



STAFF REPORT INFORMATION ONLY

2006 Investment and Leasing Policy Compliance

Date:	September 10, 2007
To:	Audit Committee
From:	Deputy City Manager and Chief Financial Officer
Wards:	All
Reference Number:	P:\2007\Internal Services\Cf\au07036Cf – et (AFS #790)

SUMMARY

To respond to the audit opinion and recommendations contained in the report "Investment Policy Compliance 2006" issued by Ernst and Young and to comply with the City's Statement of Lease Financing Policies.

Financial Impact

There is no financial impact resulting from this report.

DECISION HISTORY

On an annual basis, as required, the Deputy City Manager and Chief Financial Officer reports on the Investment Compliance audit opinion and recommendations issued by Ernst and Young as well as compliance by the City and its agencies, boards and commissions with the City's Statement of Lease Financing Policies.

ISSUE BACKGROUND

Investment Policy

The Investment Policy and Procedures approved by Council in January 1998 and June 2004 require that:

“The Deputy City Manager and Chief Financial Officer shall establish an annual process of independent review by the City's Auditor. This review will provide assurance of compliance with governing legislation, this investment policy and procedures.”

This report provides a response from Corporate Finance to the recommendations arising from the 2006 compliance review as required by the City's Investment Policy and Procedures.

The Deputy City Manager and Chief Financial Officer will be presenting the annual investment report and any recommended changes to the City's Investment Policy and Procedures to Council during the second quarter of 2008.

Leasing Policy

The Statement of Lease Financing Policies was approved by Council at its meeting held on March 1, 2 and 3, 2004.

The following recommendations are contained in the Policy:

- (2) The Chief Financial Officer and Treasurer report to Council, on an annual basis, concerning the financing lease activity and its proportion to the City's total outstanding debt, including a statement certifying that these leases were made in accordance with the City's Statement of Leasing Policies and Goals as well as other items that are deemed to be relevant;
- (3) City Agencies, Boards and Commissions comply with the City's Statement of Leasing Financing Policies.

COMMENTS

Investment Policy

It should be noted for context that the City's cash management and investment program has been successful in achieving its performance objectives compared to its benchmarks while efficiently managing the City's capital market operations and funding obligations. The Corporate Finance Division continues to manage a combined investment portfolio in excess of \$3.0 billion and generates an annual combined investment income of approximately \$160 million, excluding the City's sinking funds which are not consolidated in the City's financial statements.

Presented below are the Corporate Finance Division's comments which correspond to the findings contained in the Ernst and Young report attached as Appendix A:

[a] Maximum Investment Holding Terms Limits Exceeded

Maximum investment holding term limits, namely in provincial and municipal part of the bond fund and the Toronto Trust Fund, were exceeded at various times throughout the year.

Management's Comments:

Terms-to-maturity were exceeded during the year only when an approved province and/or municipality issued a new security that exceeded their traditional term and did not affect the credit quality of the City's bond portfolio. In this situation, a province may issue a bond that has a term-to-maturity for 20 years when the City's investment policy authorizes a 10 year term but staff felt that the 20 year bond would add value to the portfolio. The exceptions were minor and noted and approved by Corporate Finance's management.

In 2006, 306 bond purchases were completed and 3 purchases were in non-compliance with the policy, representing 1% of the total purchases. In dollar terms, \$3.0 Billion was invested during the year and \$19 million was judged to be in non-compliance because the term-to maturity of the investments exceeded the maximum term of 30 years by approximately 10 months. In each case, the securities were held for several months and sold during 2006, earning a capital gain on each sale.

The Investment Policy will be updated and amended in 2008 to reflect the investment regulations that are part of the City of Toronto Act and will incorporate new term limits for securities where appropriate.

[b] Maximum Investment Holding Percentages by Issuer

Maximum investment holding percentages by issuer limits was exceeded by one fund during the year.

Management's Comments:

The Sinking Fund exceeded the Province of Quebec issuer limits and the situation was rectified within a week after it occurred and was documented by Corporate Finance management.

In addition to the above, the City of Toronto's Investment Policies and Procedures are to apply to all investments made on behalf of the City of Toronto and its agencies, boards and commissions. As at December 31, 2006, the City of Toronto has not obtained confirmation from one entity with respect to its compliance.

Management's Comments:

Corporate Finance has now received confirmations from the appropriate Agencies, Boards and Commissions who have stated that they were in compliance in 2006 with the City of Toronto's Investment Policy:

- Toronto Board of Health
- Exhibition Place
- Toronto Parking Authority
- Toronto Library Board
- Toronto Police Services Board
- Toronto Transit Commission (TTC)

Toronto Zoo
Toronto Economic Development Corporation (TEDCO)
Hummingbird Centre

Leasing Policy

The above ABC's provided Corporate Finance with a statement confirming that they were in compliance with the City's Statement of Lease Financing Policies as approved by Council on March 1, 2 and 3, 2004 during 2006.

The City did not engage in any financing leasing activity during 2006.

CONCLUSION

Ernst & Young's audit findings and recommendations and the Deputy City Manager and Chief Financial Officer's comments contained in this report will improve control over the City's investments and provide for appropriate reporting to Council.

CONTACT

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SIGNATURE

Joseph P. Pennachetti
Deputy City Manager and Chief Financial Officer

ATTACHMENT

Appendix A – Auditor's Report on Compliance with Investment Policy, City of Toronto, Year Ended December 31, 2006

Appendix A

AUDITORS' REPORT ON COMPLIANCE WITH INVESTMENT POLICY

To the **City of Toronto**

We have audited the **City of Toronto's** compliance for the year ended December 31, 2006 with the criteria established by governing legislation and the City of Toronto's Investment Policy and Procedures, dated May 2004, as approved by City Council in June 2004. Compliance with the criteria established by the governing legislation and the provisions of the policy is the responsibility of management of the **City of Toronto**. Our responsibility is to express an opinion on this compliance based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the **City of Toronto** complied with the governing legislation and the criteria established by the provisions of the policy referred to above. Such an audit includes examining, on a test basis, evidence supporting compliance, evaluating the overall compliance with the governing legislation and the policy, and where applicable, assessing the accounting principles used and significant estimates made by management.

In our opinion, because of the deviations described in the note for the year ended December 31, 2006, the **City of Toronto** is not in compliance, in all material respects, with the governing legislation and the City of Toronto's Investment Policy and Procedures, dated May 2004, as approved by City Council in June 2004.

Ernst & Young LLP

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March 30, 2007

COMPLIANCE DEVIATIONS WITH CITY OF TORONTO'S INVESTMENT POLICY AND PROCEDURES

In conducting our audit of the City of Toronto's compliance for the year ended December 31, 2006 with the governing legislation and the City of Toronto's Investment Policy and Procedures, dated May 2004, as approved by City Council in June 2004, we randomly tested investments throughout the year and identified the following exceptions:

[a] Maximum Investment Holding Terms

Maximum investment holding term limits, namely in the provincial and municipal part of the bond fund and the Toronto Trust Fund, were exceeded at various times throughout the year.

[b] Maximum Investment Holding Percentages by Issuer

Maximum investment holding percentages by issuer limits was exceeded by one fund during the year.

In addition to the above, the City of Toronto's Investment Policies and Procedures are to apply to all investments made on behalf of the City of Toronto and its agencies, boards and commissions. As at December 31, 2006, the City of Toronto has not obtained confirmation from one entity with respect to its compliance.

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