

2008 Investment and Leasing Policy Compliance

Date:	January 26, 2010
To:	Audit Committee
From:	Deputy City Manager and Chief Financial Officer
Wards:	All
Reference Number:	P:\2010\Internal Services\Cf\Ac10008Cf (AFS #11004)

SUMMARY

To respond to the audit opinion and the auditor's comments contained in the report, "Auditor's Report on Compliance with Investment Policy 2008" and to comply with the City's Statement of Lease Financing Policies which requires confirmation that the City's Agencies, Boards and Commissions have complied with the City's investment and leasing policies during 2008.

Financial Impact

There is no financial impact resulting from this report.

DECISION HISTORY

On an annual basis, as required by the City's Investment Policy, the City's external auditor, Ernst and Young, conducts an Investment Compliance Audit on the City's investment portfolios.

ISSUE BACKGROUND

Investment Policy Compliance

The Investment Policy and Procedures approved by Council in January 1998 and revised in June 2004 and February 2009 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 the Corporate Finance Division to the recommendations arising from the 2008 Compliance Audit.

Leasing Policy Compliance

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:

1. 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.
2. City Agencies, Boards and Commissions comply with the City’s Statement of Leasing Financing Policies.

COMMENTS

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 industry benchmarks while efficiently managing the City's financial market operations and fulfilling its funding obligations.

The Corporate Finance Division continues to manage a combined investment portfolio in excess of \$3.5 billion, excluding the City’s Sinking Fund, and generates annual investment income of \$160 million which is allocated between non-program revenue in the operating budget and reserve funds. On an annual basis, the investment function generates approximately 1,600 transactions.

Regarding the points that are raised in Ernst & Young’s Management Letter and Audit Opinion, it is noted that the issues have been resolved during 2008 and 2009 and the revised City’s Investment Policy, approved by Council at its meeting held on February 23 and 24, 2009, addresses and should resolve the issues raised by Ernst & Young on a go-forward basis.

Ernst & Young’s 2008 Audit Opinion

1. Maximum Investment Holding Terms

- Maximum investment holding terms were exceeded in the Bond Fund and the Toronto Trust Fund at various times during the year.

Management's Comments:

- The Bond Fund held a bond issued by the Province of Saskatchewan - book value \$5,041,000 (0.18% of portfolio). The approved issuer term limit was 30 years which was exceeded by less than 2 years and the bond was held for 2 months and sold in 2008.
- The Bond Fund held a Senior Deposit Note issued by Bank of Montreal – book value \$2,998,830 (0.11% of portfolio). The approved issuer term limit was 10 years which was exceeded by 1 week at the time of purchase.
- The Toronto Trust Funds held a security with a maturity value of \$2,000,000 issued by CIBC with a maturity date of Jan 1, 2034. This security was purchased in 1984 at the request of the then Commissioner of Finance and approved by City Council. The purpose was to dedicate \$20,000 in 1984 to purchase a security to mature on January 1, 2034 for the celebration of the 200th anniversary of the City. CIBC, its assignors and successors, guarantee payment of both principal and interest on maturity. Management believes exceptions approved by Council supersede the Investment Policy approved by Council. This now-compliant item will not be an issue going forward due to the revised Investment Policy approved by Council in 2009.

2. Maximum Investment Holding Percentages By Issuer

Maximum investment holding percentages by issuer limits were exceeded in the Sinking Fund at various times during the year.

Management's Comments:

- No additional investments had been made in the Province of Quebec and Hydro Quebec bonds since December 2006 and the over-limit situation was re-mediated in 2009.
- The Province of Ontario was over limit by 1.13% of the portfolio in 2008. The over limit was re-mediated in May 2008.

3. Minimum Credit Ratings

Investments purchased in the Bond Fund did not meet the minimum credit rating during the year.

Management's Comments:

- One investment, a City of Quebec bond, did not meet the City's Investment Policy's credit rating criteria since it is not rated by the credit rating agencies. The bond was held for 4 months and sold in 2008.

ABC's Compliance with the City's Investment Policy and Lease Financing Policies During 2008

Corporate Finance has now received confirmations from the appropriate Agencies, Boards and Commissions, below, who have stated that they were in compliance during 2008 with the City of Toronto's Investment Policy and confirming that they were in compliance during 2008 with the City's Statement of Lease Financing Policies as approved by Council on March 1, 2 and 3, 2004.

- 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)
- Sony Centre

The City did not engage in any capital leasing activity during 2008.

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SIGNATURE

Cam Weldon
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ATTACHMENTS:

Attachment 1: Ernst & Young Auditors' Report on compliance with Investment Policy
Attachment 2: Ernst & Young Management Letter