

February 8, 2019

Review of Treasury Processes

Background

Internal Audit completed a surprise review of the Treasury function's key processes. The objectives were to determine the adequacy and effectiveness of key controls related to:

- Treasury function processes including cash management, payment processing, investment purchases, and debt management; and
- The safe-keeping of valuable financial instruments.

Scope

The work included:

- Use of data analytics for transactions covering the period of January to December 2018, focusing on transfers out of City of Vancouver bank accounts;
- Sample review of transactions related to cheques, EFTs, investments, wires;
- Review of bank reconciliation processes;
- Review of Treasury department's policies and procedures; and
- Review of financial instruments (e.g. letters of credit) stored in the Treasury office, and physical security related to the area.

Conclusion

Improvements are required to establish appropriate segregation of duties, and proper management oversight to ensure compliance to Treasury policies.

Findings and recommendations have been discussed with the Treasury team, who has agreed to begin implementing improvements to internal controls as noted in this report.

The more significant findings and recommendations are:

F.1 Finalize Investment Policy and Procedures and Debt Management Policy

The Investment Policy and Procedures were last finalized and approved in 2015. The most recent updates were in 2018 and are pending review and approval by the General Manager, Finance, Risk and Supply Chain Management. A Debt Management

Policy has also been drafted to establish authority and provide guidance for the City's debt issuance; however, this document has not yet been finalized.

Authorization for investments

The 2015 Investment Policy refers to the City Treasurer and Deputy City Treasurer as authorized to conduct investments on behalf of the City. In practice, this activity is primarily conducted by the Treasury Senior Treasury Analyst, who then sends email notification of investment transactions to the Treasury Manager, Deputy Treasurer, and Director of Financial Services. The Treasury Manager has advised that the financial institutions were notified in 2017 that the Senior Treasury Analyst is authorized to purchase investments for the City of Vancouver.

Recommendation:

F.1.1 The Treasury Manager should ensure that the Investment Policy and Procedures and Debt Management Policy are reviewed and approved by the General Manager, Finance, Risk and Supply Chain Management. This should be completed by July 31, 2019.

F.1.2 The Treasury Manager should ensure that the revised Investment Policy contains a statement around authorization to invest on behalf of the City. If the intention is to authorize the Senior Treasury Analyst to engage in investment transactions, this should be specified in the policy and appropriate management oversight established. This should be incorporated into the policy prior to finalizing the latest version, as per Recommendation F.1.1, targeted for completion by July 31, 2019.

F.2 Implement process for disclosure of personal interests

The Investment Policy stipulates that the Investment Officer “shall disclose to the Director of Finance: any personal financial interests in financial institutions and/or investment dealers that conduct business with the City, any material personal financial/investment positions that could be related to the performance of the City's investment portfolio.”

No disclosures have been made; however, the Treasury Manager indicated that is because there are no material personal positions held.

Recommendation:

F.2.1 The Treasury Manager should establish a standard process, for all Treasury management and staff, for conflict of interest disclosure, in line with the City's processes and requirements in this area. This process should be proactive in order to ensure compliance with the policy requirement. This should be complete by July 31, 2019.

F.3 Address segregation of duties issues for investment transactions

Establishing adequate segregation of duties entails splitting up a process such that one individual does not have responsibility for all critical functions of the process. This design protects against errors and potential fraud.

The Senior Treasury Analyst is singularly responsible for many key aspects of the investment purchase process, including making investment decisions and associated purchase transactions within the confines of the Investment Policy and the Vancouver Charter. The Senior Treasury Analyst also records the transaction in both SAP and Treasury investment records, and performs the reconciliation.

Recommendation:

F.3.1 The Treasury Manager should establish adequate and practical segregation of duties for investment transactions. One option is for Accounting staff outside of the Treasury team, to take on responsibility for the SAP journal entries for investment transactions. The Accounting Manager should be consulted and a suitable solution decided upon and implemented by July 31, 2019.

F.4 Enhance reporting for investment transactions to comply with Investment Policy

Enhance investment reporting

The current Investment Policy requires that an investment report be made available to the Director of Finance, Director of Financial Services, and the City Clerk on a monthly basis. The information is to include a management summary providing a status of the current investment portfolio.

Under the current process, investment trades and monthly entries are recorded and saved in a VanDocs folder. Treasury provides a formal quarterly Treasury investment summary as part of the Quarterly FRS GM Dashboard, and a formal quarterly Treasury Dashboard to the GM FRS; however, there is not notification of the update to the

VanDocs folders. A more specific reporting process would provide additional oversight that the investments made are appropriate and follow City policy.

Address need for automated control for issuer limits

Additionally, to ensure sufficient diversification and issuer credit worthiness, the City's Investment Procedures sets out issuer limits for the City's investment portfolio. These limits are the maximum dollar value to be invested in each of the approved financial institutions.

There is no automated control in place to prevent investment purchase from exceeding the investment limits for issuer. The Senior Treasury Analyst manually checks the issuer's current availability against the established limit prior to entering a trade. As the portfolio's records are updated manually, issuer limits could potentially be exceeded erroneously or even intentionally.

Based on our review of the portfolio records for 2018 and discussion with the Senior Treasury Analyst, there were no instances where issuer limits were exceeded. However, a reporting process would provide additional oversight and strengthen controls in this area.

Recommendation:

F.4.1 The Treasury Manager should establish a reporting process whereby senior management is provided with a summary report providing a status of the investment portfolio including adherence to issuer limit thresholds. The process should comply with requirements set out in the Investment Policy as to the frequency and audience of the reports. This should be in place by July 31, 2019.

F.5 Review background check requirements for all Treasury staff positions

The City conducts employment checks for various positions depending on an employee's role and responsibilities. Credit record checks are used to determine whether potential employees may be under financial pressure thereby increasing risk of potential fraud.

Not all Treasury staff are on the list of positions requiring credit record checks; only the Treasury Manager position is included. However, both the Treasury Manager and the Senior Treasury Analyst completed credit record checks when hired. As Treasury staff are responsible for managing investments and conducting financial transactions on behalf of the City, credit record checks are a reasonable condition of employment.

Recommendation:

F.5.1 The Treasury Manager should work with the Human Resources department to assess which positions within Treasury require background checks. Those positions should then be included, if they are not already, in the list of required positions maintained by Human Resources. This should be reviewed and approved by the General Manager, Finance, Risk, and Supply Chain Management and completed by July 31, 2019.

F.6 Enhance segregation of duties for USD bank account reconciliation

As stated in F.3, segregation of duties is an effective control in minimizing the occurrence of errors or fraud.

Under the current process, the Treasury Clerk performs the bank reconciliation for the City's USD accounts. However, the Treasury Manager does not review this reconciliation. The Treasury department also conducts foreign exchange transactions for the same USD account and records the related entries in SAP.

Given that the Treasury department is responsible for recording, processing, and reconciling of USD transactions, there is an opportunity to strengthen segregation of duties for the USD accounts. As the bank reconciliation for the main Canadian dollar account is performed by Accounting Operations, this may be a consideration for the USD accounts.

Recommendation:

F.6.1 The Treasury Manager should strengthen the segregation of duties for the USD bank accounts. One option would be to work with the Accounting Operations Manager to assess the feasibility of having the USD bank reconciliations being performed outside of the Treasury department. This should be completed by July 31, 2019.

Findings and recommendations have been discussed with appropriate management and work is underway to address them.