

FINANCE AND ADMINISTRATION COMMITTEE MEETING – DECEMBER 5, 2011

INTERNAL AUDIT REPORT OF RESERVES AND INVESTMENTS

Recommendation

The City Auditor recommends:

That the Internal Audit Report of Reserves and Investments be approved.

Economic Impact

The recommendations of the auditor and the implementation of corrective actions in the audit report, will improve the effectiveness of risk management, control and governance processes of the department. Some impact will be economic and measurable in dollar terms, while others will provide intangible benefits which may not be measurable. Other benefits can include improvement in the stewardship of public funds and the achievement of value-for-money in operations. Internal Audit adds value to all areas of City activity audited.

Communications Plan

The agenda containing this report is available in the office of the City Clerk and on the City's website.

Purpose

To present to the Finance and Administration Committee, the Internal Audit Report of Reserves and Investments.

Background - Analysis and Options

The audit was part of the 3 year risk-based Internal Audit Work Plan which was approved by the previous Audit and Operational Review Committee.

The internal audit report is provided as an attachment.

The Executive Summary in the report summarizes the findings and recommendations. The full report includes, for all audit findings (1) the observations of the auditor, (2) the implications, (3) the auditor's recommendations, (4) operational management's response for corrective actions and (5) the auditor's response to the corrective actions.

Relationship to Vaughan Vision 2020

This report is consistent with the priorities previously set by Council and the necessary resources have been allocated and approved.

Regional Implications

Not applicable.

Conclusion

1. The Internal Audit Report of Reserves and Investments is presented to the Finance and Administration Committee for approval. The report includes the audit findings,

recommendations and corrective actions. The report has been discussed with the Director and Commissioner of the department/operation audited.

2. The Director and Commissioner are aware that the intent of the observations and recommendations in the Internal Audit Report is for continuous improvement.
3. When all corrective actions are implemented, (1) internal controls, corporate governance and risk management including stewardship of public funds and achievement of value-for-money in operations, will be improved, (2) the quality of performance in carrying out assigned responsibilities will be enhanced, (3) the Internal Audit department will have added value to the organization and assisted members of the organization in the effective discharge of their responsibilities.

Attachments

Internal Audit Report of Reserves and Investments

Report prepared by:

Michael Tupchong, CA, CIA, CPA, CFE
City Auditor

Respectfully submitted,

Michael Tupchong, CA, CIA, CPA, CFE
City Auditor



October 26, 2011

Clayton Harris, City Manager
2141 Major Mackenzie Dr.
Vaughan, Ontario
Canada L6A 1T1

Dear Clayton Harris,

Re: Internal Audit of Reserves and Investments

I have completed the internal audit of Reserves and Investments. This audit was included in the three year audit work plan.

A follow-up letter will be sent to the audited department/operation (approximately 30 days from the date Council has approved the report), requesting the status of Corrective Actions as noted in this report. Subsequent follow-up letters will be sent until all Corrective Actions have been satisfactorily implemented.

I would like to thank Director F. Castellarin and Commissioner B. Cribbett, for accommodating me and providing me with unrestricted access to all staff and information during the audit.

I have exercised independence, objectivity and due professional care in accordance with the Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors.

The Internal Audit Department is committed to adding value, providing continuous improvement recommendations and professional service to the whole organization.

Sincerely,

Michael Tupchong CA, CIA, CPA, CFE
City Auditor

c: Barbara Cribbett, Commissioner of Finance & City Treasurer
John Henry, Director of Budgeting & Financial Planning
Nancy Yates, Manager of Capital & Asset Management
Terri Liuni, Capital Revenue Analyst



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EXECUTIVE SUMMARY

Background

The audit of Reserves and Investments was included in the Council approved audit work plan.

The department administers Investments, capital projects, grants, reserves and reserve funds for the City.

At 31 December 2009, the reserves/reserve funds totalled approx \$418 million. Investments totalled approx \$400 million.

The 2009 operating budget for the department was approximately \$1 million.

Objectives

The main objectives were to:

- evaluate and improve the effectiveness of risk management, control, and governance processes,
- add value and improve the organization's operations
- assist members of the organization in the effective discharge of their responsibilities
- evaluate and improve the quality of stewardship over public funds
- evaluate and improve the achievement of value-for-money in operations.

Scope

The Scope included:

1. the activities and processes within the Reserves and Investments Department including the following areas: Grants, Capital Funding, Investments, Letter of Credit/Deposit Refunds, Reserves and Reserve Funds, and Operating Expenses of the department as well as other operational areas at the discretion of the auditor.
2. The Institute of Internal Auditors' standard scope of work which is shown on the pages ahead.

Scope period was January 1, 2009 to December 31, 2009

Methodology

The methodology included:

- Interviews and discussions with management and staff of multiple departments
- Review and analysis of accounting records (actual and budget) and supporting documentation for accounting transactions
- Review and analysis of various reports and documents
- Review of policies and procedures.
- Walkthroughs and observations of operational procedures.
- Review and analysis of operational data.
- Physical inspection where applicable

Summary of Observations and Recommendations

This summarizes the audit observations and recommendations which are in more detail in the body of the report. The following observations are arranged in no particular order

1. **Observation:**

Excel spreadsheets are used to control approximately \$292 million of investments. The formulae used to calculate \$ limits, percentages, totals, sub-totals and transfer of numbers etc and the whole spreadsheets are not protected from potential inadvertent mistakes. In one report investments were shown as \$14,587,064 and \$29,174,129 when they should have been shown as \$29,174,129 and \$58,348,257 respectively. The errors were corrected by the staff member when she discovered the error but after the report was presented to Council with the incorrect numbers.

Recommendation:

That key formulae for cells in the Excel spreadsheet, should be protected to safeguard against inadvertent mistakes.

2. **Observation:**

Up to \$400 million of investments are invested in short-term and long-term investments with varying maturity dates up to 15 years. Investment software is not used to assist in the management of investments. The department does not subscribe to business organizations for real-time investment data.

Recommendation:

That there should be a review of investment software in the marketplace to determine which software may facilitate in investment management. Also consideration should be given whether to subscribe to organizations for instant investment data to assist in obtaining the “best” investment for the City.

3. **Observation:**

A few Key Performance Indicators used in 2010 need to be reviewed and possibly changed. They do not measure the department’s true performance as some factors are beyond the department’s control.

Recommendation:

That The department should devise new Key Performance Indicators which measures the department’s performance with factors within their control.

4. **Observation:**

There is inconsistency in the signing of invoices and the filling in of Field Purchase Orders(FPO). Some invoices are signed and some are not. Some FPOs are completed in full and others are not.

Recommendation:

That there should be consistency in the signing of invoices, FPOs and the full completion of FPOs.

5. **Observation:**

There is inconsistency in the timeliness for requesting and issuing Purchase Orders(PO). Some are requested and issued after the goods and invoices have been received. Other POs are correctly requested and issued before the orders are placed.

Recommendation:

That there should be consistency in that Purchase Orders should be requested and issued at or before the goods and invoices have been received.

6. Observation:

Cell phone invoices are signed by the employee but are not signed by the employee's supervisor to indicate review and approval.

Recommendation:

That cell phone invoices should also be signed by the supervisor just as an expense report would be signed by the supervisor..

7. Observation:

20% of Reserve/reserve funds have individual by-laws in their files, 80% do not and were most likely approved through confirmatory by-laws. Some files had Council minutes in them and others did not.

Recommendation:

For each Reserve and Reserve Fund set up, it's file should contain a copy of Council minutes with information on the purpose of the Reserve/Reserve Fund and the operational elements of the Reserve/Reserve Fund. This will provide more transparency, clarity, administrative convenience, accountability and consistency for each reserve/reserve fund set up.

Corrective Action:

Management has agreed with our observations Their corrective action plans are in the body of the report.



DEFINITION, OBJECTIVE AND SCOPE

Definition: Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The **objective** of Internal Auditing is to assist members of the organization in the effective discharge of their responsibilities. To this end, Internal Auditing furnishes them with analyses, recommendations, counsel, and information concerning the activities reviewed. The internal audit objective includes promoting effective control at reasonable cost. In the end, Internal Audit is focussed on continuous improvement of the organization.

The **scope** of Internal Auditing encompasses the examination and evaluation of the adequacy and effectiveness of the organization's system of control and the quality of performance in carrying out assigned responsibilities. The Internal Auditors have authority to review any phase of City activity. The scope of this audit included all of the following where applicable:-

- Reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information.
 - Reviewing the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations, which could have a significant impact on operations and reports, and should determine whether the organization is in compliance.
 - Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
 - Appraising the economy and efficiency with which resources are employed.
 - Reviewing operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.
 - Reviewing the identification of risk exposures and use of effective strategies to control them.
 - Reviewing specific operations at the request of the Finance and Administration Committee or City Manager, as appropriate.
- In addition:
- Reviewing the stewardship of public funds.
 - Reviewing the achievement of value-for-money in operations.



INTENDED PURPOSE OF REPORT

This report is presented purely to add value and to improve the operation, within the scope of the audit, for effectiveness, efficiency and continuous improvement. The report is not intended to criticize/discredit any individual or management of the department. The recommendations are suggestions of the auditor to assist in addressing the audit observations. Alternative corrections may be acceptable if risks are reduced to acceptable levels.

RATING OF AUDIT OBSERVATIONS (R1-R9)

The severity rating of the audit observations is between R1 and R9, with R1-R3=Low; R4-R6=Medium; and R7-R9=High. It is intended to provide the reader with the auditor's rating of the audit observations in the report. Factors taken into consideration include internal control, risk management, corporate governance, materiality, frequency, impact, likelihood, compliance, economy, efficiency, objectives, and operations. The rating is not mathematically calculated, and is a general guide.

It is more important to focus on the recommendations and corrective actions than the rating. The higher the rating, the more urgent it is to implement the corrective actions.

Irrespective of the ratings, all observations should be addressed.

Auditor(s): Michael Tupchong CA,CIA,CPA,CFE

Approval Signature: _____



Areas reviewed were considered to be operating satisfactorily, except those noted in this section.

Audit Observations

Investment Management (R4)

Observations

1. No investment software is currently used in the management of investments.
2. Excel spreadsheets were developed in-house by the Capital Revenue Analyst to control approximately \$400 million of investments. The spreadsheets include formulae for calculations of \$ limits, percentages, totals, sub-totals, transfer of numbers, etc.
3. Access to the computer is password protected but the formulae and cells and the whole spreadsheets are not protected from inadvertent or deliberate errors/unauthorized changes. The Capital Revenue Analyst is replaced by another employee when she is ill, on vacation or not at work for any reason.
4. The following observation is presented as an illustration of the importance of protecting formulae in Excel spreadsheets. One error was observed which was corrected by staff when discovered later. It was observed that one spreadsheet showed incorrect \$ limit numbers for some investments due to 2 incorrect formulae. \$ limit numbers are amounts beyond which a group of investments should not exceed (based on a % of total investments as set by City investment policy). The \$ limit numbers were shown as \$14,587,064 and \$29,174,129 when they should have been shown as \$29,174,129 and \$58,348,257 respectively. The errors were corrected by the staff member upon discovery but after the report was presented to Council with the incorrect numbers.
5. As of December 31, 2009, \$292 million of investments were in short-term and long-term investments with varying maturity dates up to 15 years. In terms of managing the investments for the "best" rates, it is important to be alerted in advance when the investments are maturing so that information can be sought on better rates of return. Currently, the Capital Revenue Analyst is not using technology to alert her in advance when investments mature but is keeping track of maturity dates of investments in a number of other "manual" ways. Also the City does not subscribe to live investment data from business organizations like Reuters or Bloomberg.

Implications

1. Without protecting all formulae and important cells in the spreadsheets, changes can be made inadvertently, resulting in incorrect information upon which decisions may be made. The errors may not always be detected and corrected.
2. Should the Capital Revenue Analyst suddenly be absent from work due to unforeseen circumstances, there could be potential problems for her replacement to have the same inside knowledge of the investments.
3. Without subscribing to business organizations for live investment data, the department may miss out on optimum investments for better returns.
4. An investment software might be more effective in the management of all aspects of the investments.

Recommendations

It is Recommendation that:

1. To strengthen current controls, all formulae and important cells in investment spreadsheets should be protected through a feature in Excel to prevent inadvertent changes. This will provide more comfort level on the accuracy of the numbers presented.
2. An investment software should be explored to be used to facilitate the effective management of investments. This would be preferable than the use of the Excel spreadsheet, and “manually” controlling maturity dates of investments. Some municipalities are using investment software and the City could obtain useful information on the software benefits.
3. The department should research the options whether to subscribe to a business organization to receive live investment data to assist in investment management for better returns for the City.

Corrective Actions and Timeline (Director F. Castellarin and Commissioner B. Cribbett Response)

- a) Staff will investigate investment software products available and/or currently used by other municipalities have submitted a capital request for the 2012 budget;
- b) Staff will implement the protection of cells immediately
- c) The Director of Investments position is currently vacant, but is expected to be filled in early 2012. Once hired, the new Director will research options and associated costs for live investment tools.

Auditor’s Response To Corrective Actions and Timeline

The Corrective Actions will address the recommendations. A follow-up status will be done in due course.

Key Performance Indicators (R2)

Observations

1. The department keeps track of some Key Performance Indicators (KPIs) which are to provide comparative annual information on the performance of the department.
2. A review of Key Performance Indicators was done. For two KPIs, the department has minimal control over the outcome which is dependent on factors outside its control. These KPIs are:
3. "Total Number of Transactions per Development Financing FTE". Here the number of transactions processed is directly related to the number of agreements (site plan, subdivision agreements, and development) and the number of buildings processed by the City in a given year.
4. "Total Capital Expenditure per Capita FTE." Here capital expenditures are driven by demands of growth development and aging infrastructure. Processing an invoice for \$100,000 takes the same amount of time as an invoice for \$10.

Implications

1. The department's performance is being measured by factors outside their direct control.
2. These KPIs do not indicate the department's efficiency and effectiveness as the numbers and resultant graphs are dependent on other factors.

Recommendations

It is Recommendation that:

1. The KPIs called "Total Number of Transactions per Development Financing FTE" and "Total Capital Expenditure per Capita FTE," should be replaced as the department is measured by factors outside their direct control.
2. The department should devise new Key Performance Indicators which measures the department's performance with factors within their control and is not clouded by factors outside their control.

Corrective Actions and Timeline (Director F. Castellarin and Commissioner B. Cribbett Response)

Staff agree that performance measures need to be developed that inform managers and directors on the degree of efficiency that is being achieved. The measures noted by the City Auditor are more statistical in nature, but do provide valid volume-related data that is helpful as a tool in identifying workload trends. Generally, as capital budgets and expenditures increase, the volume of capital invoices increase. Increased capital expenditures per FTE can also be reflective of the number of capital projects as well, however staff agree that one large capital project could skew this measure. The Corporation as a whole is undertaking an initiative to further evolve performance measures under the High Performing Organization Strategic theme. Through this corporate initiative, Reserves and Investments will develop more indicative performance measures in 2012.

Auditor's Response To Corrective Actions and Timeline:

The Corrective Actions will address the recommendations. A follow-up status will be done in due course.



Incomplete Paperwork (R3)

Observations

From a review of supporting documentation, the following were observed:

- 1) Purchase of a print cartridge from a stationary supplier on April 27, 2009 for \$429.95. The FPO (Field Purchase Order) section for "received by" and "date" was not filled out. The section for the price and taxes were also not filled out. The supplier's invoice was not signed to indicate that the quantity and charges were correct.
- 2) Two print cartridges were purchased from the same vendor on December 14, 2009 for \$604.92. The FPO sections "received by", "date", and price and tax information were not filled out. The invoice was not signed to indicate that the quantity and charges were correct.
- 3) Fifty budget books were purchased on June 26, 2009 for \$1465.61. The FPO "authorization date", "received by", and "date" sections were not filled out. The invoice was not signed to indicate that the quantity and charges were correct.
- 4) Office Equipment was purchased on June 5, 2009 from a vendor online for \$239.08. The invoice was not signed to indicate that the quantity and charges were correct. The Cheque Requisition was used. A signed cheque requisition does not provide proof that the invoice was reviewed.

Implications

There is inconsistency in that some invoices are signed and some are not. Some FPOs are completed in full and some are not.

Recommendations

It is Recommendation that:

All FPO forms should be completed with the required data in its entirety.

All invoices should be signed as an indication that (1) the quantities were received (2) the charges are correct and (3) the invoices are approved for payment.

Corrective Actions and Timeline (Director F. Castellarin and Commissioner B. Cribbett Response)

Staff agree that documentation required to complete a purchase order transaction should be completed in its entirety and signed, and will implement this corrective action immediately. Staff would like to note, however, that the challenge with the purchases noted above is that given the low dollar value of the purchases, the FPO manual process associated with these purchases may consume more resources than the cost of the actual purchase, resulting in an inefficient process. In an effort to improve efficiency and controls, staff recommends that the opportunity to implement P cards (purchasing cards) for low dollar purchases be investigated.

In an October 27, 2009 report from the Auditor General for the City of Toronto, the Auditor General notes:

"Compared to other methods of payment, the P card program has the potential to consolidate paperwork, enable staff to acquire supplies more efficiently and improve supplier relationships through immediate payment. Most importantly, studies have shown the P Cards can significantly reduce administrative costs"



The majority of municipalities in the GTA are working with P cards and have established control procedures around the use of the cards. Staff will be bringing a review of the City's Purchasing policy to Council in early 2012, and will provide further information regarding the potential use of P cards at that time.

Auditor's Response To Corrective Actions and Timeline:

The Corrective Actions will address the recommendations. A follow-up status will be done in due course.



Cellular Phone Invoices(R2)

Observations

A review of cellular phone invoices revealed that monthly cell phone invoices are signed by the “owner” staff member but not by the staff member’s supervisor.

Implications

As the expense is specific to the employee, the “owner” staff member is approving his/her own expense. The supervisor is not signing the invoice to indicate approval of the expense.

Recommendations

It is Recommendation that:

As the cell phone invoice relates to expenses specific to the employee, the invoice should be reviewed and approved by way of signature of the supervisor. This would be the same as a submitted expense claim form which is specific to the employee; it is signed by the employee and authorized by the supervisor.

Corrective Actions and Timeline (Director F. Castellarin and Commissioner B. Cribbett Response)

All cell phone invoices are now being authorized by the supervisor.

Auditor’s Response To Corrective Actions and Timeline:

The Corrective Actions have addressed the recommendations. A follow-up status will be done in due course.

Reserves and Reserve Funds (R2)

Observation

For every Reserve or Reserve Fund, there is a separate file. Out of 65 reserve/reserve fund files reviewed, 13 (20%) had individual by-laws. Other files (80%) had no individual by-laws on file. Some files had Council minutes of Council approval for the reserve, other files had none. Some reserve/reserve funds may have been approved through a confirmatory by-law. This is a general by-law which approves the resolutions and actions taken by Council at the end of a Council meeting.

Implication

1. Some Reserves and Reserve funds may have been set up 1) with individual by-laws, 2) through a general confirmatory by-law without individual by-laws or 3) with just Council approval before the confirmatory by-law was initiated.
2. There is inconsistency in that 20% of reserve/reserve fund files have individual by-laws and 80% do not. Some files had Council minutes of Council approval for the reserve/reserve fund while other files had none. Information to define the purpose of the reserve/reserve fund and the operational elements e.g., interest earned, duration, dates etc) are not in each file.

Recommendation

It is recommended that:

For each Reserve and Reserve Fund set up, it's file should contain a copy of Council minutes with information on the purpose of the Reserve/Reserve Fund and the operational elements of the Reserve/Reserve Fund. This will provide more transparency, clarity, administrative convenience, accountability and consistency for each reserve/reserve fund set up.

Corrective Actions and Timeline (Director F. Castellarin and Commissioner B. Cribbett Response)

Staff agree that up to date information regarding each reserve is a best practices. It is Finance staff's intent to undertake a thorough review of the City's discretionary reserves in 2012, to consolidate where appropriate, reallocate funds between reserves in the context of best practices for working and contingency reserves and amortization schedules now available and to reconfirm the purpose of each reserve.

Auditor's Response To Corrective Actions and Timeline:

The Corrective Actions will address the recommendations. A follow-up status will be done in due course.

CONCLUSION

1. Based on the scope of audit work mentioned in the beginning of the audit report, areas reviewed were considered to be operating satisfactorily, except for the noted observations for which the auditor made recommendations for improvement.
2. The management of the department/operation audited, have acknowledged all observations and recommendations in the Internal Audit Report.
3. When all Corrective Actions are implemented, there will be an improvement in (1) internal controls (2) risk management, (3) governance (4) the stewardship of public funds and (5) the achievement of value-for-money in operations.
4. The Internal Audit department will have added value to the organization and assisted members of the organization in the effective discharge of their responsibilities.

FOLLOW-UP ON CORRECTIVE ACTIONS AND TIMELINE

1. It is extremely important that all Corrective Actions and Timeline as stated in this Internal Audit Report are implemented as soon as possible.
2. The Internal Audit Department will perform regular follow-ups, the first being approximately 30 days after Council's approval of the Internal Audit Report, followed by subsequent follow-ups until all corrective actions have been satisfactorily implemented. Actual follow-up audits may be done to verify the reported implementation.
3. The Corrective Actions and Timeline will address the audit findings of the Auditor.
4. At the discretion of management, this report may be distributed to the appropriate staff members under their jurisdiction to address common areas for improvement. Further consideration should be given to revise/update current policies and procedures, as deemed necessary.



October 26, 2011

Clayton Harris, City Manager
2141 Major Mackenzie Dr.
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Dear Clayton Harris,

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A follow-up letter will be sent to the audited department/operation (approximately 30 days from the date Council has approved the report), requesting the status of Corrective Actions as noted in this report. Subsequent follow-up letters will be sent until all Corrective Actions have been satisfactorily implemented.

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Sincerely,

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1. the activities and processes within the Reserves and Investments Department including the following areas: Grants, Capital Funding, Investments, Letter of Credit/Deposit Refunds, Reserves and Reserve Funds, and Operating Expenses of the department as well as other operational areas at the discretion of the auditor.
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The **scope** of Internal Auditing encompasses the examination and evaluation of the adequacy and effectiveness of the organization's system of control and the quality of performance in carrying out assigned responsibilities. The Internal Auditors have authority to review any phase of City activity. The scope of this audit included all of the following where applicable:-

- Reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information.
 - Reviewing the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations, which could have a significant impact on operations and reports, and should determine whether the organization is in compliance.
 - Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
 - Appraising the economy and efficiency with which resources are employed.
 - Reviewing operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.
 - Reviewing the identification of risk exposures and use of effective strategies to control them.
 - Reviewing specific operations at the request of the Finance and Administration Committee or City Manager, as appropriate.
- In addition:
- Reviewing the stewardship of public funds.
 - Reviewing the achievement of value-for-money in operations.



INTENDED PURPOSE OF REPORT

This report is presented purely to add value and to improve the operation, within the scope of the audit, for effectiveness, efficiency and continuous improvement. The report is not intended to criticize/discredit any individual or management of the department. The recommendations are suggestions of the auditor to assist in addressing the audit observations. Alternative corrections may be acceptable if risks are reduced to acceptable levels.

RATING OF AUDIT OBSERVATIONS (R1-R9)

The severity rating of the audit observations is between R1 and R9, with R1-R3=Low; R4-R6=Medium; and R7-R9=High. It is intended to provide the reader with the auditor's rating of the audit observations in the report. Factors taken into consideration include internal control, risk management, corporate governance, materiality, frequency, impact, likelihood, compliance, economy, efficiency, objectives, and operations. The rating is not mathematically calculated, and is a general guide.

It is more important to focus on the recommendations and corrective actions than the rating. The higher the rating, the more urgent it is to implement the corrective actions.

Irrespective of the ratings, all observations should be addressed.

Auditor(s): Michael Tupchong CA,CIA,CPA,CFE

Approval Signature: _____



Areas reviewed were considered to be operating satisfactorily, except those noted in this section.

Audit Observations

Investment Management (R4)

Observations

1. No investment software is currently used in the management of investments.
2. Excel spreadsheets were developed in-house by the Capital Revenue Analyst to control approximately \$400 million of investments. The spreadsheets include formulae for calculations of \$ limits, percentages, totals, sub-totals, transfer of numbers, etc.
3. Access to the computer is password protected but the formulae and cells and the whole spreadsheets are not protected from inadvertent or deliberate errors/unauthorized changes. The Capital Revenue Analyst is replaced by another employee when she is ill, on vacation or not at work for any reason.
4. The following observation is presented as an illustration of the importance of protecting formulae in Excel spreadsheets. One error was observed which was corrected by staff when discovered later. It was observed that one spreadsheet showed incorrect \$ limit numbers for some investments due to 2 incorrect formulae. \$ limit numbers are amounts beyond which a group of investments should not exceed (based on a % of total investments as set by City investment policy). The \$ limit numbers were shown as \$14,587,064 and \$29,174,129 when they should have been shown as \$29,174,129 and \$58,348,257 respectively. The errors were corrected by the staff member upon discovery but after the report was presented to Council with the incorrect numbers.
5. As of December 31, 2009, \$292 million of investments were in short-term and long-term investments with varying maturity dates up to 15 years. In terms of managing the investments for the "best" rates, it is important to be alerted in advance when the investments are maturing so that information can be sought on better rates of return. Currently, the Capital Revenue Analyst is not using technology to alert her in advance when investments mature but is keeping track of maturity dates of investments in a number of other "manual" ways. Also the City does not subscribe to live investment data from business organizations like Reuters or Bloomberg.

Implications

1. Without protecting all formulae and important cells in the spreadsheets, changes can be made inadvertently, resulting in incorrect information upon which decisions may be made. The errors may not always be detected and corrected.
2. Should the Capital Revenue Analyst suddenly be absent from work due to unforeseen circumstances, there could be potential problems for her replacement to have the same inside knowledge of the investments.
3. Without subscribing to business organizations for live investment data, the department may miss out on optimum investments for better returns.
4. An investment software might be more effective in the management of all aspects of the investments.

Recommendations

It is Recommendation that:

1. To strengthen current controls, all formulae and important cells in investment spreadsheets should be protected through a feature in Excel to prevent inadvertent changes. This will provide more comfort level on the accuracy of the numbers presented.
2. An investment software should be explored to be used to facilitate the effective management of investments. This would be preferable than the use of the Excel spreadsheet, and “manually” controlling maturity dates of investments. Some municipalities are using investment software and the City could obtain useful information on the software benefits.
3. The department should research the options whether to subscribe to a business organization to receive live investment data to assist in investment management for better returns for the City.

Corrective Actions and Timeline (Director F. Castellarin and Commissioner B. Cribbett Response)

- a) Staff will investigate investment software products available and/or currently used by other municipalities have submitted a capital request for the 2012 budget;
- b) Staff will implement the protection of cells immediately
- c) The Director of Investments position is currently vacant, but is expected to be filled in early 2012. Once hired, the new Director will research options and associated costs for live investment tools.

Auditor’s Response To Corrective Actions and Timeline

The Corrective Actions will address the recommendations. A follow-up status will be done in due course.

Key Performance Indicators (R2)

Observations

1. The department keeps track of some Key Performance Indicators (KPIs) which are to provide comparative annual information on the performance of the department.
2. A review of Key Performance Indicators was done. For two KPIs, the department has minimal control over the outcome which is dependent on factors outside its control. These KPIs are:
3. “Total Number of Transactions per Development Financing FTE”. Here the number of transactions processed is directly related to the number of agreements (site plan, subdivision agreements, and development) and the number of buildings processed by the City in a given year.
4. “Total Capital Expenditure per Capita FTE.” Here capital expenditures are driven by demands of growth development and aging infrastructure. Processing an invoice for \$100,000 takes the same amount of time as an invoice for \$10.

Implications

1. The department's performance is being measured by factors outside their direct control.
2. These KPIs do not indicate the department's efficiency and effectiveness as the numbers and resultant graphs are dependent on other factors.

Recommendations

It is Recommendation that:

1. The KPIs called “Total Number of Transactions per Development Financing FTE” and “Total Capital Expenditure per Capita FTE,” should be replaced as the department is measured by factors outside their direct control.
2. The department should devise new Key Performance Indicators which measures the department's performance with factors within their control and is not clouded by factors outside their control.

Corrective Actions and Timeline (Director F. Castellarin and Commissioner B. Cribbett Response)

Staff agree that performance measures need to be developed that inform managers and directors on the degree of efficiency that is being achieved. The measures noted by the City Auditor are more statistical in nature, but do provide valid volume-related data that is helpful as a tool in identifying workload trends. Generally, as capital budgets and expenditures increase, the volume of capital invoices increase. Increased capital expenditures per FTE can also be reflective of the number of capital projects as well, however staff agree that one large capital project could skew this measure. The Corporation as a whole is undertaking an initiative to further evolve performance measures under the High Performing Organization Strategic theme. Through this corporate initiative, Reserves and Investments will develop more indicative performance measures in 2012.

Auditor's Response To Corrective Actions and Timeline:

The Corrective Actions will address the recommendations. A follow-up status will be done in due course.



Incomplete Paperwork (R3)

Observations

From a review of supporting documentation, the following were observed:

- 1) Purchase of a print cartridge from a stationary supplier on April 27, 2009 for \$429.95. The FPO (Field Purchase Order) section for "received by" and "date" was not filled out. The section for the price and taxes were also not filled out. The supplier's invoice was not signed to indicate that the quantity and charges were correct.
- 2) Two print cartridges were purchased from the same vendor on December 14, 2009 for \$604.92. The FPO sections "received by", "date", and price and tax information were not filled out. The invoice was not signed to indicate that the quantity and charges were correct.
- 3) Fifty budget books were purchased on June 26, 2009 for \$1465.61. The FPO "authorization date", "received by", and "date" sections were not filled out. The invoice was not signed to indicate that the quantity and charges were correct.
- 4) Office Equipment was purchased on June 5, 2009 from a vendor online for \$239.08. The invoice was not signed to indicate that the quantity and charges were correct. The Cheque Requisition was used. A signed cheque requisition does not provide proof that the invoice was reviewed.

Implications

There is inconsistency in that some invoices are signed and some are not. Some FPOs are completed in full and some are not.

Recommendations

It is Recommendation that:

All FPO forms should be completed with the required data in its entirety.

All invoices should be signed as an indication that (1) the quantities were received (2) the charges are correct and (3) the invoices are approved for payment.

Corrective Actions and Timeline (Director F. Castellarin and Commissioner B. Cribbett Response)

Staff agree that documentation required to complete a purchase order transaction should be completed in its entirety and signed, and will implement this corrective action immediately. Staff would like to note, however, that the challenge with the purchases noted above is that given the low dollar value of the purchases, the FPO manual process associated with these purchases may consume more resources than the cost of the actual purchase, resulting in an inefficient process. In an effort to improve efficiency and controls, staff recommends that the opportunity to implement P cards (purchasing cards) for low dollar purchases be investigated.

In an October 27, 2009 report from the Auditor General for the City of Toronto, the Auditor General notes:

"Compared to other methods of payment, the P card program has the potential to consolidate paperwork, enable staff to acquire supplies more efficiently and improve supplier relationships through immediate payment. Most importantly, studies have shown the P Cards can significantly reduce administrative costs"



The majority of municipalities in the GTA are working with P cards and have established control procedures around the use of the cards. Staff will be bringing a review of the City's Purchasing policy to Council in early 2012, and will provide further information regarding the potential use of P cards at that time.

Auditor's Response To Corrective Actions and Timeline:

The Corrective Actions will address the recommendations. A follow-up status will be done in due course.



Cellular Phone Invoices (R2)

Observations

A review of cellular phone invoices revealed that monthly cell phone invoices are signed by the “owner” staff member but not by the staff member’s supervisor.

Implications

As the expense is specific to the employee, the “owner” staff member is approving his/her own expense. The supervisor is not signing the invoice to indicate approval of the expense.

Recommendations

It is Recommendation that:

As the cell phone invoice relates to expenses specific to the employee, the invoice should be reviewed and approved by way of signature of the supervisor. This would be the same as a submitted expense claim form which is specific to the employee; it is signed by the employee and authorized by the supervisor.

Corrective Actions and Timeline (Director F. Castellarin and Commissioner B. Cribbett Response)

All cell phone invoices are now being authorized by the supervisor.

Auditor’s Response To Corrective Actions and Timeline:

The Corrective Actions have addressed the recommendations. A follow-up status will be done in due course.

Reserves and Reserve Funds (R2)

Observation

For every Reserve or Reserve Fund, there is a separate file. Out of 65 reserve/reserve fund files reviewed, 13 (20%) had individual by-laws. Other files (80%) had no individual by-laws on file. Some files had Council minutes of Council approval for the reserve, other files had none. Some reserve/reserve funds may have been approved through a confirmatory by-law. This is a general by-law which approves the resolutions and actions taken by Council at the end of a Council meeting.

Implication

1. Some Reserves and Reserve funds may have been set up 1) with individual by-laws, 2) through a general confirmatory by-law without individual by-laws or 3) with just Council approval before the confirmatory by-law was initiated.
2. There is inconsistency in that 20% of reserve/reserve fund files have individual by-laws and 80% do not. Some files had Council minutes of Council approval for the reserve/reserve fund while other files had none. Information to define the purpose of the reserve/reserve fund and the operational elements e.g., interest earned, duration, dates etc) are not in each file.

Recommendation

It is recommended that:

For each Reserve and Reserve Fund set up, its file should contain a copy of Council minutes with information on the purpose of the Reserve/Reserve Fund and the operational elements of the Reserve/Reserve Fund. This will provide more transparency, clarity, administrative convenience, accountability and consistency for each reserve/reserve fund set up.

Corrective Actions and Timeline (Director F. Castellarin and Commissioner B. Cribbett Response)

Staff agrees that up to date information regarding each reserve is a best practices. It is Finance staff's intent to undertake a thorough review of the City's discretionary reserves in 2012, to consolidate where appropriate, reallocate funds between reserves in the context of best practices for working and contingency reserves and amortization schedules now available and to reconfirm the purpose of each reserve.

Auditor's Response To Corrective Actions and Timeline:

The Corrective Actions will address the recommendations. A follow-up status will be done in due course.

CONCLUSION

1. Based on the scope of audit work mentioned in the beginning of the audit report, areas reviewed were considered to be operating satisfactorily, except for the noted observations for which the auditor made recommendations for improvement.
2. The management of the department/operation audited, have acknowledged all observations and recommendations in the Internal Audit Report.
3. When all Corrective Actions are implemented, there will be an improvement in (1) internal controls (2) risk management, (3) governance (4) the stewardship of public funds and (5) the achievement of value-for-money in operations.
4. The Internal Audit department will have added value to the organization and assisted members of the organization in the effective discharge of their responsibilities.

FOLLOW-UP ON CORRECTIVE ACTIONS AND TIMELINE

1. It is extremely important that all Corrective Actions and Timeline as stated in this Internal Audit Report are implemented as soon as possible.
2. The Internal Audit Department will perform regular follow-ups, the first being approximately 30 days after Council's approval of the Internal Audit Report, followed by subsequent follow-ups until all corrective actions have been satisfactorily implemented. Actual follow-up audits may be done to verify the reported implementation.
3. The Corrective Actions and Timeline will address the audit findings of the Auditor.
4. At the discretion of management, this report may be distributed to the appropriate staff members under their jurisdiction to address common areas for improvement. Further consideration should be given to revise/update current policies and procedures, as deemed necessary.