



OFFICE OF THE
City Auditor

Debenture Servicing Audit

Follow Up

June 28, 2007

The Office of the City Auditor conducted
this project in accordance with the
*International Standards for the
Professional Practice of Internal Auditing*

Debenture Servicing Audit

Follow-up

1. Introduction

The OCA performed a follow-up review to determine the current status of two recommendations contained in the Debenture Servicing Audit report which was issued on February 24, 2006. The review was limited to the action taken by the Treasury Management unit to address these recommendations.

We concluded that both recommendations contained in the original report have been completed in a satisfactory manner.

2. Background

2.1. Summary of Original Report and Actions Taken

The City of Edmonton utilizes two types of debentures: private issues and public issues.

Private Debenture Issues

Private Issues are debentures primarily issued to the Alberta Capital Financing Association (ACFA), the Receiver General for Canada, the Provincial Government of Alberta, or the Canada Mortgage and Housing Corporation. Private Issue debentures are issued or sold, under the direction of the City Treasurer, as authorized by City Council. Authority to pass debenture bylaws for capital borrowing comes from the Municipal Government Act.

Public Debenture Issues

Public Issues are City of Edmonton debentures which have been issued and sold to the public. As with private issues, the proceeds from the public issue debentures have been used to pay for the construction of Capital Projects, such as the Genesee Power Plant. These debentures were issued under the same authority as private issues. When Public Debentures were issued, the Treasury Section coordinated the entire process and ensured that all authorizing documents (such as certified copies of the bylaw contracts and an original debenture register) were in place. Treasury then initiated the Debenture Transfer process within the Debenture Tracking System (DTS). The last public debenture was issued in 1993 and those debentures mature on September 14, 2018.

In our original report we recommended that the Treasury Management improve internal controls over the following areas:

Vault Security

The OCA visited the vault to check for physical security of un-issued blank debenture certificates. We observed that very good security access controls are in place.

We sampled bundles of un-issued blank certificates for condition and numerical sequencing. All certificates sampled were found to be in chronological sequence and no anomalies detected. However we noted a significant inventory of un-issued blank certificates (fully registered) stored in the vault. These certificates require signatures and denominations in order to be completed and, as an extra control, the personnel who are authorized to sign the certificates do not have single access to the vault to physically obtain the certificates. The OCA and Administration agreed that it would be best to minimize the significant inventory of un-issued certificates. Decreasing the inventory of un-issued certificates will mitigate potential risks of certificates being lost or stolen.

Recommendation # 1 - Complete

The OCA recommends that Treasury management minimize the quantity of un-issued certificates in inventory.

On March 28, 2007 we witnessed the destruction of 8,783 un-issued debenture certificates representing the excess number of certificates in inventory.

Confirmation of Outstanding Debentures

The OCA forwarded confirmation letters to all public issue debenture holders listed on the Debenture Tracking System. The letters required the debenture holder to confirm the amount, address and account directly with the OCA. Eighty-two percent of debenture holders responded to the confirmations, accounting for ninety-nine percent of the outstanding debenture balance in the amount of \$ 568,411,000. However, we noted six adjustments were required. These adjustments consisted of five address changes and one account number change. There were no adjustments related to outstanding dollar balance.

Recommendation # 2 - Complete

The OCA recommends that the Treasury Section take the appropriate action to update the Debenture Tracking System (DTS) database with the changes received from the debenture holders.

We reviewed the documentation on February 21, 2007 to confirm that the Debenture Tracking System database was updated to reflect accurate information about the debenture holders.

3. Conclusion

The two recommendations were completed in a satisfactory manner. These recommendations covered key areas within the Treasury Management unit, including debenture certificate inventory and debenture tracking. As a result the control environment has improved since the original report was issued on February 24, 2006. We thank all City staff who participated in this follow up review for their support, cooperation and feedback.