

City of Mississauga **Internal Audit Report**

CORPORATE SERVICES DEPARTMENT
FINANCE DIVISION
TREASURY SECTION
INVESTMENTS AUDIT

September 2, 2021

City Manager's Department
Internal Audit Division

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**CORPORATE SERVICES DEPARTMENT
FINANCE DIVISION
TREASURY SECTION
INVESTMENTS AUDIT**

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**Corporate Services Department
Finance Division
Treasury Section
Investments Audit**

BACKGROUND

The Financial and Treasury Services section is part of the Finance Division within the Corporate Services Department. The section is responsible for cash management, investment purchases, debt management and safekeeping of financial instruments.

The Treasury function is governed by Corporate Policy and Procedures on Investments (04-13-02), which is aligned with the requirements of the Ontario Regulation 438/97 on Eligible Investments, Related Financial Agreements and Prudent Investments, last amended by O.Reg 43/18. Investments must meet specific criteria related to investment quality, size limitations and terms of investments. By-law 0188-2015 establishes the authority of the Director, Finance and Treasurer to make investments on behalf of the City.

In 2020, the City earned \$41.5 million in gross investment income (net income of \$41.2 million) on average cash and portfolio investment balances of \$1.27 billion, generating a net yield of 3.23%. Net earnings from cash and investments are distributed in the operating fund (\$14.4 million) and reserve funds (\$26.8 million).

The last audit completed on Investments was in 2019 for the 2018 year. No significant findings were noted.

SCOPE

The audit focused on investment transactions during the period of January 1 to December 31, 2020. It reviewed the adequacy of the control framework in place to effectively support investment decisions and cash flow requirements in a manner that was compliant with applicable legislation and City policies and procedures.

Not in scope

The audit excluded the City's investment in Enersource Corporation as this is not within Treasury's portfolio.

Additionally, the adoption of policies that affect the Corporation as a whole, such as Human Resource policies, was not in scope.

OBJECTIVES

The audit was performed in accordance with the International Standards for the Professional Practice of Internal Auditing and was guided by a risk assessment performed in May 2021 in conjunction with the section's management. The audit focused on the review of the adequacy of internal controls that mitigate relevant risks related to the following business objectives:

- A) To ensure investments conform to legislative requirements;
- B) To preserve the principal investment and to avoid the loss of monies;
- C) To ensure investments are easily liquidated when funds are required; and
- D) To maximize the return on investments while conforming to the other objectives.

These objectives are in order of priority suggested by management.

SUMMARY OF OBSERVATIONS

The audit found that the sampled securities complied with the applicable requirements of the Municipal Act, Ontario Regulation, City By-law and Corporate Policy and Procedures. Furthermore, we noted that the Treasury section has developed and maintained a well-documented Statement of Investment Policy and Procedures (SIPP) to assist with consistent guidance for the day-to-day operations of the unit. Management also showed agility through the pandemic by implementing additional controls to manage and monitor cash flow requirements. Treasury provided the Finance leadership team with monthly cash flow reports and the City's line of credit was increased as a precautionary measure.

Past investment audits, which were conducted annually, focused on the compliance with regulatory requirements and Policy. This year's audit examined other areas of risks inherent to the process of managing the investment portfolio, such as third-party system access and business continuity.

Although the audit did not note any issues that should cause immediate concerns, it did find some opportunities to implement preventative controls that will strengthen the overall control environment.

Our main observations and recommendations are summarized below. Appendix A outlines the detailed recommendations and the action plans proposed by management.

Deactivate cryptokey for terminated or transferred users immediately

Cryptokeys are a multi-factor authentication that provide users of the CIBC portal with a randomly generated passcode to access and/or conduct transactions within the City's bank accounts or investments.

At the time of the audit, the process for cryptokey deactivation took up to 5 business days, as it required a request to CIBC or CIBC Mellon to remove employees who left the organization or were transferred to other functions. It was noted that functionality was available through one of CIBC's portals to immediately deactivate and delete cryptokeys; however, it was not being used.

Allowing departed employees the ability to access systems poses a significant risk to an organization when they have access to sensitive or privileged information; having proper deactivation protocols will ensure malicious behaviour or human error is limited.

The situation was corrected by management immediately and the existing procedure is being updated to reflect this change. The expected date of completion for documenting this process is September 30, 2021.

Develop a contingency/succession plan for the Treasury Manager

Even though the Treasury function has well-documented standard operating procedures that could assist the City in supporting the function in case the Treasury Manager is unavailable, the expertise in capital markets, municipal investments and strategies is a niche skillset that is not easily transferrable or replicated internally.

The Treasury section is relatively small, consisting of a Treasury Manager and two Analysts. All trade activity, as well as system approvals, is under the responsibility of the Treasury Manager. In the event that the Treasury Manager is absent for a prolonged period, or permanently departs from the organization, the continuity of the unit's work may be impacted and, at a minimum, this may result in missed financial opportunities due to less than optimal allocation of investment resources.

A formal contingency plan, supported by periodic testing, allows action to be taken more quickly and leads to better decision-making, while a succession plan creates structure for training and development, supports mapping of competencies and skillset requirements and helps expedite the recruitment process, when necessary.

Implement system tool for departments to communicate cash flow information

Cash flow forecast is used to project cash positions based on expected and anticipated receipts and disbursements and is an important tool for making decisions about funding, capital expenditures and investments. It helps avoid cash shortages, and earns returns on any cash surpluses in the most efficient way. Planned cash flows are captured for items such as accounts payable EFTs and cheque settlements and property tax due dates, however, unforeseen situations such as land purchases/real estate transactions need to be communicated to Treasury with sufficient time to review the cash flow forecasting and adjust the investment buy/sell strategies.

Cash flow stakeholders include service areas who have additional information on cash inflows/outflows with a critical value of \$3 million or more. As per a recently revised Corporate Policy and Procedures on Financial Controls and Budget Monitoring (04-04-02), departments are mandated to provide this information to Treasury.

Currently, this process is quite manual, requiring the corresponding Analyst to periodically initiate and compile the information from relevant stakeholders. This could leave room for incomplete or erroneous information given the time and effort required to manage the communication with all stakeholders. The use of a central repository, with automated workflows and forms, would provide more transparency and ensure continuity of the cash flow process.

Management is looking at making this a Green Belt Lean project in 2022 which would enable cash flow stakeholders/owners to report critical value transactions to Treasury in a more streamlined manner.

CONCLUSION

Results of the audit showed that the controls in place around Investments in the Treasury Section were generally adequate to ensure compliance with required legislation, City By-law and Corporate Policy and Procedures and to mitigate operational and financial risks. Therefore, we are discontinuing the practice of auditing the investments portfolio on an annual basis. However, it will continue to be part of the annual corporate risk assessment to determine if and when a review is required.

Main areas where the control framework could be strengthened are related to security over access termination, continuity/succession planning for the Treasury Manager's position and improvement with communication for unforeseen cash flow projections.

In total there were five (5) recommendations; one (1) related to the safeguarding of assets and information, two (2) dealing with operational control and financial reporting, one (1) to enhance efficiency/effectiveness and one (1) specific to compliance with and clarification of corporate requirements. Management has agreed and committed to completing three (3) within 2021 and the remaining two (2) by 2022.

Details of the audit recommendations and management's comments are presented in Appendix A to this report.



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**Corporate Services Department
Finance Division
Treasury Section
Investments Audit
Summary of Audit Recommendations**

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Rec	Recommendation	Priority (H/M/L)	Comments/Status	Classification
1	That a user deactivation protocol be developed to include, but not be limited to, processing cryptokey deactivations through CIBC's administrative access portal, and a periodic review of terminated employees be completed to identify any employees that may be missed.	H	Treasury will create an SOP documenting the deactivation process. Expected Date of Completion: September 30, 2021	Safeguarding of Assets and Information
2	That contingency and succession plans be developed for the Treasury Manager position, including completing a job evaluation with HR to map out the competencies and skillsets.	M	Finance agrees with the recommendation and will develop a succession plan and appropriate contingencies for the management of the City's investment portfolio in addition to a job evaluation for the Treasury Manager position. Expected Date of Completion: March 31, 2022	Operational Control and Financial Reporting
3	That the template for monitoring compliance be enhanced to flag errors, and cells for the limits be locked to prevent changes to the template.	M	Treasury will lock certain template cells to align with Policy. Expected Date of Completion: October 31, 2021	Operational Control and Financial Reporting
4	That a central repository (e.g. SharePoint) be developed to automate the cash flow projection process and ensure complete information is provided to the Analyst.	M	Treasury will investigate whether a potential Lean (Green Belt) project in 2022, which would create a SharePoint List to be updated by the Owners of all critical value transactions City-wide, would bring further value to the process. Expected Date of Completion: December 1, 2022	Efficiency and Effectiveness

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5	That the requirement that two signatures be obtained for each investment transaction be removed and the Policy updated to reflect the change.	L	Management agrees that the signatures are not necessary and will update the Policy to reflect this. Expected Date of Completion: September 30, 2021	Compliance with and Clarification of Corporate Requirements
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