SUBJECT: Follow Up of Audit Report 2005-06 – Accounts Payable (CM08001) (City Wide)

RECOMMENDATION:
That Report CM08001 respecting the follow up of Audit Report 2005-06, Accounts Payable, be received.

Ann Pekaruk
Director, Audit Services
City Manager's Office

EXECUTIVE SUMMARY:
Audit report 2005-06, Accounts Payable, was originally issued in September, 2005 and management action plans with implementation dates were included in the report. In October, 2007, Internal Audit followed up the report to determine that appropriate and timely actions had been taken. Regarding the implementation of the twenty-eight (28) recommendations made in the original report and Addendum, eighteen (18) have been completed, three (3) had alternative plans implemented, one (1) is no longer applicable and three (3) are either initiated or in progress. Three (3) remained incomplete at the time of the follow up work.

BACKGROUND:
Audit report 2005-06, Accounts Payable, was originally issued in September, 2005. The report indicated twenty-eight (28) recommendations to strengthen the controls, improve system security, enhance payment processing practices and provide for efficient cheque handling and printing processes.
BACKGROUND (Continued):

It is normal practice for Internal Audit to conduct follow up reviews within a 12-18 month period following issuance of the original report in order to determine whether action plans committed to by departmental management have been implemented. As there were a large number of recommendations and several with long-range implementation plans, the follow up fieldwork to confirm appropriate actions had been taken was not conducted until October, 2007.

ANALYSIS/RATIONALE:

The report attached as Appendix “A” to Report CM08001 contains the first three (3) columns as originally reported in Audit Report 2005-06 along with an added fourth column indicating Internal Audit’s follow up comments. In addition, three (3) other matters contained in the original Addendum have been followed up and commented upon.

Eighteen (18) of the recommendations have been fully implemented. The completed plans include performance monitoring (an exceptional correct processing rate evaluated by a third party); changes to systems access; resolution of several vendor file issues; efficiency improvement through EFT payments or inclusion on pay deposits for employees and a reduction in special cheque handling; cheque stock reviews; limited prepayments; reduction in the number of low dollar payments (under $25); and improvement in the EFT processes with better segregation of duties, security lockout, written procedures and protection of vendor information.

Alternative plans were implemented for the follow up of long outstanding charges and credits; ensuring the taking of discounts offered by applicable vendors; and the review of the daily Proof Reading Report before cheques are actually printed.

Incomplete recommendations include: no software solution for the early electronic capture of invoices and workflow approval due to the delay in the corporate electronic document records management system; no system for regular purge routines for vendor files (RFP was not acted upon); and no action on change order authorizations.

ALTERNATIVES FOR CONSIDERATION:

Not applicable.

FINANCIAL/STAFFING/LEGAL IMPLICATIONS:

Financial
None.

Staffing
None.

Legal
None.
POLICIES AFFECTING PROPOSAL:
None.

RELEVANT CONSULTATION:
The results of the follow up were discussed with Accounts Payable staff and management.

CITY STRATEGIC COMMITMENT:
By evaluating the "Triple Bottom Line", (community, environment, economic implications) we can make choices that create value across all three bottom lines, moving us closer to our vision for a sustainable community, and Provincial interests.

Yes ☐ No ☑ [Community Well-Being is enhanced.]

Yes ☐ No ☑ [Environmental Well-Being is enhanced.]

Yes ☑ No ☐ [Economic Well-Being is enhanced.]

City Council’s strategic commitment to “Best Practices – Best Value” under “A City That Spends Wisely and Invests Strategically” is addressed through audits and reviews and their subsequent follow up to ensure controls are in place to protect the assets of the City and promote efficient, effective and economic services and programs.

Yes ☐ No ☑ [Does the option you are recommending create value across all three bottom lines?]

Yes ☐ No ☑ [Do the options you are recommending make Hamilton a City of choice for high performance public servants?]
# OBSERVATIONS OF EXISTING SYSTEM | RECOMMENDATION FOR STRENGTHENING SYSTEM | MANAGEMENT ACTION PLAN | FOLLOW UP (October 2007)
---|---|---|---
1. Performance Monitoring. Although the City of Hamilton is a participant in the OMBI initiative requiring benchmarking of particular Accounts Payable related items for several municipalities, there is currently only one output factor shown for the Accounts Payable section in the Corporate Services 2004 budget. It is the number of invoice/expense reports processed. This output factor gives very little indication of the efficiency or effectiveness of the section. As well, there are no daily/weekly/monthly reports provided to either the Manager, Business Applications or the Director, Financial Services. Periodic reporting to management may provide more accurate and timely decision making required to ensure the safeguarding of assets, the efficient, effective, and continuous operation of internal controls and the reliability of financial and management information.

That care should be taken when establishing performance goals for this section of the department to ensure that they are activity oriented, measurable and under management’s control. As well, the data must be gathered, assembled and distributed in time to make it useful and at a reasonable cost. More useful outputs may be the number of days between receipt of the invoice and the payment, the amount of discounts lost, the error rate of data input by the section or the volume and reasons for cheque cancellations.

Agreed. Accounts Payable (AP) participates in the OMBI benchmarking initiative by comparing our metrics with other Ontario Municipalities for the following measurements: # of Transactions Lines, cost per Transaction Line, % Total Dollars Saved Annually on Vendor Discounts, Average Age of Invoices Paid. Volumes are reviewed annually as part of a resourcing/budgeting exercise. Errors are monitored as a means of managing staff performance. There are also informal and intermittent reports reviewed on an ad hoc basis such as the annual duplicate payment file analysis, vouchers stuck in process and unposted vouchers. In addition to these intermittent reports currently produced, reports will be developed including, but not limited to, exception reports outlining duplicate invoice number, number of days paid over 30 days, credits not taken and cheques not issued but due. The formalized reports and review schedule will be developed by December 31, 2005.

Completed. In May 2006, a disbursements audit was performed by an outside consultant to identify payment errors and the associated control weaknesses which may have caused the errors. The period reviewed included disbursements from January 2003 through November 2005. As indicated in the consultant’s report, 99.996 percent of the transactions and 99.997 percent of the total dollars disbursed were processed correctly. The review concluded that the accounts payable area was very well managed and controlled. According to the Manager of Business Applications Support, the same review will be tendered for the period of 2006/07.

In addition, a number of reports are generated from PeopleSoft and reviewed by the Procurement & Disbursement Analyst periodically, including Credits Not Taken (monthly), Cheques Not Issued But Due (Weekly) and Cheques Cancelled (Weekly).
## OBSERVATIONS OF EXISTING SYSTEM

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<th>Payment Processing Practices</th>
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<td>Vendor invoices are not logged upon receipt by the Accounts Payable section. Once stamped as received, vendor invoices are forwarded to the various operating areas throughout the organization for approval, making tracking of the invoices very difficult if queries arise and accrual recognition not feasible. Goods/services can therefore be receipted based on the invoiced quantity rather than an appropriate receiving record.</td>
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## RECOMMENDATION FOR STRENGTHENING SYSTEM

That, in order to ensure accountability for invoices received and in order to have immediate accrual recognition for management decision making, management continue investigating a workflow driven process whereby invoices are entered into the PeopleSoft system at the time they are received with subsequent approval taking place.

## MANAGEMENT ACTION PLAN

Agreed. Management has actively investigated software solutions that would allow early electronic capture and workflow approval of invoices. AP will continue to pursue a solution. This is a large project and will be on the long term work plan for the next 2 to 3 years.

## FOLLOW UP (October 2007)

Agreed. AP will review processing of various types of invoices and see if we can eliminate some of the paper flow. There has been reluctance from the operating departments to process approvals without the paper invoice, but AP will work with staff to determine if some paper flow can be eliminated. Scanning of invoices after payment, which is a project currently being procured, should help to eliminate the need of departments to receive hard copies for PO type invoices. Direct payment invoices do not have the required information on them for AP to process. Thus, part of this exercise would be to reinforce with F&A staff and departmental staff the need to requisition before ordering goods, not after invoice is received.

Incomplete. The Electronic Document Records Management System (EDRMS), a system used for scanning invoices after payment, is still under review. As a result, the Information Technology Strategic Team (ITST) has put off the pursuit of a software solution in the Accounts Payable section which would allow early electronic capture and workflow approval of invoices.

Initiated. A new way of processing invoices has been piloted with one vendor, Buntin Reid (BR), since June 2007. If this pilot project is successful, Accounts Payable section will look at expanding this payment method to other vendors.
### Payment Processing Practices (Cont’d)

Vendor Statements are neither retained by the Accounts Payable clerks following their review nor reviewed by the Supervisor of Accounts Payable. Therefore, outstanding vendor invoice amounts may not be addressed in an appropriate and timely manner. In a sample of seven (7) vendor statements reviewed, none of the Accounts Payable clerks had backup documentation regarding follow up action or could recall having performed a review. The statements selected in the sample had invoice dates that were at least 5 months old including one dated June 2003 and a credit dated October 2001. Based on the length of time the invoices had been outstanding, it would seem likely that statements previously received would have listed the same invoices as outstanding and should have been investigated.

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<th>#</th>
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<th>MANAGEMENT ACTION PLAN</th>
<th>FOLLOW UP (October 2007)</th>
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<td>2.</td>
<td>Payment Processing Practices (Cont’d)</td>
<td>That vendor statements be retained if invoices listed have been outstanding for more than 3 months to ensure some follow up is undertaken. A periodic spot check should be conducted by the Supervisor, Accounts Payable, to ensure some effort to eliminate the long outstanding amounts is being made.</td>
<td>Agreed in principal. However, the lack of resources prevents this process from being done on an ongoing basis. In order to analyze, follow up and resolve old statement items effectively, Accounts Payable would likely require one additional full time staff. Currently statements that are received separately from invoices are reviewed by staff and are periodically reviewed by the Supervisor. Attempts are made to track down the missing paperwork and forward it to the Departments, as time permits. Some statements are mailed directly to the F&amp;A staff in the respective departments. F&amp;A staff have indicated that old items are followed up and resolved. Effective immediately, AP will implement a follow up process for the oldest items and any credit items.</td>
<td>No changes on the limitation of staff resources. Alternative implemented. Periodically, long outstanding items as communicated by the vendors are sent to the respective departments by the Supervisor of Accounts Payable. Follow-up emails also are sent if the departments do not respond within a reasonable period of time.</td>
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### Appendix “A” to Report CM08001
FOLLOW UP – OCTOBER 2007

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<td>3.</td>
<td>Systems Access&lt;br&gt;At the time of the audit, there were a number of individuals with PeopleSoft systems access identified as inappropriate by Internal Audit for the following reasons:&lt;br&gt;• A lack of appropriate segregation of duties.&lt;br&gt;• An individual no longer employed by the City.&lt;br&gt;• Individuals no longer performing the duties for which the access was given.&lt;br&gt;• User IDs that were originally set up for testing purposes that are no longer used.&lt;br&gt;• User IDs that were originally set up for temporary staff that are no longer required.&lt;br&gt;Accountability for the processing of invoices and generation of payment is compromised without a proper segregation of duties and/or unassigned or inappropriate User IDs. Invoices may be processed and payments generated by individuals unauthorized to perform such functions.</td>
<td>That the systems access changes discussed at the time of the audit be implemented. Access to the accounts payable module of the PeopleSoft system should be reviewed on a periodic basis by the Supervisor, Accounts Payable, to ensure the appropriateness of the user profiles.</td>
<td>Agreed. All requested changes have been made to security. The Supervisor of AP will notify PeopleSoft support of staff changes and required security changes. PeopleSoft support will review security profiles with the Supervisor of AP periodically to ensure the profiles correctly reflect any system or business process changes. Further, Information Technology (IT) will be requested to run access listings for all systems annually and distribute to appropriate areas for corrections and confirmation of current users.</td>
<td>Completed. The required system access changes identified during the original audit were implemented. The most recent review of access rights to the accounts payable module in PeopleSoft was carried out in September 2007. According to the Manager of Business Applications Support, this review will be done annually.</td>
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<td>4.</td>
<td>Vendor File&lt;br&gt;There is no purge routine in place for the vendor file. As such, there are approximately 22,500 lines of vendor IDs with statuses of “one time”, “archived” and “inactive”. Without a purge routine, the file is cumbersome to review and manage. Payment errors could result where multiple records exist for a vendor. Also see #5 below.</td>
<td>That a purge routine be put in place as soon as possible and run on a regular basis (i.e. at least annually). The vendor file would be maintained at a manageable size and could be more easily reviewed and kept up to date.</td>
<td>Agreed. Purging records from AP tables is a complex process as many interdependencies exist between records. The PeopleSoft Co-ordinating Committee is currently looking at archiving solutions. An RFP has been issued for an archive project.</td>
<td>Incomplete. Responses to the RFP noted in the Management Action Plan were received but the PeopleSoft Co-ordinating Committee did not proceed further. The Manager of Business Applications Support has pointed out the possibilities of developing archiving solutions in house using PeopleSoft tools will be initiated by 2008.</td>
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## OBSERVATIONS OF EXISTING SYSTEM

5. The vendor file is one of the main control points of the Accounts Payable system as it invokes the ability to generate a payment. Without proper monitoring of the file and diligence in maintaining it, duplicate payments can occur.

A number of deficiencies were noted during the review of the vendor file. These include:
- a vendor is given more than one vendor identification number;
- vendors with the different names but the same address are not detected (potential bid rigging may not be flagged for the Purchasing section); and
- incomplete addresses are allowed to be entered such as box numbers only (fictitious vendors can be created);
- vendors used are found to be current or past employees where Human Resources' policies, in terms of VEP and VERP, are contravened (the City’s principles of neutrality and fairness may be compromised).

As well, there may be overall inefficiencies in the processing and generation of payments and as such, ineffectiveness of the section as a whole. See also #4 above.

Although no duplicate payments were found during the audit testing, examples of each of the above shortcomings were noted at the time of the review.

## RECOMMENDATION FOR STRENGTHENING SYSTEM

That clear, written and verbal direction should be given to the Vendor Clerks as to processes to be followed when setting vendors up on the vendor file, as well as maintaining the file. These should include the process of determining if the vendor already exists on the file, if a similar but slightly different vendor is on the file, what vendor statuses are appropriate for various situations and the authorization and documentation required for setting up a new vendor or changing pertinent information.

That all vendors should be required to provide a physical address even if the default address is to a post office box number.

That the Culture and Recreation (C&R) division discontinue the use of the vendor identified by Internal Audit in order to comply with the current Human Resources Eligibility for Re-employment Policy.

## MANAGEMENT ACTION PLAN

Agreed. Written procedures are in place for vendor set up. They have been modified/clarified to address the issues of similar/duplicate vendors. The vendor set up clerk is reviewing the vendor file prior to opening up a new vendor. The vendor clerk and the Supervisor will work more closely with Departments that request variations of vendors already set up in PeopleSoft.

Agreed. AP staff and the AP Supervisor will inform staff requesting vendors that this information is now required for vendor setup. It should be recognized that the addresses received from special interest groups may not be the permanent address of the organization but of a representative of the organization such as the Treasurer.

Agreed. C&R were informed of this situation on March 7, 2005. A notice was sent to staff informing them not to use this contractor on March 9, 2005. C & R understood that the Help Desk was actually calling this contractor to do work on Culture and Recreation’s behalf. This contractor will not be used in future

## FOLLOW UP (October 2007)

Completed. Written procedures have been modified to address the issues of similar or duplicate vendors. Since the audit, the vendor set up clerk has been instructed to ensure there is no existing record in PeopleSoft before setting up any new vendors.

Completed. Subsequent to the audit, the vendor set up clerk started requesting a physical address if the new vendor’s information originally provided only had a post office box number.

Completed. This vendor has not been used since October 2005.
6. Cheque Handling  
Cheque handling codes can be applied to a vendor’s profile in the PeopleSoft system or can be entered at the time an invoice is processed. This code will direct the printed cheque to the mail room or to a department/division/section. A “pull sheet” can also be completed manually to have a cheque directed to an individual. The handling of these cheques three times a week is estimated to take the individual responsible for the distribution approximately 2-3 hours a day.

1. Payments made to employees by cheque for expenses such as mileage are given a handling code requiring the cheque to be pulled and forwarded through interoffice mail to the individual.

2. It was determined that a number of vendors are receiving multiple cheques through the same day’s cheque run. Invoices processed for the same vendor are normally “rolled” onto one cheque through the PeopleSoft system unless this feature is overridden at the time the payment is entered. One vendor sampled had ninety-seven (97) cheques produced over ten (10) payment dates. Three other sampled vendors used by the same section averaged four (4) cheques on each payment date. Another department section was having multiple cheques issued to the same vendor because the Accounts Payable clerk thought that separate cheques were required due to individual cheque requisitions. It was determined that this was not the case.

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<th>#</th>
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<th>RECOMMENDATION FOR STRENGTHENING SYSTEM</th>
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<td>6.</td>
<td>Cheque Handling</td>
<td>That the Supervisor, Accounts Payable proceed to implement the division’s previously developed process of including all employee payments on their respective bi-weekly pays, thereby eliminating employees from the vendor file.</td>
<td>Agreed. This was addressed by Accounts Payable in 2004 and employee expenses were going to be paid through Payroll. The implementation was delayed until the new policy was reviewed and appropriate notification of the change could be given to all staff. The approval to go ahead has now been given and 100% of employee expenses (including travel advances) will be phased in through payroll reimbursement by December 2005.</td>
<td>Completed. Currently, travel advances are paid via Electronic Fund Transfer (EFT) into employees bank accounts. Other employee expenses such as mileage are now paid through payroll.</td>
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Agreed. That the Supervisor, Accounts Payable proceed to implement the division’s previously developed process of including all employee payments on their respective bi-weekly pays, thereby eliminating employees from the vendor file.

Agreed. That the Accounts Payable section determine which department divisions are requesting multiple cheque creation for the same vendor for the same day’s cheque run and evaluate the necessity of such requirements. Adjustments to processing should be made accordingly.

Agreed. Staff will be advised to bring multiple separate cheque requests to the Supervisor’s attention. The Supervisor and the appropriate Business Administrator will evaluate the necessity of multiple cheque requests. AP staff will be advised not to use special handling codes on cheque requisitions unless specifically requested on the form.

Completed. Accounts Payable staff has been advised that no special handing codes should be added unless specifically noted on cheque requisitions. Upon receipt of these requests, Accounts Payable staff now discuss them with the Supervisor of Accounts Payable before processing them in PeopleSoft.
## Observations of Existing System

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<thead>
<tr>
<th>#</th>
<th>Observations of Existing System</th>
<th>Recommendation for Strengthening System</th>
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<th>Follow Up (October 2007)</th>
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<td>6.</td>
<td>Cheque Handling (Continued)</td>
<td>That the number of cheques created for the Provincial Offences Office be decreased. As well, the pre-printed cheques should be picked up in order to minimize the risk of loss or misappropriation. Once received, an inventory of the cheques should be maintained with the oldest cheques being used first.</td>
<td>Agreed. An inventory of all cheques received for filing of certificates of default has been established which identifies cheque number, invoice number, cheque date, date certificate of default filed, court file number, name of debtor and debtor id number from the collections (access) database. All future cheque requisition requests will be for 15 cheques instead of 25 to determine if the collection department can manage with a reduced number of cheques per request.</td>
<td>Completed. An inventory log has been established to track the usage of the cheques received for filing of certificates of default.</td>
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<td>3.</td>
<td>The number of pre-printed cheques requested by the Provincial Offences Office for future Certificates of Default appears excessive. In the period reviewed, cheques issued in October and November had been outstanding between seventeen (17) and fifty-two (52) days and twenty-seven (27) cheques issued December 15, 2004 were still outstanding March 16, 2005 (91 days). The dollar value of each cheque ($25) is minimal. However, they are sent in interoffice mail and an inventory record is not maintained for cheques received, on hand and used by the Provincial Offences Office. For each cheque produced, there is a cost associated with processing the cheque, handling the cheque by Accounts Receivable (production of the cheque), Accounts Payable operational staff in cases where the cheque is returned to the department, mailing it and the reconciliation of the cheques by the Accounting Services section. When cheques are handled multiple times, the efficiency and effectiveness of a number of department sections is affected. As well, when cheques are returned to the originating area there is an increased opportunity for the diversion of legitimate cheques or for fictitious vendor payments to occur whereby a legitimate mailing address is not required.</td>
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<td>7.</td>
<td>Discounts</td>
<td>It was determined that, in 2004, there were four (4) vendors that accounted for greater than 90% of payments made to vendors offering discounts. Based on limited sampling, it appears that the lost discounts totalled approximately $18,500 for 2004. The City needs to realize savings available in the purchase of goods/services. Even though the amount is not significant, with three (3) cheque printing and electronic funds transfer cycles each week and the ability to generate cheques outside of the cycle periods, discounts should readily be realized.</td>
<td>That the Accounts Payable section develop a list of frequently used vendors offering discounts. When invoices are received in Accounts Payable, they should be perused and these particular discounts highlighted to bring attention to them by the receiving department when sent. For a period of time, Accounts Payable should keep track of discounts available and lost based on the above process. Where practical, consideration should be given to setting these vendors up for electronic funds transfers in order to alleviate delays caused by the postal system.</td>
<td>Disagreed. AP does not have the resources to read all invoices and highlight discounts. This solution would not necessarily improve processing time of the invoices. As an alternative, effective immediately, a list of frequently used vendors offering discounts will be compiled and distributed to AP Clerks so they can give these invoices high priority for input. In addition, over the past year, AP has been actively soliciting vendors to sign up for EFT. Since 2005, the new RFP/Tenders front end mandates the use of EFT, if the City deems appropriate. Vendors offering discounts will specifically be encouraged to use EFT. AP will work with Purchasing to try to ensure operating departments are aware of vendors with discounts available in order for these invoices to be processed by them in a timely fashion. Effective immediately, the AP Supervisor will also evaluate those vendors with lost discounts and work with the F&amp;A staff and the operational departments to find an appropriate solution to ensuring that discounts are realized in the future.</td>
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<td>8.</td>
<td><strong>Cheque Printing</strong>&lt;br&gt;The Supervisor, Accounts Payable, does not perform any review of pending cheque payments for unusual amounts, payees, etc., prior to the cheque printing process.</td>
<td>That the Supervisor, Accounts Payable peruse the payment file prior to cheques being printed. This review could include unusual amounts such as even dollar values, unusual payees including accounts payable staff and large dollar amounts.</td>
<td>Disagreed. AP believes that the benefits arising from a perusal of this file would be negligible compared to the time required to perform such a task. AP estimates that if 100% of transactions were reviewed, it would likely require an additional half of a full-time complement.</td>
<td>No changes on the disagreement.</td>
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<td>Alternative implemented. The Supervisor of Accounts Payable currently reviews the Accounts Payable Daily Proof Reading Report on a random basis before the cheques are printed. The review of payments made to Accounts Payable staff is no longer considered necessary as travel advances are now paid via Electronic Fund Transfer (EFT) into employees' bank accounts and other employee expenses such as mileage are now paid through payroll. In addition, the vendor accounts created in PeopleSoft for Accounts Payable staff have been inactivated.</td>
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# OBSERVATIONS OF EXISTING SYSTEM

9. The cheque printing process is currently the responsibility of the Accounts Receivable Analyst. The documentation process with respect to the inventory of blank cheque paper, control numbers used, express ("rush") cheques produced and damaged cheques appears adequate and diligently maintained. However, there is virtually no secondary review of the record keeping. Further, the Accounts Receivable Analyst, at his own discretion, hand delivers some cheques to staff at City Hall as well as to others based on requests received via e-mail or by phone. These cheque numbers are recorded on both the Insertion Log sheets provided to the mailroom staff and a memorandum provided to the Accounting Services Clerk II responsible for handling other cheques. Normally cheques requiring special handling are flagged as such in the vendor file, or a "pull sheet" is completed when payments are processed by the Accounts Payable section indicating that there are special handling instructions. Without some supervisory review, it is possible that cheque stock could be misappropriated and used for illicit purposes. As the same person with access to the blank stock paper also prints the cheques, the risk of a printed cheque with the appropriate authorizing signatures being used for fraudulent purposes exists.

## RECOMMENDATION FOR STRENGTHENING SYSTEM

- That the Supervisor, Accounts Receivable, perform surprise, periodic reviews of the cheque stock and supporting documents. Records reviewed should be initialed for accountability purposes.
- That the Accounts Receivable Analyst discontinue the practice of hand delivering cheques. Only cheques selected for special handling through the established vendor handling codes or pull sheets with a City Hall delivery request by Accounts Payable should be delivered by the Accounts Receivable Analyst.

## MANAGEMENT ACTION PLAN

- Agreed. The Supervisor, Accounts Receivable (AR), will begin to review records periodically and initial them.
- Agreed. Effective immediately, the AR Analyst will stop pulling cheques and the affected employees will be advised of the change in practice.

## FOLLOW UP (October 2007)

- Completed. The Supervisor of Accounts Receivable now performs a surprise review twice a year and initials the records as evidence of review.
- In Progress. Currently, the Accounts Receivable (AR) Analyst only pulls out cheques with special handling codes and special requests from the cheque requisitioners. Details of the pulled cheques are recorded in a memorandum which is signed by the AR Analyst and forwarded to the Accounts Payable Vendor Clerk. Accountability has been enhanced by a paper trail of pulled cheques whose custody lies with the Accounts Receivable Analyst.
## OBSERVATIONS OF EXISTING SYSTEM

**10. Journal Dates vs. Invoice Dates**

A sample of eleven (11) invoices was selected from those processed during the months of October and November 2004 with journals that were dated earlier than the invoice dates. The journal is generated the night following the invoice processing. Four (4) of the invoices had been processed prior to services being rendered, two of which also had cheque creation/payment dates prior to services being rendered. One of the sampled invoices was appropriately approved on the first day of November at which time the services were rendered. However, the Accounts Payable clerk processed the payment as October 31st. The Supervisor of Accounts Payable confirmed that this was inappropriate.

By processing invoices prior to the date services are rendered or goods received, there is a risk that goods/services that were either unsatisfactory or not delivered may be paid for.

## RECOMMENDATION FOR STRENGTHENING SYSTEM

That the Accounts Payable section remind operating areas that invoices should not be approved prior to goods being received or services rendered. As well, Accounts Payable clerks should be reminded that invoices should be processed in the month in which goods/services are received.

## MANAGEMENT ACTION PLAN

Agreed. AP will inform the operating areas which, in the past, encouraged this practice, that they should communicate to their vendors that prepayments will no longer be made.

## FOLLOW UP (October 2007)

Completed. The audit follow up work performed by Internal Audit indicated that operating areas are no longer prepaying vendors except in instances where prepaying seems reasonable such as rents (paid at month end for the subsequent month and recorded as a prepaid) and training registration.
### Electronic Funds Transfers

Approximately $250 million of payments generated through the Accounts Payable section are made through electronic funds transfers (EFT's) annually. These are routinely performed three times per week through the Royal Bank website. There are three (3) individuals in the Accounts Payable section with knowledge of the website password one of which is the Supervisor, Accounts Payable. This Supervisor also has a PeopleSoft access level referred to as a “super user” that allows her to set up a vendor, process a payment, and generate the electronic funds transfer. She does not typically perform EFT's but has the capability of doing so.

The clerk that performs the EFT's as part of her regular duties and her backup have PeopleSoft access to process a payment and make the transfer, but are unable to set up a new vendor. However, both individuals are set up on the vendor file under their own names.

The above concentration of duties provides for the opportunity for the misappropriation of City funds.

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<th>#</th>
<th>OBSERVATIONS OF EXISTING SYSTEM</th>
<th>RECOMMENDATION FOR STRENGTHENING SYSTEM</th>
<th>MANAGEMENT ACTION PLAN</th>
<th>FOLLOW UP (October 2007)</th>
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<tbody>
<tr>
<td>11</td>
<td>Electronic Funds Transfers</td>
<td>That the function of performing electronic funds transfers be removed from the Accounts Payable section and administered by the Accounts Receivable Analyst. This individual is currently performing the cheque printing function. As an alternative, the web password should be changed and remain unknown to the Supervisor, Accounts Payable.</td>
<td>Agreed. This duty will be transferred to AR September 30, 2005. Security for performing EFT in the production environment will be taken away from AP staff.</td>
<td>Completed. The function of performing electronic funds transfers has been carried out by the Accounts Receivable (AR) Analyst and his back up since the fall of 2006. Individual user names and passwords which are not accessible to anyone else have been set up for the AR Analyst and his back up.</td>
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<td>Under the current EFT parameters, there is a daily transfer limit of $13 million available. Overdraft protection of $35 million is provided on the bank account used to process EFT transactions. The City’s Crime Insurance coverage for fraudulent acts is in the amount of $10 million per incident. There appears to be a mismatch between insurance coverage and the maximum dollar value of a possible misappropriation transaction.</td>
<td>That consideration be given to increasing the amount of crime insurance coverage for fraudulent acts.</td>
<td>Agreed. Risk Management Services (RMS) will be consulting with the City’s insurers in order to obtain a quotation on the expected premium. The process has been initiated and is anticipated to take approximately two to three months. Upon receipt of the premium quote, the additional cost will be weighed against the risk to determine if it is cost efficient.</td>
<td>Completed. The City’s insurer required extensive documentation before providing a quotation. Due to resource constraints and the low risk assessment by the City’s Risk Management Services (RMS), no further work was done to obtain a quotation as RMS believed that the expected additional cost associated with higher crime insurance coverage for fraudulent acts would outweigh the potential benefits derived. Therefore, no change in coverage was considered necessary.</td>
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<td>13</td>
<td>Prior to electronic funds transfers (EFT) being transmitted through the web, a “Smart Card” was used. Currently the card, in the possession of the Accounts Payable clerk responsible for the transmissions and her backup, is used only for the correction of errors on an irregular basis (approximately once per month). In order to send a transmission, both the card password and the password to the PC on which the Payment Manager Administration (EPM) system modem resides are required. Only the Accounts Payable clerk and her backup are aware of these two passwords. This card enables them to make changes to an existing transaction including the bank account and transaction amount. The card has not been setup with a requirement for dual authorization although the feature is available. As well, there is no log sheet maintained for accountability purposes as to who has used the card and on what date.</td>
<td>That the dual authorization function be invoked for “Smart Card” electronic funds transfers, requiring the Supervisor, Accounts Payable, or designate (i.e. the Procurement and Disbursements Analyst or Manager, Business Applications Support) to authorize such transmissions.</td>
<td>Agreed. The dual authorization function for smart cards will be invoked by Sept 30, 2005. The smart card will be retained by the AP Clerk and the authorization password will be retained by the AP Supervisor. A meeting has been set up with the bank representative to investigate other alternative control features.</td>
<td>No longer applicable. The Royal Bank replaced the usage of the smart card with the RBC Express website services in the fall of 2006. Currently, unique user names and passwords have been set up for each individual who has access to RBC Express. The approval capabilities are exclusively granted to the Supervisor of Accounts Payable and the Manager of Business Applications Support while the input functions are assigned to other users.</td>
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<td>14.</td>
<td>The Supervisor, Accounts Payable does not review the PeopleSoft query showing pending electronic funds transfers (EFT’s) prior to transmission to the bank or the Royal Bank reports printed following the transmission.</td>
<td>That the .dat file used to transmit electronic funds transfers to the bank via the web be secured such that changes cannot be made to the file once it is created.</td>
<td>Agreed. Changes to the network security have been made to secure the file.</td>
<td>Initiated. The change to secure the .dat file was made for the individual from Accounts Payable who was responsible for uploading the .dat file to the bank. When the responsibility was transferred to the Accounts Receivable Analyst as mentioned under the follow up comments for audit point #11, the users’ security to the .dat file was set up incorrectly and as such, changes can be made to the file. The Manager of Business Applications Support has confirmed that corrections will be made immediately.</td>
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<td>The Manager, Business Applications Support was not aware if the Royal Bank has incorporated a restriction on the number of login attempts for both the website and the Electronic Payment Manager “Smart Cards”.</td>
<td>That on a periodic basis, prior to the transmission of the .dat file to the bank via the web, the Supervisor, Accounts Payable or designate (i.e. the Procurement and Disbursements Analyst) peruse the PeopleSoft query of pending payments and verify a small sample of vendors to either the hardcopy banking information or the PeopleSoft record.</td>
<td>Agreed. There are controls in place that currently reduce the risk associated with these payments. The total dollar value is balanced and would be detected if the dollar value of a transaction was changed. Due to the change in security to the transfer file as indicated above, access to change the file is not available. AP will do a periodic audit of random transactions to ensure validity. AP will also review any payments made to AP staff. This process will be in place by December 31, 2005.</td>
<td>Completed. According to the Supervisor of Accounts Payable, vendors banking information for electronic funds transfer is reviewed periodically from a .log file, (which contains same information as a .dat file). It is agreed to the hardcopy banking information and the PeopleSoft record. The review is done on line, thus there is no paper trial available at the time of the audit follow up.</td>
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<td>There is no procedure outlining the approval required for changes to users/authorization rights for the three (3) “Smart Cards” that the City possesses.</td>
<td>That Manager, Business Applications Support, ensure that the bank has incorporated a restriction on the number of login attempts for both the website and the “Smart Card”.</td>
<td>Agreed. Bank has been contacted and there is a limit of 3 log-on attempts for both password for the website and the Smart Card pin access.</td>
<td>Completed. According to Client Support Officer from RBC, the RBC Express certificate holder ID will be locked after 5 incorrect login attempts. Smart Cards are no longer used.</td>
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<td>Without supervisory oversight to mitigate the concentration of duties for electronic funds transfers, financial losses may not be found in a timely manner.</td>
<td>That a procedure be written outlining the approval required for changes to users/authorization rights.</td>
<td>Agreed. It has not been necessary to make such changes in the past. However, procedures will be written by September 2005.</td>
<td>Completed. A procedure outlining the approval required for changes in security to RBC Express website services was written up on October 18, 2007.</td>
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<td>Hardcopy banking information received from vendors such as void cheques with bank and branch numbers as well as bank account numbers is retained in an unlocked cabinet at the desk of the Accounts Payable Clerk responsible for electronic funds transfers (EFT’s). This information can also be found in the vendor information area of the PeopleSoft system, accessible to virtually all users of the PeopleSoft system. This information is considered confidential in nature by the Royal Bank. The unauthorized access or use of confidential information entrusted to the City could reduce the public’s confidence in the integrity of the City’s employees and operations.</td>
<td>That access to both hardcopy and electronic confidential vendor information be restricted.</td>
<td>Agreed. The file cabinet housing the hardcopy information is in the process of being secured (lock being repaired). PeopleSoft support will secure the banking information from the general users’ security profile. Only AP employees will have access to view this information.</td>
<td>Completed. The hardcopy confidential vendor information is now kept in a locked file cabinet and the only two keys to the cabinet are kept by the Supervisor of Accounts Payable and the Procurement &amp; Disbursement Analyst from Accounts Payable. Vendors’ banking information in PeopleSoft is only accessible to employees in Accounts Payable section.</td>
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The following items were noted during the course of the audit. Although they do not present internal control deficiencies, they are indicated in this Addendum so management is aware of the errors/issues and can address them.

1. It currently takes the Accounting Services Clerk II approximately 2-3 hours per cheque run (three times per week) to sort and distribute cheques with handling codes other than “regular”, those that have “regular” codes but have multiple advices requiring attachment and those that have “pull sheets”.

   It is recommended:
   That the cheque handling process be examined with the expectation of decreasing the number of cheques requiring special handling. For example, it appears likely that cheques with multiple advices or U.S. cheques with no attachments can be forwarded directly to the City Hall mail room.

   Management Action Plan:
   Transferring all employee expense cheques to the Payroll system by December 31, 2005 will alleviate much of the special handling. Investigation into reducing the special handling of other cheques will begin immediately.

   Follow Up Comment:
   Completed. Travel advances are now paid via Electronic Fund Transfer (EFT) into employees bank accounts. Other employee expenses such as mileage are now paid through payroll. In addition, the Supervisor of Accounts Payable has sent out instructions to the Finance & Administration (F&A) group in order to limit the number of cheques requiring special handling.

2. Out of the 18,959 payments generated during the period October 1 – December 31, 2004, there were 491 vendors that received payments in amounts between $0.22 and $25.00 (142 were less than $10.00) Such payments included parts for the Fleet Services area, refreshments, courier services and highway tolls. Based on the estimated cost of generating a cheque, efforts should be made to keep low dollar value payments to a minimum.

   It is recommended:
   That the Accounts Payable section remind City staff of the cost of generating a cheque. Payment options for small dollar purchases including petty cash, procurement cards and vendor monthly billing, where appropriate, should be considered.

   Management Action Plan:
   When rolling out the new standardized AP stamp through the F&A group during the summer/early fall of 2005, this will be emphasized to both the F&A group as well as the operating departments.

   Follow Up Comment:
   Completed. Based on a PeopleSoft query carried out during the follow up, the number of low dollar value payments has decreased. Specifically, out of the 16,642 payments generated during the period July 1 to September 30, 2007, there were 422 payments less than $25.00, representing 2.5% of the number of payments (compared to 2.6% at the time of audit). There were 75 payments less than $10.00, representing 17.8% of the number of the payments less than $25.00 (compared to 28.9% at the time of audit).

3. When reviewing a vendor statement regarding the purchase of office chairs, it was determined that two (2) chairs had been ordered but three (3) had been invoiced. Through discussions with the Buyer, it was determined that if the requisitioner confirmed that three (3) chairs were received, a change order would be entered against the purchase order with no further authorization required because the purchase was under $5,000.

   It is recommended:
   That consideration be given to modify the $5,000 cut off with respect to change order authorizations for items that are either easily pilfered or might be particularly attractive for personal use.

   Management Action Plan:
   Buyers will be advised that these types of increases must be requisitioned and sent through workflow for appropriate approval.

   Follow Up Comment:
   Incomplete. There is no evidence that the $5,000 cut off pertaining to change order authorizations has been modified or that these types of increases are requisitioned in PeopleSoft and sent through workflow for appropriate approval. Purchasing is currently checking the options available through PeopleSoft so as to address this issue.