responsible for the City’s cash management, which includes banking, money market, reserve fund and sinking fund portfolios, and large foreign currency requirements. The Unit is also responsible for the City’s long-term financing which includes debentures, commodity hedging, securities, tile drain loans and letters of credit. The Treasury Unit also provides advice, analysis and support for various loan guarantee requests and P3 projects.

In addition to the above, the Treasury Unit is responsible for certain aspects of the administration of an Endowment Fund and two pension funds. The Endowment Fund was created with the proceeds of refinancing of Hydro Ottawa and was valued at \$195.3 million at the end of 2011. The two pension funds include the OC Transpo (OCT) Employees’ Pension Plan that had an estimated asset position of \$4.5 million in 2011 and the City of Ottawa Superannuation Fund (COSF) with an estimated liability position of \$32.1 million in 2011.

The Treasury Unit must comply with the regulations defined within the *Municipal Act* of the provincial government of Ontario. The City has developed and implemented policies intended to reflect the requirements of this act. The City’s *Investment Policy* defines the governing guidelines over the management of the City’s investment portfolios. The City’s *Administration of Capital Financing and Debt Policy* governs the use and administration of debt issuance.

Short term investments are managed through a money market portfolio which consists of investments of less than one year. Funds invested for longer terms are managed in separate portfolios consisting of bonds, debentures, and other eligible investments, with maturity dates extending to 2019. As of December 31, 2011, investments held by the City were \$943 million with a weighted average yield on investment of 3.98% and the City's total net long-term debt was \$1.091 billion, consisting mainly of instalment and sinking fund debentures. The City had a trading volume of 227 short term investment purchases and 5 sales during fiscal 2011.

The main systems utilized by the Treasury Unit consist of:

- Treasura made by Wall Street Systems, a new system installed in 2012 to replace Thomson Financials Treasury Manager;
- RBC Investor Services, owned by RBC, a subsidiary of Royal Bank of Canada;
- RBC Express, owned by RBC, a subsidiary of Royal Bank of Canada;
- Information Control System Debenture;
- Reuters; and
- SAP, City's Accounting System.

Oversight of the City's treasury activities is provided through the following committees:

Debenture Committee

The Debenture Committee was established by Council in January 2010. The Committee has the power to enact debenture by-laws to authorize the issuance of debentures where the project debt authority has been approved by Council. The Committee meets on request.

Endowment Fund Investment Committee

As per the Endowment Fund Policy adopted by Council in 2006, the Endowment Fund Investment Committee is authorized to approve the asset mix (Appendix B - Fund Activity Chart approved by Council of the full audit report). Specific responsibilities include selecting an investment management structure, interviewing and appointing investment managers, establishing investment guidelines for individual investment managers within the context of the investment policy, selecting custodians, selecting investment consultants, and monitoring and evaluation performances. The Committee is provided with reports describing the performance of the Funds and the investment managers on a quarterly basis.

Finance and Economic Development Committee (FEDC)

As specified by its terms of reference, the FEDC oversees and develops the City's annual Operating and Capital budgets and reviews and approves all high-level operating and capital budget adjustments. Members of the FEDC meet monthly or on request.

Audit Objectives and Scope

The audit was undertaken in order to provide an assessment of the extent to which the Treasury Unit's policies are in compliance with relevant legislation, the effectiveness of practices to maximize returns and minimize financing costs, and the overall efficiency and effectiveness of operations under the responsibility of the Treasury Unit.

The audit objectives are to:

1. Assess the extent to which the Treasury function has implemented a framework to identify, measure, and monitor key risks of relevance to its mandate;
2. Assess the extent to which the City's treasury policies and procedures are in compliance with relevant legislation (i.e., Provincial Regulations) and are adhered to in practice;
3. Assess the extent to which the Treasury Unit's management practices are designed to maximize investment returns and/or minimize financing costs and the effectiveness of these activities in practice;
4. Assess the extent to which Treasury staff are properly qualified and trained with appropriate experience and designations;
5. Assess the overall efficiency and effectiveness in the management and operation of the Treasury function, including identifying areas of potential savings for the City; and,
6. Assess the extent to which the City is utilizing all available methods for receiving and making payments efficiently and effectively.

The audit examined current management practices in place, with a focus on practices in place during fiscal 2011 and year to date fiscal 2012. Audit procedures requiring examination and analysis of treasury transactions included fiscal years 2009 through 2011.

The scope of this audit focused on the management control framework surrounding the Treasury Unit and included an assessment of the design and operating effectiveness of key controls over investments and debt management, cash flow management, compliance with legislative authorities and policies, and financial management. The audit considered cash and liquidity management that includes: banking, forecasting, and investment of excess funds; capital financing and leveraging activities including risk management; reporting activities to Council as well as the decision-making process with respect to investments and borrowing; monitoring of custodian management over the Endowment Fund and two pension funds; operational efficiency and effectiveness of Treasury processes; and capability and capacity of staff.

Evidence of rates of returns and treasury practices utilized by other municipalities, where available, was also gathered for benchmarking purposes.

This audit did not include a review of pension accounting as this is covered separately in the external audit of the financial statements of the City of Ottawa.

Summary of Key Findings

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.

Recommendations and Management Responses

Recommendation 1

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

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.

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.

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.

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.

Management Response

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

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.

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.

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.

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.

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.

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."*

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.

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.

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.

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.

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.

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.

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.

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.

Recommendation 11

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

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.

Potential Savings

The City still issues a large number of cheques to suppliers. In 2011, the City issued a total of 88,597 cheques. As such there are potential savings in requiring the use of EFT payments to its suppliers, estimated to be over \$100,000 annually.

As noted in section 6.4.1 of the full audit report, there is an opportunity for management to assess its current and future skills and experience requirements. This could result in potential savings by combining existing duties and responsibilities where applicable. 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.

Conclusion

Overall, the audit found that governance and key operational processes have been implemented to help ensure that investment transactions as well as debt issues are completed in compliance with relevant legislation as well as to help ensure that operational processes are effective and efficient in maximising returns and reducing costs.

However, we noted opportunities for improvement in the areas of risk management, governance succession planning, monitoring and documentation of controls.

The audit also noted potential savings by requiring the use of EFT for payment to suppliers. By eliminating the use of cheques, the City could reach potential total savings of over \$100,000 annually.

Acknowledgement

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

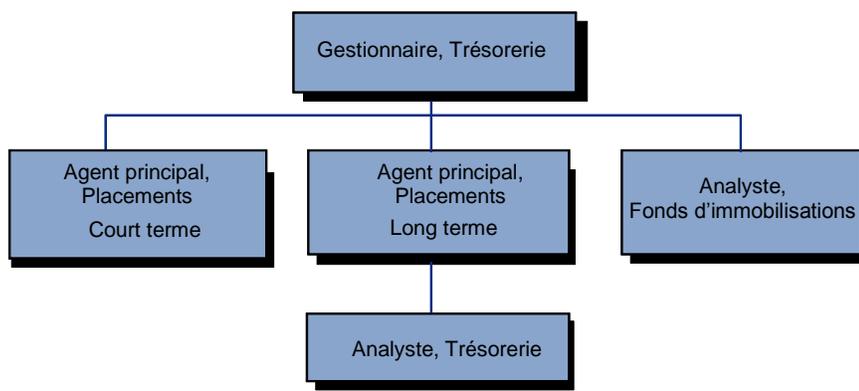
RÉSUMÉ

Introduction

La vérification de la fonction de trésorerie était prévue au plan de vérification de 2012 soumis par le Bureau du vérificateur général et approuvé par le Conseil municipal le 14 décembre 2011.

Contexte

L'Unité de trésorerie se compose de cinq équivalents temps plein relevant de la trésorière municipale adjointe, Finances municipales.



Cette unité a la responsabilité de gérer la trésorerie de la Ville, soit les opérations bancaires, le portefeuille du marché monétaire, les fonds de réserve et d'amortissement, ainsi que les vastes besoins en devises étrangères. L'unité est également responsable du financement à long terme de la Ville, ce qui comprend les débentures, les opérations de couverture des produits de base, les valeurs mobilières, les emprunts reliés aux canalisations de drainage et les lettres de crédit. En outre, elle fournit des conseils, procède à des analyses et offre son soutien au moment de déposer diverses demandes de garantie d'emprunt et aux projets de partenariats public-privé.

En plus des fonctions susmentionnées, l'Unité de trésorerie est responsable de certains aspects de l'administration d'un fonds de dotation et de deux caisses de retraite. Le fonds de dotation a été créé à partir des produits de refinancement d'Hydro Ottawa. À la fin de 2011, il était évalué à 195,3 millions de dollars. Les deux caisses de retraite sont constituées de celle des employés d'OC Transpo, dont la position d'encours à l'actif était estimée à 4,5 millions de dollars en 2011, et de celle du Fonds de pension de la Ville d'Ottawa (FPVO), dont la position d'encours au passif était estimée à 32,1 millions de dollars en 2011.

L'Unité de trésorerie est tenue de respecter les dispositions de la *Loi sur les municipalités* du gouvernement de l'Ontario. La Ville a élaboré et mis en œuvre des politiques conformément aux exigences de cette loi. La *Politique municipale en matière de placements* définit les principes directeurs qui guident la gestion des portefeuilles de placements de la Ville. De même, la *Politique sur les dettes et le financement* oriente le recours à l'émission des titres d'emprunt et leur administration.

Les placements à court terme sont gérés grâce à un portefeuille du marché monétaire qui se compose de titres dont l'échéance est fixée à moins de 365 jours. Les fonds placés à plus long terme sont gérés dans d'autres portefeuilles composés d'obligations garanties et non garanties et d'autres placements autorisés dont l'échéance est prévue jusqu'en 2019. En date du 31 décembre 2011, les titres de placement détenus par la Ville s'élevaient à 943 millions de dollars, dont le rendement moyen pondéré était de 3,98 %. Quant au montant total de la dette nette à long terme, constituée principalement de débentures à versements échelonnés et d'un fonds d'amortissement, il se chiffrait à 1,091 milliard de dollars. Durant l'exercice financier 2011, le volume de transactions de la Ville se déclinait comme suit : 227 achats de titres de placement à court terme et cinq ventes.

Voici les principaux outils qu'utilise l'Unité de trésorerie :

- Treasura de la firme Wall Street Systems, un nouveau système installé en 2012 qui remplace le système de gestion de trésorerie de Thomson Financials;
- RBC Services aux investisseurs, détenu par RBC, une filiale de la Banque Royale du Canada;
- RBC Express, détenu par RBC, une filiale de la Banque Royale du Canada;
- Information Control System Debenture;
- Reuters;
- SAP, le système comptable de la Ville.

Les comités énumérés ci-dessous assurent la surveillance des activités de la trésorerie :

Comité des débentures

Le Comité des débentures a été mis sur pied par le Conseil municipal en janvier 2010. Il est habilité à édicter les règlements municipaux visant l'autorisation de l'émission de débentures dans les situations où le Conseil a approuvé le pouvoir d'endettement pour un projet. Le Comité se réunit sur demande.

Comité d'investissement et du fonds de dotation

En vertu de la politique sur le fonds de dotation adoptée par le Conseil en 2006, le Comité d'investissement et du fonds de dotation est habilité à approuver la composition du portefeuille (annexe B – Tableau de l'activité du fonds approuvé par le Conseil). Ses responsabilités comprennent plus particulièrement la sélection d'une structure de gestion des placements, la tenue d'entrevues et la nomination de gestionnaires de placements, la communication de lignes directrices à chaque gestionnaire de placements dans le cadre de la politique de placement, la sélection des dépositaires, la sélection des conseillers en placements et la supervision et l'évaluation du rendement. Chaque trimestre, le Comité reçoit des rapports décrivant le rendement du fonds et des gestionnaires de placements.

Comité des finances et du développement économique (CFDE)

Comme le stipule son mandat, le CFDE assure la supervision et la préparation des budgets annuels de fonctionnement et d'immobilisations de la Ville, en plus d'examiner et d'approuver toutes les modifications majeures apportées aux budgets de fonctionnement et d'immobilisations. Les membres du CFDE se réunissent une fois par mois ou sur demande.

Portée et objectifs de la vérification

La vérification visait à évaluer le degré de conformité des politiques de l'Unité de trésorerie à la réglementation en vigueur, l'efficacité des pratiques destinées à maximiser le rendement et à minimiser les frais de financement, de même que l'efficacité et l'efficacité des transactions qui relèvent de l'Unité de trésorerie.

La vérification poursuivait les objectifs suivants :

1. Vérifier si la fonction de trésorerie s'est dotée d'un cadre permettant de repérer, mesurer et gérer les principaux risques liés à son mandat;
2. Évaluer dans quelle mesure les politiques et procédures de la trésorerie municipale sont conformes à la réglementation en vigueur (soit les règlements provinciaux) et dans quelle mesure elles sont respectées au quotidien;
3. Évaluer dans quelle mesure les pratiques de gestion de l'Unité de trésorerie sont conçues pour maximiser les revenus d'investissement ou de minimiser les frais de financement et mesurer l'efficacité de ces activités au quotidien;
4. Évaluer la compétence des employés de la trésorerie, de même que la pertinence de leur expérience et des titres qu'ils détiennent;
5. Évaluer l'efficacité et l'efficacité globales de la gestion et des activités de la fonction de trésorerie, y compris repérer les secteurs où la Ville pourrait réaliser des économies;
6. Évaluer dans quelle mesure la Ville emploie tous les moyens dont elle dispose pour percevoir et effectuer les paiements de façon efficiente et efficace.

La vérification portait sur les pratiques de gestion actuelles, plus particulièrement sur celles en vigueur durant l'exercice financier 2011 et la portion de l'exercice financier 2012 disponible à ce jour. Les procédures de vérification nécessitant l'examen et l'analyse des transactions de trésorerie s'étendaient sur les exercices fiscaux de 2009 à 2011.

La portée de cette vérification se limitait au cadre de contrôle de la gestion relié à l'Unité de trésorerie et comportait une évaluation du modèle et de l'efficacité du fonctionnement des principaux contrôles sur les placements et la gestion de la dette, la gestion des flux de trésorerie, la conformité aux autorisations légales et aux politiques et la gestion financière. La vérification tenait compte de la gestion des flux et des liquidités, soit les opérations bancaires, les prévisions et le placement des fonds excédentaires; les activités de financement d'immobilisations et de levier financier, y compris la gestion de risque; les activités de reddition de comptes au Conseil de même que le processus décisionnel qui s'applique en cas de placement et d'emprunt; la supervision de la gestion assurée par les dépositaires sur le fonds de dotation et les deux caisses de retraite; l'efficacité et l'efficacité des processus de trésorerie; le potentiel et la compétence du personnel.

Aux fins d'analyse comparative, la vérification a aussi tenu compte des relevés de taux de rendement et des pratiques de trésorerie en vigueur dans d'autres municipalités.

Cette vérification n'avait pas pour mandat d'examiner la comptabilité des régimes de retraite, puisque ce volet est couvert dans la vérification externe des états financiers de la Ville d'Ottawa.

Résumé des principales constatations

1. La fonction de trésorerie a pris part à la mise en place initiale du processus municipal d'évaluation des risques en 2010. Cependant, le cadre et la politique de gestion améliorée des risques exigent que chaque gestionnaire de service applique les principes de gestion des risques dans ses activités quotidiennes. Or, bien que l'Unité de trésorerie pratique la gestion des risques au quotidien, la direction n'a pas consacré de temps ni de ressources à l'évaluation et à la surveillance des risques, ni à la production plus régulières de rapports à ce sujet.
2. Bien que des risques aient été officiellement repérés, mesurés et étudiés lors de la préparation du Plan stratégique du Service des finances, la vérification a décelé le besoin de poursuivre l'élaboration et la mise en application de stratégies d'atténuation des risques propres à la fonction de trésorerie révélés lors du processus d'évaluation des risques.

3. Bien que les politiques et procédures de la trésorerie municipale en la matière soient conformes à la réglementation pertinente, la vérification a relevé certaines zones où la loi prévoit d'autres provisions qui devraient faire partie des politiques municipales en vue de clarifier les exigences et les attentes en matière de gestion de la trésorerie.
4. Le rendement du portefeuille et les valeurs totales varient d'un rapport à l'autre en raison des différentes méthodologies employées. Plus particulièrement, les états financiers de la Ville sont préparés conformément aux principes comptables généralement reconnus, qui exigent la divulgation du rendement moyen pondéré des placements détenus au moment du dépôt des états financiers. En revanche, le rendement dont fait état le Rapport sur les placements a été établi en fonction de la valeur moyenne du portefeuille calculée sur toute l'année, ce qui expliquerait la différence par rapport au taux de rendement indiqué dans les états financiers. La loi ne privilégie pas de méthodologie particulière pour faire état du rendement d'un portefeuille dans le Rapport sur les placements. Toutefois, comme le portefeuille peut fluctuer considérablement au cours de l'année en raison de la date de perception des recettes fiscales, la direction municipale est d'avis que le rendement moyen pondéré sur l'année représente plus fidèlement le rendement annuel réel du portefeuille que ne le fait la moyenne prélevée à un moment donné, comme indiqué dans les états financiers. Rappelons-le, les deux méthodologies employées sont valables dans le contexte respectif de chaque rapport. Par contre, ces différences pourraient amener les actionnaires à remettre en question la validité et l'exactitude des montants déclarés.
5. L'Unité de trésorerie n'a pas adopté de processus officiel d'analyse comparative de ses revenus d'investissement.
6. Des cinq postes de l'Unité de trésorerie, il pourrait bientôt y en avoir deux à pourvoir en raison de retraites prochaines. La vérification a révélé qu'en ce moment, l'Unité de trésorerie ne dispose d'aucun plan de relève ou de formation. Il y aurait également lieu de considérer la fusion des fonctions de deux postes, soit celui d'analyste et celui d'agent principal de placement. Si cette fusion donne lieu à l'économie d'un traitement annuel moyen d'un ETP (avantages sociaux compris), cela représenterait une économie de 85 400 \$.
7. En ce moment, certains postes de l'Unité de trésorerie ne disposent pas d'une description de tâches. Pour cette raison, il se pourrait que la structure organisationnelle actuelle ne représente pas fidèlement les besoins actuels de l'Unité de trésorerie. À cela s'ajoute l'absence de plan détaillé de formation et de relève, ce qui pourrait se traduire par une incapacité à optimiser le rôle et l'affectation de responsabilités des ressources actuelles et futures.

8. Aucune méthodologie officielle de mesure du rendement en matière de trésorerie n'a été élaborée ni mise en place, ce qui compromet l'efficacité et l'efficacité globales lorsque vient le moment de mesurer le rendement, de le surveiller et d'en faire rapport au Conseil.
9. La trésorerie ne dispose d'aucun processus officiel d'examen et de renouvellement régulier des ententes avec une tierce partie. Un tel processus permettrait à la Ville de profiter des meilleures offres de services et de satisfaire à ses besoins actuels. En plus d'améliorer la valeur générale de l'entente, la tenue régulière d'appels d'offres de services bancaires dissiperait les doutes sur l'équité des pratiques d'adjudication. La Ville devrait donc implanter un processus d'appel d'offres de services bancaires et exiger son renouvellement au moins tous les cinq ans.
10. La direction a mis en place certains contrôles importants, comme le rapprochement et l'approbation en vue de veiller à ce que les transactions s'effectuent conformément aux politiques et règlements applicables et d'optimiser les revenus tout en réduisant le recours à l'emprunt. L'évaluation d'un échantillon de contrôles dans le cadre de cette vérification a révélé certaines irrégularités dans la tenue des livres; en effet, il est difficile de déterminer si la direction a effectivement examiné les rapprochements de comptes et si elle est au fait des principaux éléments de rapprochement.
11. Les relevés de contrôles annuels de l'accès des usagers à RBC Express devraient être conservés pour prouver qu'il y a une séparation appropriée des tâches. De plus, la Ville devrait rectifier sa procédure afin d'assurer que l'agent principal de placement est automatiquement avisé du départ de tout employé qui avait accès aux systèmes de trésorerie afin qu'il puisse désactiver immédiatement cet accès.
12. Il y aurait lieu d'améliorer l'automatisation des paiements perçus ou effectués en espèces. La Ville pourrait ainsi optimiser ses prévisions de flux de trésorerie et profiter d'économies de coût.

Recommandations et réponses de la direction

Recommandation 1

Que la Ville évalue, mesure et surveille de façon systématique et régulière les risques directement reliés à la fonction de trésorerie.

Réponse de la direction

La direction est d'accord avec cette recommandation.

Tous les services procèderont à une évaluation détaillée des risques d'ici la fin du quatrième trimestre de 2014 comme le prévoit le cadre de production cyclique de rapports qui s'inscrit dans le mandat du Conseil. Conformément au Profil de risque municipal, les services seront tenus de réaliser l'évaluation des risques liés à l'ensemble de la Ville, au fonctionnement, aux stratégies et aux projets. Comme par le passé, les risques liés à l'Unité de trésorerie seront repérés et gérés dans le cadre du processus d'évaluation des risques de la Ville.

Recommandation 2

Que la Ville poursuive l'élaboration et l'application d'une stratégie d'atténuation des risques qui vise les objectifs stratégiques de la Ville et reflète les risques directement liés à la trésorerie révélés lors du processus d'évaluation des risques.

Réponse de la direction

La direction est d'accord avec cette recommandation.

Tout au long de cette vérification, la direction a fourni au BVG une liste des risques propres à la trésorerie et des stratégies d'atténuation mises au point durant l'exercice d'évaluation des risques mené en 2010 à l'échelle de la Ville. Plusieurs risques ont ainsi été révélés et des plans visant à les atténuer ont été établis pour chacun.

Depuis la tenue de la vérification, la direction a pris des mesures pour remédier à ces risques. Par exemple, l'un d'eux portait sur le défaut d'assurer un financement à court et à long termes et de prévoir de façon satisfaisante les besoins de financement. Le plan d'atténuation recommandé proposait notamment le maintien d'une liquidité substantielle, la mise en attente de facilités de crédit à court terme, la diversification des sources de financement et la couverture des taux d'intérêt. À la lumière de ces recommandations, la direction a adopté les mesures suivantes : elle a maintenu une liquidité substantielle (l'améliorant même en 2012), maintenu une facilité d'emprunt à court terme et diversifié ses sources de financement (Infrastructure Ontario, financement bancaire s'ajoutant aux marchés financiers, ainsi que la FCM et la SCHL, et le financement en PPP pour le projet de train léger).

Un autre événement laissait présager un risque en raison des fluctuations du marché financier susceptibles de réduire le revenu des placements, dont les deux caisses de retraite. La stratégie d'atténuation suggérait de respecter la réglementation régissant les placements, de diversifier les placements, d'effectuer des contrôles sur le processus de placement et de diversifier la composition du portefeuille afin de satisfaire aux obligations actuarielles. La direction a mis en place un nouveau système de gestion de la trésorerie et a mandaté des tiers de réviser les politiques en matière de placement et de la conseiller à ce sujet. Une description des processus liés aux ententes avec les banques a également été effectuée.

Les caisses de retraite recèlent elles aussi des éléments à risque et nécessitent des stratégies d'atténuation. Un nouveau manuel de politiques sur l'administration des caisses de retraite a été produit et approuvé. La couverture des produits de base constitue un autre risque; en effet, la stratégie d'atténuation qui y est associée doit être dotée d'une structure plus stricte pour l'approbation des stratégies de couverture. Les recommandations faites à ce sujet à la trésorière municipale ont été consignées et une entente est sur le point d'être conclue et mise par écrit.

En 2012, la direction a implanté un processus de déclaration des risques qui exige notamment de décrire les mesures adoptées et les progrès réalisés depuis les déclarations antérieures. Ce processus fera l'objet d'une nouvelle révision au quatrième trimestre de 2013 grâce à la mise sur pied du Comité directeur de gestion des risques qui assurera la supervision du cadre de gestion de risques, effectuera le suivi des risques et de leur atténuation, fournira une orientation stratégique quant à la décision à prendre selon les risques et recommandera des stratégies qui respectent les valeurs de la Ville en matière de gestion des risques et sa tolérance au risque dans l'ensemble de ses activités.

Recommandation 3

Que la Ville envisage l'intégration d'autres éléments dont fait état la réglementation lors de la prochaine révision de la *Politique de placement* afin de clarifier ses politiques et d'améliorer leur conformité aux règlements provinciaux.

Réponse de la direction

La direction est d'accord avec cette recommandation et procèdera à l'intégration d'ici la fin du quatrième trimestre de 2014.

Recommandation 4

Que la Ville divulgue d'autres renseignements dans le Rapport sur les placements afin d'expliquer pourquoi les valeurs et le rendement qui y figurent diffèrent de ceux déclarés dans ses états financiers annuels.

Réponse de la direction

La direction est d'accord avec cette recommandation.

Les revenus de placements dévoilés dans les états financiers seront expliqués dans le rapport annuel sur les placements que le Conseil a prévu examiner en juin 2013.

Recommandation 5

Que la Ville mette au point et en application un cadre de référence pour la mesure du rendement, et y détaille entre autres le taux de rendement. De plus, la Ville devrait établir des comparaisons avec des indices de référence afin d'évaluer le rendement de ses placements et mener des examens réguliers du rendement réel en vue de dégager des tendances et d'apporter les correctifs qui s'imposent.

Réponse de la direction

La direction est d'accord avec cette recommandation.

Elle mettra au point des mesures de rendement et un cadre d'évaluation et les intégrera dans sa prochaine version de la *Politique de placement*, dont la publication est prévue d'ici la fin du quatrième trimestre de 2014.

Recommandation 6

Que la Ville mette au point, dans les plus brefs délais, un plan de relève et de formation afin d'évaluer ses besoins actuels et futurs en ressources humaines et le nombre d'employés à temps plein nécessaires. De plus, elle devra indiquer les moyens qu'elle compte employer pour pourvoir ces postes, notamment la possibilité de fusionner les tâches ou les responsabilités de certains postes.

Réponse de la direction

La direction est d'accord avec cette recommandation.

La Ville souhaite vivement mettre en place des plans de relève dans tous ses services, d'ailleurs prévus dans le Plan des ressources humaines. Suivant cette orientation générale, le Service des finances a prévu un plan de relève dans son plan stratégique 2012-2014. Ce projet sera réalisé d'ici la fin du troisième trimestre de 2013.

Quant à la suggestion portant sur la possibilité de fusionner les tâches ou responsabilités de certains postes, la direction procède déjà à la possibilité d'un tel remaniement dès qu'un poste se libère. Pour le moment, à la lumière des exigences de travail de l'Unité, de la complexité perpétuelle des options de financement et de placement, de même que des recommandations du rapport de vérification suggérant de consigner de façon plus exhaustive les pratiques d'évaluation et de surveillance des risques, la mise en place d'indices de référence pour les placements et l'évaluation du rendement en fonction de ces indices, le Service des finances ne voit pas de possibilité de réduire les coûts en fusionnant des postes. De plus, comme l'indique la section 6.4.1 de la présente vérification, une analyse menée auprès de municipalités homologues conclut que « L'effectif de la Ville, quant à sa taille, à son expérience et à sa formation, était semblable à celui des municipalités homologues sur lesquelles portait notre exercice d'analyse comparative ».

Recommandation 7

Que la Ville mette à jour ses descriptions de tâches pour l'ensemble du personnel de la trésorerie tout en élaborant des plans de relève et de formation et qu'elle révise le nombre nécessaire de postes à temps plein selon le potentiel d'embauche de nouvelles ressources dans l'unité.

Réponse de la direction

La direction est d'accord avec cette recommandation.

Les descriptions de tâches d'agent principal de placement et d'analyste à la trésorerie ont fait l'objet d'une révision et d'une mise à jour dans le cadre d'une initiative organisationnelle entreprise de concert avec les syndicats respectifs, afin de mettre à jour et d'évaluer tous les postes. Les descriptions de tâches du gestionnaire et de l'analyste des fonds d'immobilisations seront mises à jour d'ici la fin du quatrième trimestre de 2014.

Veillez vous reporter à la réponse à la Recommandation 6 pour obtenir plus de détails au sujet de l'examen du nombre requis de postes à temps plein.

Recommandation 8

Que la Ville lance un appel d'offres afin d'obtenir les services bancaires optimaux et mette en place un processus exigeant l'examen et le renouvellement des ententes avec des fournisseurs externes au moins tous les cinq ans.

Réponse de la direction

La direction est d'accord avec cette recommandation.

Un appel d'offres de services bancaires sera lancé d'ici la fin du quatrième trimestre de 2013. Étant donné l'étendue des ressources nécessaires et le coût potentiel de la transition vers un autre établissement bancaire (estimé à 160 000 \$), l'examen des ententes de services bancaires ne devrait être mené qu'une fois tous les cinq ans tout au plus. Comme l'indique la section 6.5.3 du rapport intégral, cette fréquence correspond à celle des municipalités homologues étudiées; plus précisément, quatre des cinq homologues ont une entente d'au moins cinq ans et l'autre, une entente de dix ans à durée indéterminée.

Recommandation 9

Que la Ville conserve les relevés prouvant que des examens ont été menés sur les rapprochements de comptes des systèmes financiers de trésorerie et insiste sur la nécessité de procéder à l'autorisation rapide et sans réserve des fiches d'ordre des placements.

Réponse de la direction

La direction est d'accord avec cette recommandation.

La Ville conservera une copie des courriels envoyés à la section Comptabilité et aux vérificateurs externes au sujet des rapprochements de comptes de placement. Étant donné que le BVG considère comme peu élevé le risque qu'entraîne l'absence d'examen et de documentation à l'appui de la résolution de rapprocher les éléments liés aux prévisions de trésorerie, la direction a jugé qu'aucune mesure n'était nécessaire à cet égard. Elle procède déjà à l'autorisation rapide et sans réserve des fiches d'ordre et continuera d'insister sur le besoin de maintenir cette pratique.

Recommandation 10

Que la Ville conserve des preuves des examens annuels menés sur l'accès des usagers à RBC Express et vérifie ses procédures afin de veiller à ce que l'agent principal de placement soit automatiquement avisé du départ de tout employé qui avait accès aux systèmes de trésorerie afin qu'il puisse désactiver immédiatement cet accès.

Réponse de la direction

La direction est d'accord avec cette recommandation.

La Ville conservera les preuves des examens annuels menés sur l'accès des usagers. Elle vérifiera ses procédures d'ici la fin du quatrième trimestre de 2013.

Recommandation 11

Que la Ville mette en place des stratégies permettant d'automatiser les paiements dans les cas où les économies de coût potentielles sont supérieures aux coûts potentiels.

Réponse de la direction

La direction est d'accord avec cette recommandation.

Le Service des finances reconnaît le besoin de recourir au transfert électronique de fonds (TEF) dans certaines situations et a déjà pris des mesures visant à inciter les fournisseurs à adopter ce système. Depuis 2012, les fournisseurs consentant à un rabais en cas de règlement rapide sont tenus d'accepter les paiements par TEF. Une liste de fournisseurs ciblés sera créée régulièrement à la lumière de l'analyse des paiements effectués aux fournisseurs. Chaque fournisseur de la liste sera encouragé à passer au paiement électronique. Il s'agit d'un exercice de longue haleine, dont le premier volet sera réalisé d'ici la fin de 2013.

Économies potentielles

Encore aujourd'hui, la Ville émet un très grand nombre de chèques pour payer ses fournisseurs. En 2011, ce nombre s'élevait à 88 597 chèques. La Ville pourrait donc réaliser des économies substantielles, estimées à plus de 100 000 \$ par année, si elle convainquait ses fournisseurs d'accepter les paiements par TEF.

Comme stipulé dans la section 6.4.1 du rapport intégral, la direction aurait la possibilité d'évaluer ses besoins actuels et futurs en matière de compétence et d'expérience de son personnel, ce qui pourrait donner lieu à la fusion de tâches et de responsabilités de certains postes et, conséquemment, à des économies. Si la fusion de tâches permet effectivement d'économiser un poste ETP, compte tenu d'un salaire annuel moyen (avantages sociaux compris), cela se traduirait par des économies de 85 400 \$.

Conclusion

Règle générale, la vérification a constaté que la gouvernance et les principaux processus de fonctionnement en vigueur visent à ce que les opérations de placement et l'émission de titres de créance soient conformes à la réglementation pertinente. De même, les processus de fonctionnement tendent à maximiser les revenus de placement et à réduire les coûts de façon efficiente et efficace.

Toutefois, la Ville pourrait améliorer sa gestion des risques, la planification de la relève, la surveillance et la documentation des contrôles.

La vérification a également décelé la possibilité de réaliser des économies grâce au recours au TEF pour payer les fournisseurs. En éliminant l'émission de chèques, la Ville pourrait réaliser des économies totales de l'ordre de plus de 100 000 \$ par année.

Remerciements

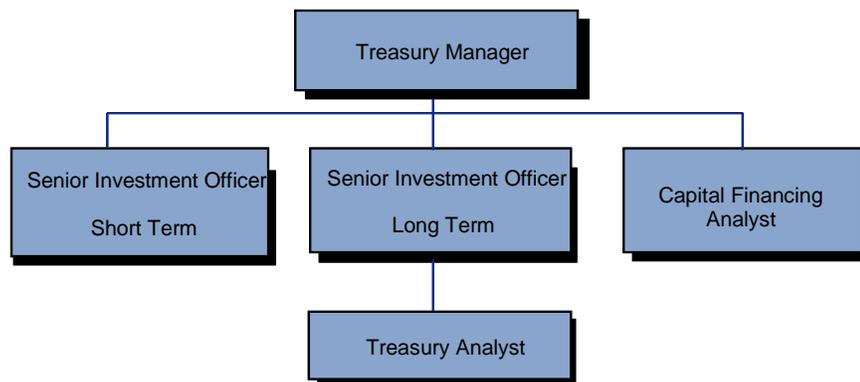
Nous tenons à remercier la direction pour la collaboration et l'assistance accordées à l'équipe de vérification.

1 INTRODUCTION

The Audit of the Treasury Function was included in the 2012 Audit Plan of the Office of the Auditor General (OAG), approved by City Council on December 14, 2011.

2 BACKGROUND

The Treasury Unit consists of five full-time equivalents reporting to the Deputy City Treasurer, Corporate Finance.



The Unit is responsible for the City’s cash management, which includes banking, money market, reserve fund and sinking fund portfolios, and large foreign currency requirements. The Unit is also responsible for the City’s long-term financing which includes debentures, commodity hedging, securities, tile drain loans, and letters of credit. The Treasury Unit also provides advice, analysis and support for various loan guarantee requests and P3 projects.

In addition to the above, the Treasury Unit is responsible for certain aspects of the administration of an Endowment Fund and two pension funds. The Endowment Fund was created with the proceeds of refinancing of Hydro Ottawa and was valued at \$195.3 million at the end of 2011. The two pension funds include the OC Transpo (OCT) Employees’ Pension Plan that had an estimated asset position of \$4.5 million in 2011 and the City of Ottawa Superannuation Fund (COSF) with an estimated liability position of \$32.1 million in 2011.

The Treasury Unit must comply with the regulations defined within the Municipal Act of the provincial government of Ontario. The City has developed and implemented policies intended to reflect the requirements of this act. The City’s Investment Policy defines the governing guidelines over the management of the City’s investment portfolios. The City’s Administration of Capital Financing and Debt Policy governs the use and administration of debt issuance.

Short term investments are managed through a money market portfolio which consists of investments of less than one year. Funds invested for longer terms are managed in separate portfolios consisting of bonds, debentures, and other eligible investments, with maturity dates extending to 2019. As of December 31, 2011, investments held by the City were \$943 million with a weighted average yield on investment of 3.98% and the City's total net long-term debt was \$1.091 billion, consisting mainly of instalment and sinking fund debentures. The City had a trading volume of 227 short term investment purchases and 5 sales during fiscal 2011.

The main systems utilized by the Treasury Unit consist of:

- Treasura made by Wall Street Systems, a new system installed in 2012 to replace Thomson Financials Treasury Manager;
- RBC Investor Services, owned by RBC, a subsidiary of Royal Bank of Canada;
- RBC Express, owned by RBC, a subsidiary of Royal Bank of Canada;
- Information Control System Debenture;
- Reuters; and,
- SAP, City's Accounting System.

Oversight of the City's treasury activities is provided through the following committees:

- **Debenture Committee:** The Debenture Committee was established by Council in January 2010. The Committee has the power to enact debenture by-laws to authorize the issuance of debentures where the project debt authority has been approved by Council. The Committee meets on request.
- **Endowment Fund Investment Committee:** As per the Endowment Fund Policy adopted by Council in 2006, the Endowment Fund Investment Committee is authorized to approve the asset mix (Appendix B – Fund Activity Chart approved by Council). Specific responsibilities include selecting an investment management structure, interviewing and appointing investment managers, establishing investment guidelines for individual investment managers within the context of the investment policy, selecting custodians, selecting investment consultants, and monitoring and evaluation performances. The Committee is provided with reports describing the performance of the funds and the investment managers on a quarterly basis.
- **Finance and Economic Development Committee (FEDC):** As specified by its terms of reference, the FEDC oversees and develops the City's annual Operating and Capital budgets and reviews and approves all high-level operating and capital budget adjustments. Members of the FEDC meet monthly or on request.

3 AUDIT OBJECTIVES

The audit was undertaken in order to provide an assessment of the extent to which the Treasury Unit's policies are in compliance with relevant legislation, the effectiveness of practices to maximize returns and minimize financing costs, and the overall efficiency and effectiveness of operations under the responsibility of the Treasury Unit.

The audit objectives and criteria for this audit are as follows:

3.1 *Audit Objective 1: Assess the extent to which the Treasury function has implemented a framework to identify, measure, and monitor key risks of relevance to its mandate.*

Criteria:

- Determine if Treasury has developed and implemented a process to identify, measure, analyze, communicate, and mitigate financial and operational risks and exposures relating to Treasury activities as required by the Enhanced Risk Management Framework and Policy.
- Determine if risk assessment activities are incorporated into the Treasury operational plan and align with the City's Corporate Strategy.
- Determine if mechanisms are in place to monitor and report on changes in risks of relevance to the Treasury Unit, and to take corrective action as necessary.

3.2 *Audit Objective 2: Assess the extent to which the City's treasury policies and procedures are in compliance with relevant legislation (i.e., Provincial Regulations) and are adhered to in practice.*

Criteria:

- Determine if Treasury investment and debt policies and procedures are designed to be consistent with relevant legislation, including the Municipal Act and are communicated in a timely manner to stakeholders.
- Determine if mechanisms are in place to identify changes in relevant legislation and to update and/or modify existing policies and procedures accordingly and in a timely manner.
- Determine if mechanisms are in place to monitor Treasury activities for compliance against key established policies and procedures. Corrective measures are implemented when gaps are observed.

3.3 Audit Objective 3: Assess the extent to which the Treasury Unit's management practices are designed to maximize investment returns and/or minimize financing costs and the effectiveness of these activities in practice.

Criteria:

- Determine if a cash flow methodology is implemented to manage short-term and long-term cash flow projections that allows Treasury to optimally plan and use cash.
- Determine if the Treasury Unit provides accurate, complete, and timely reporting over investment activities and portfolio performance.
- Determine if investment portfolio returns are monitored and appropriately benchmarked against the City's own forecast and other municipalities' performance.
- Determine if the issuance and repayment of debt is timely and effectively managed, and decisions are communicated to the Debenture Committee and Council.

3.4 Audit Objective 4: Assess the extent to which Treasury staff are properly qualified and trained with appropriate experience and designations.

Criteria:

- Determine if the Treasury Unit has the right mix of skills and competencies to support the achievement of the Treasury Unit's objectives and mandate.
- Determine if employees are provided with the necessary training tools and resources to effectively and efficiently perform their duties.

3.5 Audit Objective 5: Assess the overall efficiency and effectiveness in the management and operation of the Treasury function, including identifying areas of potential savings for the City.

Criteria:

- Determine if consideration has been given to the optimal utilization of skills sets, experience, and educational credentials to reduce the potential for the duplication of efforts and/or create strains in Treasury operations.
- Determine if Treasury has established performance metrics and reports actual results in a timely manner to key stakeholders, including senior management and Council.

- Determine if third party custodian services and rates are regularly reviewed for cost saving opportunities.
- Determine if Treasury systems and databases adequately support the Unit's needs for accounting, reconciliations, and management reporting.
- Determine if terms of reference of oversight committees, such as the Debenture Committee, are clearly defined and effective oversight is conducted in practice.
- Determine if delegations of authority are clearly defined and communicated, and are consistent with authorities in place in other municipal organizations.
- Determine if key Treasury internal controls exist and are operating effectively and are consistent with relevant industry practices.
- Determine if access to Treasury systems is restricted to authorized users.

3.6 Audit Objective 6: Assess the extent to which the City is utilizing all available methods for making and receiving payments efficiently and effectively.

Criteria:

- Determine if automation, such as the use of electronic funds transfers or credit cards, is optimally and appropriately utilized in making and receiving payments.
- Determine if payment and receipt mechanisms employed are consistent with leading practices and mechanisms employed by other municipal organizations.

4 AUDIT SCOPE

The audit examined current management practices in place, with a focus on practices in place during fiscal 2011 and year to date fiscal 2012. Audit procedures requiring examination and analysis of treasury transactions included fiscal years 2009 through 2011.

The scope of this audit focused on the management control framework surrounding the Treasury Unit and included an assessment of the design and operating effectiveness of key controls over investments and debt management, cash flow management, compliance with legislative authorities and policies, and financial management. The audit considered cash and liquidity management that includes: banking, forecasting, and investment of excess funds; capital financing and leveraging activities including risk management; reporting activities to Council as well as the decision-making process with respect to investments and borrowing; monitoring of custodian management over the Endowment Fund and two pension funds; operational efficiency and effectiveness of Treasury processes; and capability and capacity of staff. Evidence of rates of returns and treasury practices utilized by

other municipalities, where available, was also gathered for benchmarking purposes.

This audit did not include a review of pension accounting as this is covered separately in the external audit of the financial statements of the City of Ottawa.

5 APPROACH

In the conduct of the audit, information was obtained through: documentation review; comparison of existing policies, procedures, and practices to relevant legislation and industry practices; interviews with staff of the Treasury Unit, Finance and the Compliance Unit; walkthroughs of key Treasury processes; testing of sample items to assess the effectiveness of key Treasury controls; and data analysis.

In addition, a benchmarking analysis was performed through which a number of elements of the City's Treasury Unit practices were compared with five other municipalities and regional governments as summarized in the table below:

Benchmarking Element	Peer 1	Peer 2	Peer 3	Peer 4	Peer 5
Treasury Structure	√	√	√	√	√
Function Size	√	√	√	√	√
Staff Education and Designations		√	√	√	√
Portfolio Size	√	√	√		√
Transaction Volume		√			
Succession Plan	√	√	√	√	√
Third Party Service Renewal Process	√	√	√	√	√
Policy Renewal Process	√	√	√	√	√
Risk Assessment Process	√	√	√	√	√
Benchmarking Process	√	√	√	√	√
Treasury Systems	√	√		√	
Methods for Payments and Receipts	√		√	√	

6 DETAILED FINDINGS, OBSERVATIONS AND RECOMMENDATIONS

6.1 Audit Objective 1: Assess the extent to which the Treasury function has implemented a framework to identify, measure, and monitor key risks of relevance to its mandate.

6.1.1 Opportunities to Enhance the Formality and Rigour of the Risk Management Process

The City of Ottawa's Enhanced Risk Management Policy, approved by Council in April 2010, requires the application of an enterprise risk management (ERM) process that includes a systematic approach to the anticipation and identification of loss exposures, the assessment of those exposures in terms of frequency and severity, and the application of risk control measures. The Policy states that the Senior Management Committee is responsible for overseeing the implementation of an appropriate ERM program. Managers own, and are therefore accountable, for the effective management of risk within their respective departments, and are responsible for the application of risk-aware thinking in day-to-day activities. As such, managers must support the City's ERM philosophy, promote compliance, and manage risks within their spheres of responsibility, consistent with the City's risk appetite. This includes responsibility for reporting incidents, assessing exposures, and reducing, controlling and monitoring risk in corporate programs and operations.

The Treasury Unit participated in the initial implementation of a corporate-wide risk assessment exercise completed in 2010. Through this exercise, the Treasury Unit completed a risk assessment that was amalgamated with that of the Finance Department. The assessment identified eight major risks which were formally measured for impact and likelihood as required by the Policy. Mitigation plans for each risk identified were also established.

Based on the results of our interviews, we confirmed that Treasury personnel appear to be well aware of risks, changes in risks, and consider risk information in daily decision making. However, there is no documented evidence of regular reviews and updates to the risk assessment, nor related risk mitigation 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 these actions and activities. For two of the highest ranked risks resulting from the 2010 corporate risk assessment exercise, part of the mitigating strategy consisted of completing process mapping to document procedures and responsibilities. This exercise has not yet been completed nor is there any updated target date that has been communicated to finalize this action.

A formal and periodic assessment of risk should be conducted at least annually to help ensure that risks of relevance to the City's Treasury Unit are identified and are managed to an acceptable level. The lack of formally documented risk assessment and monitoring procedures may result in changes in risks being undetected or not communicated to relevant parties, and/or may result in untimely assessment of the effectiveness of planned mitigation strategies.

Recommendation 1

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

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.

6.1.2 Treasury Unit Operational Plan

The Treasury Unit's plan is incorporated as part of the Finance Department's Strategic Plan. The most recent strategic plan for the Finance Department, which covers the period 2011-2014, was finalized in September of 2012. Overall, the Finance Strategic Plan is fairly general in nature in that it addresses the priorities of the Finance Department as whole, but is not specific to the Treasury Unit. The Plan does refer to the need to replace the Treasury system in order to strengthen operational performance (which has been implemented), but other objectives and priorities are more generic in nature, such as developing an outcome-based performance management framework and developing succession plans and training/development plans.

As noted under finding 6.1.1, specific risks facing the Treasury Unit were identified and measured as part of the corporate risk assessment process. Major risks identified included:

1. Risk of not securing financing due to market disruption;
2. Risk of low investment returns due to market risks; and,
3. Risk of loss in value of pension assets.

For each of the specified risks, a mitigation strategy was developed. Although risks have been formally identified, measured, and considered in the development of the Finance Department Strategic Plan, 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 plan.

The City's Treasury activities are guided by its investment policies and procedures. However, a documented operational plan that identifies and aligns annual priorities (both operational and corporate) would be beneficial for the Treasury Unit to help ensure that its activities are aligned with the City's investment objectives and are reflective of risks unique to the Treasury Unit.

Without a documented mitigation strategy, the City may be at risk of not meeting its investment objectives and/or not prioritizing the allocation of time and effort to areas of greatest risk and priority to the unit.

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.

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.

6.2 Audit Objective 2: Assess the extent to which the City's treasury policies and procedures are in compliance with relevant legislation (i.e., Provincial Regulations) and are adhered to in practice.

6.2.1 Compliance with Relevant Legislation

In all major areas, the City's Treasury investment and debt policies and procedures were found to be consistent with relevant legislation, including the Municipal Act. Based on the results of our benchmarking exercise, we also noted that the City's investment and debt policies are similar to those of peer governments.

While all mandated areas of relevant legislation are reflected in the City's Treasury policies, we did identify some areas where the legislation provided additional detail that increased the clarity of expectations and requirements for Treasury activities that management should incorporate in the next revision of the Investment Policy.

These areas include:

Background - Indicating that the equivalent rating from Moody's is "Prime-1" or S&P is "A-1+". [Ontario Regulation 438/97 - #2(8) and #3(5)]

Security of Principal - Specifying the action that needs to be taken as a result of a downgrade in investment rating relating to eligible securities. [Ontario Regulation 438/97 - #9(2)]

Rate of Return - Clarifying this section of the policy through the following:

- a) Defining acceptable risk levels to demonstrate better clarity over the City's risk tolerance. [Ontario Regulation 438/97 - #7(2)]

- b) Incorporating “respecting financial advice” in the section of the Investment Policy that states that the City will invest to maximize rates of return within risk acceptance levels respecting the security of principal and legal constraints. [Ontario Regulation 438/97 - #7(2)]
- c) Explaining how long-term and sinking fund portfolios will affect taxpayers. As indicated in the Ontario Regulation 438/97 - #7 (4), the investment policy could include a statement as to the fact that in preparing the policy and goals, Council shall consider its plan for the investment and how it would affect the municipal taxpayers.

Reporting – Standard and defined reporting requirements could be strengthened through the following:

- a) Considering whether annual reporting on the investment program is still sufficient, or whether more frequent reporting would be of benefit. [Ontario Regulation 438/97 - #8(1)]
- b) Requiring the annual report to include a statement as to whether there are any investments that have been downgraded from standard requirements. [Ontario Regulation 438/97 - #8(2 and 2.1)]
- c) Explicitly stating a requirement for the Treasurer to report inconsistencies with the Investment Policy to the Council within 30 days. [Ontario Regulation 438/97- #8.1]
- d) Explicitly requiring the Treasurer to prepare and provide to Council a report on the proposed use of funds realized in the disposition of an investment. [Ontario Regulation 438/97 - #8(3)]

Though the City’s *Investment Policy* complies with all mandatory provincial legislative requirements, revising existing policies as identified above will strengthen the clarity of Treasury expectations and controls.

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.

Management Response

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

6.2.2 Formal Review of Policies and Procedures

Treasury management relies upon a number of sources and forums to identify changes in the Ontario Regulations that may require changes to the City's policies and procedures, including the following:

1. The Treasury Manager participates with other municipalities and financial institutions in an advisory committee (Debt and Investment Committee) that provides advice to the Regulator regarding legislation and proposed changes to legislation;
2. Treasury personnel of major municipalities, including the City of Ottawa, have an informal peer network through which they regularly and frequently communicate with each other to discuss treasury-related issues;
3. The Treasury Manager is registered to receive e-mail updates on changes in legislation from the City's external legal counsel; and,
4. The Treasury Manager keeps in frequent and regular communication with the City's legal department to keep abreast of changes in legislation.

While management is confident that the above procedures are sufficient in enabling the identification of changes in relevant legislation in a timely manner, there is no formal process in place requiring a regular and periodic review of the City's treasury policies to help ensure that they continue to comply with relevant legislation.

In addition to the above, the City's Corporate Administrative Policy Framework, developed in 2010, requires owner departments to formally review their policies every three years. Based on our review of supporting documentation we confirmed that Treasury policies have been reviewed within the past three years as follows:

1. Investment Policy: November 2011;
2. Commodity Price Hedging Policy: April 2012;
3. Endowment Fund Investment Policy - December, 2011 (revised); and,
4. Administration of Capital Financing and Debt - Policy: April 2010 (revised).

We noted that the investment policy for one of the municipalities included in our benchmarking exercise requires a formal policy review on an annual basis by the City Treasurer and Council, and for two other municipalities, formal reviews of policies are conducted either annually or every three years, though not specifically required by municipal policy. The City's practices for review of Treasury policies are consistent with these peer organizations.

Benchmarking - Investment Policy Review Process:

Peer Organization	Formal Investment Policy Review	Frequency	Specified Requirement in the Policy
Ottawa			
Peer 1	√	N/A	
Peer 2	√	3 years	
Peer 3	√	N/A	
Peer 4	√	Annually	
Peer 5	√	Annually	√

6.2.3 Monitoring of Compliance with Established Policies and Procedures

A number of mechanisms are currently in place and relied upon to identify potential instances of non-compliance with established policies and procedures. On a monthly basis, Treasury management (Treasurer, Deputy Treasurer, and the Treasury Manager) meet to review the investment and debenture portfolio and discuss performance. Included in this review is management’s consideration of whether treasury activities are consistent and compliant with established policies and procedures as approved by Council.

In addition, a number of committees have been established to oversee the Treasury Unit’s activities:

1. The Debenture Committee enacts debenture by-laws to authorize the issuance of debentures where the project debt authority has been approved by Council and the Treasurer has proceeded with one or more debt issues;
2. The Endowment Fund Investment Committee maintains governance over the endowment fund and ensures the Fund Managers adhere to investment policies and goals;
3. The Pension Fund Committee oversees the management of the pension fund with applicable legislation; and,
4. The Finance and Economic Development Committee makes recommendations to Council on matters related to investment and debt policies.

The Treasury Function, as required by legislation, must report on an annual basis to City Council in regards to its portfolio and returns.

Through our interviews, review of documentation, and control testing, we noted that practices are in place to detect material and significant breaches of compliance with established policies and legislation in a timely manner. Further, it is our understanding based on interviews conducted that there have not been any instances of non-compliance identified in the period under the scope of this audit.

In the course of the audit we tested a sample of investment transactions as well as long-term debt issuance transactions. Our testing did not note any instances of investments not being processed in compliance with the Investment Policy approved by Council.

Our testing of a sample of long-term debt issuances confirmed that new debt was issued based on capital projects that had been previously approved by Council as required by the Capital Financing and Debt Policy.

The City's December 31, 2011 audited financial statements reported a total net long-term debt of \$ 1.1 billion. The Ministry of Municipal Affairs and Housing limits the amount of annual debt repayment (principal and interest) that a municipality may repay in a given year. The Annual Repayment Limit (ARL) is calculated by the Ministry and provided to the municipality in January of each year.

The following table provides details of the debt repayment made by the City as well as the ARL calculated by the Ministry. As the table demonstrates, the City's actual annual debt repayment is well below the established ARL.

Benchmarking - Debt Repayment versus the Annual Repayment Limit (ARL):

Fiscal Year	Interest/ principal budgeted (\$000)	ARL (\$000)	Percentage of ARL
2010	122,898	376,803	33%
2011	152,903	415,139	37%

According to management, although there is sufficient room for the City to increase its annual interest and principal payments and still be within the ARL, the type of debentures issued do not allow the City to repay before maturity (non-retractable debenture). Early repayment of debt is discussed with management on an ongoing basis. These discussions usually occur when debt is issued, as the type of debt will determine what, if any amounts, can be repaid prior to maturity. The request for the calculation of the penalty versus the interest to be paid relating to early repayment has not been done as management considers that early repayment is not possible.

In addition to the above, consideration must be given to the effect that repayment of large amounts of debt could have on the current year's operational budget. The repayment of large amounts of debt would require cash disbursements that may require increasing other revenues or reducing the amount of other expenditures.

As stated in the Debenture Committee Terms of Reference, the Committee is delegated the authority to enact on by-laws to authorize the issuance of debentures where the project debt authority has been approved by Council. For each issue the Committee reports to Council by providing details of the issue, including the amount and interest yields.

The 2013 Capital Budget did not include a debt schedule as had been included with past budgets. As noted in the budget transmittal report, dated October 24, 2012, because the LRT capital budget would only be brought to Council in December 2012, management believed it would be premature to include the debt and reserve fund schedules that would normally accompany the draft budget at the October 24, 2012 meeting, as staff still needed to review the preferred proponent for the OLRT. The debt and cash requirements of the proposed milestone payment plan of the preferred proponent would have an impact on the reserve and debt schedules. As such, management did not want to present only a portion of the reserve and debt schedules, as this would be confusing to the reader. Management indicated in the report that the reserve and debt schedules would be provided with the final approved budget document, which we confirmed was provided in December 2012.

We also confirmed that Council was provided a full 10 year forecast of reserve and debt obligations in September 2012, through the Long Range Financial Plan for tax supported services, one month prior to the tabling of the draft 2013 budget. Based on the supporting documentation, it appears that the lack of inclusion of a debt schedule with the original 2013 Capital Budget is reasonable and supporting information and rationale was provided to Council throughout the process.

6.3 Audit Objective 3: Assess the extent to which the Treasury Unit's management practices are designed to maximize investment returns and/or minimize financing costs and the effectiveness of these activities in practice.

6.3.1 Cash Flow Methodology to Manage Short-term and Long-term Cash flow Projections

The City has documented concise (1 – 2 page) narratives to describe the short-term investment, long-term debt, and long-term investment processes.

The City uses Thomson Financials Treasury Manager (TMAN), an integrated treasury management software package, for all of its cash flow forecasting requirements. TMAN is password protected with different levels of permissions available to suit the needs of each user. TMAN records the date, time and user(s) associated with every activity.

The City maintains a cash flow forecast for a period of up to 365 days that is updated daily. The cash forecast is normally prepared by the Treasury Analyst and reviewed by a Senior Investment Officer or the Treasury Manager. Information is downloaded daily from the bank pertaining to the previous day's banking transactions. Data is analyzed and information contained in the forecast is updated and all transactions are reconciled against TMAN.

As part of the audit, a number of key controls within the cash flow forecasting and reporting process were examined, which are expanded upon in more detail under section 6.5.

6.3.2 Reporting on Investment Activities and Portfolio Performance

Information regarding the City's investment portfolio and performance are reported in a number of reports provided internally to management, to Council, and to the public, including;

1. Annual audited financial statements;
2. Annual investment reports provided to Council that are reviewed and approved by the Treasurer; and,
3. OMBI reporting.

In the course of the audit, we noted discrepancies between portfolio amounts and performance results as reported in the financial statements and in the Investment Report to Council. Our analysis demonstrated that these discrepancies were due to the fact that specific methodologies are required to be used for financial statement reporting in accordance with generally accepted accounting principles whereas management has chosen to use a different methodology for internal reporting to Council due to the fact that this method provides a more comprehensive view of the portfolio yield over a period of time.

For example, the financial statements reported that the weighted average yield on investments held at December 2011 is 3.98% (2010 is 3.6%). The Investment Report to Council reported an investment return of 2.35% (2010 - 2.63%) for the same period of time. As required by the accounting policies prescribed by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants, the financial statements weighted average yield is calculated based on the investments held by the City as at December 31, 2011. It represents the future yield of investments currently held. The return reported in the Investment Report to Council is calculated based on the average investment portfolio maintained by the City throughout the year.

In addition, the financial statements reported a total cost of investments of \$943.4 million (2010 - \$737.9 million) (excluding the sinking fund), while the Investment Report reported an average portfolio value of \$1,248.5 million (2010 - \$1,270.3 million) (including the sinking fund but excluding the OCHC and Endowment Fund investments).

The financial statements report investments at both cost and market value of the portfolio held as at December 31st of each year as required by the accounting policies prescribed by the PSAB. In contrast, the Investment Report discloses the average portfolio value throughout the year, which varies considerably due to the timing of the receipt of tax payments at specific times.

Management determined that reporting the average portfolio and related yield over the course of the year better represents the actual performance of the portfolio over the year than reporting information based on a point in time as required in the financial statements. Two of the peer municipalities have also confirmed that the yield reported in the Investment Report to Council was based on a calculation that considered the value of the portfolio throughout the year, since using a value at one point in time is not believed to be representative of the activity throughout the year.

Although the calculations as recorded in the financial statements and in other reports is accurate based on the methodologies utilized, there is a risk that the reporting of different numbers for the same performance measures may be confusing to stakeholders and may impair the credibility of reporting.

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.

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.

6.3.3 Monitoring and Benchmarking of Investment Portfolio Returns

A number of processes have been implemented by the City to monitor investment portfolios as well as returns. These include:

1. Treasury Unit Monthly Meetings – On a monthly basis, the Treasurer, Deputy Treasurer and the Treasury staff meet to discuss treasury issues. Our review of the agendas and minutes of a sample of these meetings confirmed that there are discussions regarding the cash flow forecast, the performance of the investment portfolio, as well as current debt issuance against plan.

2. Report to Council - Annually, the Treasurer reports to Council via the Investment and Endowment Fund Report as well as the Sinking Fund Report. These reports provide details of investment performance by funds as well as by type of assets. The reports also provide details of the portfolio par value, percentage by asset type, and the policy range. Additional information in regards to the term exposure and credit exposure is provided, as well as commentary on current economic trends. As required by regulation, the report provides a confirmation that investments were made in accordance with the *Investment Policy*.

In our discussions with representatives of peer municipalities as well as our examination of reporting, we noted that benchmarking approaches vary considerably from one municipality to another. Some perform the exercise on a monthly basis, others on a semi-annual basis or annual basis. The source for benchmarking used by the municipalities that were part of our benchmarking exercise includes OMBI reports, the One Fund, and RBC investment return service.

Benchmarking - Treasury Benchmarking Practices:

Peer Organization	Formal Benchmark Process	Frequency
Ottawa		Monthly
Peer 1	√	Monthly
Peer 2	√	Semi-Annual
Peer 3	√	Monthly
Peer 4	√	Monthly
Peer 5	√	Annually

Benchmarking - Treasury Benchmarking Sources Utilised:

Peer Organization	Market	One Fund	OMBI	RBC Investor Services
Ottawa	√			
Peer 1				√
Peer 2	√			√
Peer 3		√	√	√
Peer 4	√	√		
Peer 5	√	√	√	

However, the City's Treasury Unit has not implemented a formal, regular process to benchmark its investment returns. Some comparisons are made to returns reported in the OMBI report as well as the One Fund; however, management does not consider these sources to be optimum for benchmarking purposes. This was also confirmed in an external review of the City's investment process and Investment Policy.

Lack of regular reviews of the City's performance against appropriate benchmarks impairs the ability of the City to objectively assess the overall performance of its portfolio and investment strategy and determine if corrective or remedial action is required.

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.

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.

6.3.4 Effectiveness of Management Practices Designed to Maximize Investment Returns and/or Minimize Financing Costs

Our review of the debt issuance process has demonstrated that practices in place are effectively designed to minimize financing costs. Long-term debt can only be issued for capital projects that have been approved by Council and to which the Budget and Financial Planning Unit has determined the necessity for debt. All long-term debt initiated must be approved by the Debenture Committee, which has the delegated authority to enact Debenture By-Laws. Documentation to support requests for approval is provided to the Committee, which includes the purpose of the issue (capital projects approved by Council) and details of the debt (term, rates, and payment terms). Once debentures are issued, Council is provided with details of the issue and related projects. Our testing of a sample of debt issues over the in-scope period confirmed that the process is operating effectively in practice and that required supporting documentation was provided to support this decision-making.

In general, debt is only issued once related capital budgets have been spent to minimize interest costs. However, we identified one instance over the past year where a \$125 million debenture was issued prior to funds being spent. This issuance is associated with infrastructure work that was originally planned through 2015. The debt issuance was approved by the Debenture Committee prior to being issued and was disclosed to Council prior to being issued.

It is our understanding that debt was entered to support longer term capital projects with the assumption that rates would be rising in the foreseeable future. Supporting rationale was fully disclosed and provided to the Debenture Committee and to Council through the 2012 Budget Report.

As noted earlier, the Debenture Committee has the delegated authority to issue debt where the project debt authority has been approved by Council. Also and as noted above, although it is not the City's usual practice to issue debt prior to disbursements being made, the Committee's Terms of Reference do not prohibit the Committee from authorizing debt prior to funds being disbursed for the projects. Further, the Municipal Act has no requirement for project funds to be disbursed prior to issuing related debt.

Although the legislation does not prohibit a municipality to issue debt prior to funds being spent, this practice could result in the City paying interest for capital projects that have not yet been completed. This risk is primarily mitigated by the fact that management may use debenture proceeds to fund other projects if the proceeds are no longer required to fund the original project.

6.4 Audit Objective #4: Assess the extent to which Treasury staff are properly qualified and trained with appropriate experience and designations.

6.4.1 Skills, Competencies, and Succession Planning

The Treasury Unit staff consists of five employees, including the Manager. Based on our examination of the experience and qualifications of each staff member, we noted that the current staff complement has relevant experience as well as training in the field of investments, debt issuance, and cash management to fulfill their expected roles and responsibilities. Senior Investment Officers have over 25 years of Treasury-related experience and have completed the Canadian Securities Training. One Analyst has recently completed their CGA. Another Analyst has over 40 years of experience with the City. Based on our analysis of peer organizations, staff complement consists on average of 4.6 staff. The staff complement varies primarily based on the size of the portfolio and debt as well as the investment activity. The City’s staff complement, including size, experience and training, was consistent with that of peer municipalities included in our benchmarking exercise. The majority of organizations look for individuals with either the Chartered Financial Analyst (CFA) designation or degree in a finance related field.

Benchmarking - Staff Qualifications:

Peer Organization	Employees	Stock Mkt Experience	MBA	CFA	Prof. Accountant
Ottawa	5	√	√		√
Peer 1	2	√			
Peer 2	8	√	√	√	√
Peer 3	4	√			
Peer 4	6	√	√	√	√
Peer 5	3	√		√	

However, two positions within the City’s Treasury Unit could become vacant in the near future due to potential upcoming retirements. There is a risk that the Treasury Unit may not be able to easily fill these positions due to the depth of experience and skill sets required, which may impair the function’s ability to achieve its objectives over the short-term. We also noted that the Treasury Unit does not have a current, documented succession plan.

Based on the Finance Department's road map, the need for documented and implemented succession and training plans has been identified by management and is scheduled for 2013/2014. This exercise would require management to assess its current and future skills and experience requirements, the number of full time resources required, and any related gaps for which action plans could be developed to address them. This would also include identifying opportunities for potential savings by combining existing duties and responsibilities where applicable such as combining the Analyst or 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.

6.4.2 Training and Tools

The performance of Treasury personnel is expected to be formally assessed on an annual basis. As part of the assessment, areas for improvement are noted and related training opportunities are identified.

During the course of our fieldwork, we noted that annual performance assessments had been completed for the Treasury Manager and the Senior Investment Officers for the most recent fiscal year, which identified strengths as well as opportunities to improve technical and other skills through additional training.

We also noted that performance assessments were not completed for two positions within the Treasury Unit. Further, we noted that training and development needs for one of the Analyst positions have not been identified. This is of outmost importance, given the approaching eligible retirement date for one of the other Analysts in the Unit.

As noted in 6.4.1, the Treasury Unit does not have a current, documented succession and training plan. There is a risk that the Treasury Unit would not be able to achieve its objectives and mandate in the event that positions become vacant.

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.

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.”*

6.5 Audit Objective 5: Assess the overall efficiency and effectiveness in the management and operation of the Treasury function, including identifying areas of potential savings for the City.

6.5.1 Utilization of Skill Sets and Staff Complement

As discussed earlier, on an annual basis, individual employee performance is expected to be assessed to determine areas for improvement as well as opportunities for training.

However, we noted that current job descriptions are not available for all positions. The job description for the Manager position as well as the Capital Financing Analyst has not been updated in a number of years, and current documented job descriptions do not reflect the actual roles and required responsibilities of the positions.

As noted in recommendation 7, we encourage the Treasury Unit to expedite the process of creating its succession and employee training plan through which its current and future skill requirements can be reconsidered to ensure future requirements are met in an optimal manner.

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.

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.

6.5.2 Performance Measures and Reporting

The Treasury Unit currently does not have a formal performance measurement methodology and approach in place. The development and reporting against key performance indicators enables a consistent approach to the regular measurement, monitoring, evaluation and reporting of actual performance results in relation to expected results and targets. In addition, they can help personnel to prioritize their personal work objectives and provide a means of monitoring of individual performance.

We understand that the Finance Department has identified the development and implementation of an outcome-based performance management framework as a priority for 2012 in the Finance Department Strategic Plan. This is an important initiative in helping management assess and monitor performance results and compliance with policies and legislation.

As noted in the 2011 Audit of Performance Measurement, the cost-benefit of performance measurement activities at the City has been questionable in the past. It will be important for management to monitor the usefulness of any new performance measurement program to ensure it is adding value.

As noted in recommendation 7 of this report, the City should 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.

6.5.3 Third Party Custodian Services

The City utilizes the services of Royal Bank and RBC Investor Services for its banking and custodian services. The City also utilizes the services of fund managers for the endowment fund and employee pension plans.

The City's banking agreements are for terms of five years with extensions of five years. Agreements with funds managers are for an indeterminate period.

Based on our discussions with management, it appears that there is an expectation to review third party agreements every five years. However, this requirement is not formally documented. We understand that it was Treasury's intention to go to competitive proposal for banking services in 2012, but this had not been initiated as of the end of the audit fieldwork.

According to the Local Authority Services (LAS) Cash Management Manual, standard practice across Ontario municipalities is to review and re-tender banking agreements every three to five years. This provides a sufficient term to ensure that enough banks will be willing to invest the time to prepare and submit a proposal. In addition, a three to five year contract, as opposed to a one to two year contract, minimizes the time, from the municipality's perspective, to address the administrative requirements of changing service providers. Terms of more than three to five years may compromise the municipality's ability to take advantage of new products, technology and service offerings as well as changes in the market that may impact the overall terms of the contract. The City is currently not following these practices.

Representatives of four of the five peer organizations interviewed have confirmed that requests for proposals for banking services are issued every five years. In the case of the fifth municipality, an RFP was completed 10 years ago and is open indefinitely.

Benchmarking - Review of Third Party Service Agreements:

Peer Organization	Term	Extension	RFP Process
Ottawa	5 years	2 x 5 years	N/A
Peer 1	5 years	N/A	5 years
Peer 2	5 years	N/A	5 years
Peer 3	5 years	2 x 5 years	N/A
Peer 4	10 years	Indefinite	N/A
Peer 5	N/A	N/A	N/A

There is a risk that the City may not be obtaining the best value in regards to banking services. A regular review of third party agreements on a regular basis will allow the City to take advantage of service offerings that provide best value and meets the City's current needs.

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.

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.

6.5.4 Treasury Systems and Databases

The main systems utilized by the Treasury Unit, as described previously in the Background section, are well known in the Treasury community and are utilized by a number of corporations, banks and government treasury unit. The majority of peer organizations are utilizing in-house systems at the present time, some of which consist of Excel spreadsheets or Quatro Pro databases.

Benchmarking - Investment Systems Utilized:

Peer Organization	Investment Management	Debt Management
Ottawa	TMAN/Treasury (in parallel in 2012)	Information Control Debenture
Peer 1	In-house (Excel)	None
Peer 2	In-house maintained by third party	In-house
Peer 3	In-house (Quatro Pro)	In-house (Quatro Pro)

At the present time, the Treasury Unit is running both TMAN and Treasury in parallel in order to safeguard the integrity of data processed in the new system given the new system was implemented in January 2012. The City intends to stop running both systems in parallel in fiscal 2013. The City has systems that are effective and consistent with industry practices.

6.5.5 Effectiveness of Oversight

Based on our review of supporting documentation, the by-laws and terms of reference of the City's oversight committees appear to be clearly defined and appropriate. Based on our review of minutes and a sample of debenture issuances, we noted that generally the Debenture Committee, Endowment Fund Investment Committee, and the Finance and Economic Development Committee receive appropriate information to support their decision making authority as defined within each committee mandate and terms of reference.

6.5.6 Delegation of Authority

The City's delegation of authorities is clearly defined in a number of documents that are available on the City's intranet site, including The Municipal Act, Delegation of Authority By-Law, Debenture Committee By-Laws, and other policies, such as:

- **Capital Debt Policy:** The Capital Debt Policy specifies that the City Treasurer will have the overall responsibility for the capital financing program of the City and is authorized to proceed to launch debenture issues provided that the annual debt charges are within the debt servicing budget.
- **Investment Policy:** The Investment Policy states that the City Treasurer has ultimate authority for all investment transactions and to ensure that all investments are made in accordance with this investment policy and Ontario Regulation 438/97 as amended by Regulation 265/02.
- **Endowment Fund Policy:** As noted in section 6.5.5, the Endowment Fund Committee has an overall responsibility to assist Council by recommending the long term asset mix policy and guidelines for approval by Council. In addition, the policy gives the Committee the authority to delegate certain of its duties and responsibilities to another person or persons of agent.
- **Commodity Price Hedging Policy:** This policy states that the City Treasurer has the overall responsibility for the commodity price hedging program, for directing/implementing the activities of the commodity price hedging program, and ensuring compliance with the policy. As noted in the 2011 Audit of Procurement, the Finance Department is expected to take a more active oversight role in the activities related to long-term natural gas contracts.

Through our interviews, review of documentation and transaction testing, we noted that delegated authorities are understood and adhered to in practice.

6.5.7 Effectiveness of Internal Controls

Through our audit we identified a number of key controls in place within the Treasury Unit to help ensure that transactions are completed in compliance with policies and related legislation and to help ensure effectiveness in maximizing returns and minimize financing.

Specifically, we identified the following key procedures in place:

1. A daily cash flow forecast reconciliation is prepared by the Treasury Analyst and reviewed by a Senior Investment Officer or the Manager;
2. Wire payments require approval;
3. The Treasury Analyst reconciles all trades from the RBC and the Investment System. The reconciliation is reviewed by the Manager or the Senior Investment Officer;

4. At year-end, the Senior Investment Officer performs a reconciliation to compare investment transactions in the City's financial systems to investments in TMAN/Treasury. The reconciliation is sent to the Accounting Coordinator and external auditors for review;
5. Debenture issuances are reviewed and approved by Legal Counsel to ensure documents are complete, in accordance with the *Municipal Act* and amount does not exceed the borrowing limit calculated by the province;
6. Debenture Committee approves the debenture by-law;
7. Capital Financing Analyst reconciles the Master Control Consolidated Gross Debt Charges to the debt charges recorded in the City's financial systems;
8. Treasurer and Deputy Treasurer review treasury activities including cash, investments, and debts during the monthly treasury meeting; and,
9. Access to systems is restricted to appropriate users.

We tested 15 key controls within the treasury process (3 access controls, 1 treasury meeting control, 3 cash management controls, 4 investment income controls, and 4 long term debt issuance controls).

Out of the 15 controls tested, 5 controls had errors or exceptions noted related to insufficient retention of evidence of reviews and approvals, and one of which relates to insufficient documentation of reviews of system access that is discussed under section 6.5.8 below. The nature of errors and exceptions for the 4 errors and exceptions are as follows:

- Daily Cash Flow Forecast Reconciliation and Daily Investment Forecast Reconciliation - There is no evidence of review by the Manager, Treasury or Senior Investment Officer because their review is done electronically in TMAN/Treasury. As well, there is no evidence that differences were investigated because reconciling items are not documented and they are corrected right away in TMAN to reduce the variance down to a tolerable difference. However, because this reconciliation is utilized for planning purposes, the lack of review and documentation supporting resolution of reconciling items is of low risk.
- Investment Trade Tickets - 2 out of 10 samples tested had errors in which the trade tickets were not completely approved. In one case, the trade ticket was signed by Manager, Treasury as the approver, but it was not signed by the Treasurer or her delegated authority. This ticket was transacted in March 2011. In the other case, the trade ticket did not have any approval signatures. This ticket was transacted in February 2012 and still not approved in August 2012, when this testing was performed. However, this error in the operation of the underlying control did not have any financial impact.

- Reconciliation of Investments between TMAN and the City's financial systems - Email correspondence is not retained by the Senior Investment Officer as evidence that the reconciliation was sent to the Accounting Coordinator and External Auditors and reviewed by them. This applies to 2010 and 2011 investment reconciliations.

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.

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.

6.5.8 Access to Treasury Systems

As noted earlier, there are six main systems utilized by the Treasury Unit: TMAN/Treasury, RBC Investor Services; RBC Express; and Information Control System Debenture; Reuters; and SAP. In the course of our audit we tested access to TMAN/Treasury, RBC Investor Services, RBC Express and Information Control System Debenture systems to determine if access was limited to authorized and appropriate personnel. Although our testing did not demonstrate any instances of unauthorized access, we did note an opportunity to ensure that employees who no longer require access to RBC Express be removed from access in a timely manner.

Although the Senior Investment Officer performs an annual review of user access to RBC Express, evidence of access review is deleted and not maintained. In the 2011 review, one email correspondence was retained as evidence of a department's response to the access review initiated by the Senior Investment Officer. In the 2010 review, only a listing of user privileges was retained; there is no documented evidence that the review of access was performed.

In addition, although the Senior Investment Officer grants/deletes access to RBC Express, she is not included in the notification email of departing employees issued by Human Resources (HR). Instead, the Senior Investment Officer relies on the Program Manager to inform her of an employee departure, which would prompt her to remove that individual's access.

The lack of evidence of user access review makes it difficult to determine whether user access to RBC Express was periodically reviewed to prevent inappropriate and unauthorized users from continued access to the application. It is noted that access to RBC Express can be performed from any computer with Internet access, as long as the user name and password remains active.

Also, there is a risk that if the Program Manager of the departing employee does not notify the Senior Investment Officer of a departure in a timely manner, then inappropriate access may not be removed in a timely manner.

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.

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.

6.6 Audit Objective 6: Assess the extent to which the City is utilizing all available methods for making and receiving payments efficiently and effectively.

6.6.1 Use of Automation in Making and Receiving Payments

Cash Receipts:

Procedures pertaining to cash receipts are defined within the Cash Handling Procedures document. These procedures are intended to standardize cash handling activities, minimize risk of loss, and maximize accountability over funds received, among other goals.

The Cash Handling Policy defines acceptable methods of payment as being cash (either U.S. or Canadian) and credit card payments (with certain exceptions, such as property taxes and building permits). The Cash Handling Procedures also refer to other acceptable methods of payment, including personal cheques and credit card purchase cheques. In addition, the City accepts payments by pre-authorized bank payments and electronic funds transfer (EFT).

The largest volume of cash receipts received by the City (through the Revenue Branch) consists of payment of property taxes. In 2011, total property taxes were \$1.4 billion, which represents 44% of the City's revenues. The City offers a number of payment methods for tax payments, such as payment by cheque, by cash, pre-authorized bank payments and EFT. According to management, imposing EFT on

all taxpayers would be problematic since under the *Currency Act* cash payments are legal tender. Management considers that the City currently enjoys a high sign-up rate of pre-authorized bank payments as well as EFT. According to management, approximately 65% of tax payments are made by either pre-authorized payments or EFT from their bank accounts. The remaining 35% is paid by other means such as cheques or cash. Management was able to provide us with some statistics in regards to methods of payments, this does not consist of information that management regularly reviews. As a result, there is insufficient information available to determine the timeframe within which cash is received overall.

Management has made significant efforts to promote automated payments to customers for Tax and Water accounts by including this information in the tax and water billing inserts and providing enrolment forms with tax and water billings where clients have not yet enrolled. The information and enrolment forms are also provided on the City’s website.

As payment of taxes by automatic withdrawal from bank accounts allows for consistent, regular cash inflows, which facilitates the forecasting of cash receipts, management should continue to work to further increase automation of cash receipts where possible where the potential savings outweigh potential costs.

Cash Payments:

The majority of payments to vendors are made by either: Electronic Funds Transfer, cheques or credit cards. According to transaction statistics provided by the Accounts Payable Unit for 2011 and 2012, payments of accounts payable were made by the following methods:

Method	Number of Transactions (2011)	Percentage (2011)	Number of Transactions (2012)	Percentage (2012)
Cheques	88,597	58%	77,717	50%
EFT	15,159	10%	21,599	14%
Credit Card	49,345	32%	55,154	36%
Total	153,101	100%	154,470	100%

Although it is not mandatory, the City began to encourage vendors to accept payments by EFT in April 2010 by providing information and forms on the City’s website. Management further encouraged the utilization of EFT during the postal strike and noted an increase in the use of EFT by vendors during this period; however, there are no specific statistics on the increase.

According to Scotiabank, independent research noted that the total cost of issuing a cheque ranges from \$15 to \$25, and in some instances up to \$50. The total cost is based on three components: direct costs, clerical and handling costs, and opportunity costs such as penalties for late payment, costs of paying before funds

are due or missed early payment discounts. City management conducted its own comparative analysis of the estimated costs by payment method, which resulted in an estimated incremental savings of \$1.30 for EFT payments per transaction; however this data has not been independently verified, and is based on management's estimates of internal labour costs, but does not include potential savings associated with increased timeliness of cash payments and other opportunity costs. Based on these estimates, there could be potential savings of well over \$100,000 annually if no payments were made by cheque. The City encourages vendors to accept payment by EFT; however, it has not made this mandatory as of October 15, 2012.

As noted above, payment of taxes by automatic withdrawal from bank accounts allows for consistent, regular cash inflows, which facilitates the forecasting of cash receipts. The same applies for the utilization of EFT for payments in that the timing of cash outflows is easier to forecast. The Finance Department has recognized the need to identify automation opportunities for enhanced services to internal and external clients which will increase their satisfaction, such as through the implementation of automated meter readings to provide more timely meter reads. The Finance Department plans to further investigate and implement (where possible) new and innovative service offerings, such as providing web access to tax and water account information, with self serve for preauthorized payment registration, ownership changes, reprints; creating work scheduling tool interface for pay; automating budget review and monitoring for managers; creating client tools and information on ozone; and, reviewing and improving financial information and resources on Ottawa.ca.

Recommendation 11

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

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.

6.6.2 Benchmarking of Payment and Receipt Mechanisms

Receipts:

As noted above, payment methods accepted by the City includes among others, pre-authorized payments from bank, EFT, cheques, cash and credit cards. A detailed listing of payments that has been validated by Finance management is included in Appendix A.

During the course of our fieldwork we noted that these payments methods are similar to the ones utilized by peer municipalities as well as other similar organizations.

Payments:

The City of Ottawa payments to vendors are made via cheques, EFT and some by credit cards. Similar methods are utilized by peer municipalities and regional governments although the percentage varies considerably from one to the other. For larger municipalities, most payments are still made by cheques (90%), while in contrast; one other regional government requires that all payments to vendors be made by EFT.

Benchmarking - Mechanisms for Cash Receipts and Payments:

Benchmark Criteria	Ottawa	Peer 1	Peer 2	Peer 3	Peer 4	Peer 5
Receipts:						
Pre-authorized	√	√	N/A	√	√	N/A
On-line banking	√	√	N/A	√	√	N/A
Cheques	√	√	N/A	√	√	N/A
Credit cards	√	√	N/A	√	√	N/A
Cash	√	√	N/A	√	√	N/A
Electronic funds transfer	√	√	N/A	√	√	N/A
Payments to Suppliers:						
Electronic Funds Transfer	√	10%	N/A	100%	√	N/A
Cheques	√	90%	N/A	0%	√	N/A

7 POTENTIAL SAVINGS

The City still issues a large number of cheques to suppliers. As such there are potential savings in requiring the use of EFT payments to its suppliers, estimated to be well over \$100,000 annually.

As noted in section 6.4.1 of the full audit report, there is an opportunity for management to assess its current and future skills and experience requirements. This could result in potential savings by combining existing duties and responsibilities where applicable. 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.

8 CONCLUSION

Overall, the audit found that governance and key operational processes have been implemented to help ensure that investment transactions as well as debt issues are completed in compliance with relevant legislation as well as to help ensure that operational processes are effective and efficient in maximising returns and reducing costs.

However, we noted opportunities for improvement in the areas of risk management, governance succession planning, monitoring, and documentation of controls.

The audit also noted potential savings by requiring the use of EFT for payment to suppliers. By eliminating the use of cheques, the City could reach potential total savings of over \$100,000 annually.

9 ACKNOWLEDGEMENT

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

APPENDIX A

MECHANISMS FOR RECEIPTS AND PAYMENTS

The following table provides a listing of key transactions and the nature of mechanisms employed to receive or make payments within the City of Ottawa.

Type of Transaction	Payment Method
Receipts:	
Revenues	Pre-authorized payments
	On-line banking
	Cheques (delivered through 7 City Client Centres, drop boxes or PO box as well and other City facilities)
	Credit cards ¹
	Cash (received at 7 City Client Centres and other City facilities)
Transfer from Custodian to Bank Account	Electronic funds transfer
Payments:	
Payment to Suppliers	Electronic Funds Transfer (Royal Bank)
	Cheques
Low Dollar Value Purchases	Purchase cards
Payroll	Direct deposit
	Cheques
Employee Expenses	Cheques
	Direct deposit

Note: Representatives of Finance have validated that the table includes all methods for cash payment and receipts available at the City.

¹ Credit card payments are not accepted for the following type of transactions:

- Property taxes
- Building permits
- Development charges
- Planning application fees
- Real Estate Partnership and Development Office rent payments
- Large contractual agreements for programs
- Other payments as may be designated by the City Treasurer.

Source: *Cash Handling Policy, October 5, 2011*