REPORT TO: Audit Committee

DATE OF MEETING: September 25, 2023

SUBMITTED BY: Corina Tasker, Internal Auditor, 519-71-2200 ext. 7361

PREPARED BY: Corina Tasker, Internal Auditor, 519-71-2200 ext. 7361

WARD(S) INVOLVED: All

DATE OF REPORT: August 30, 2023

REPORT NO.:   CAO-2023-385

SUBJECT: 3rd Quarter 2023 Audit Status Report

RECOMMENDATION:
For information.

REPORT HIGHLIGHTS:
- The purpose of this report is to provide information regarding recent audits.
- There is one audit included in this report: Accounting and Payroll controls audit.
- Results of the audit were positive, with no fraud detected. However, opportunities for improvement have been identified.
- There are no financial implications.
- Community engagement included this report posted to the city's website with the agenda in advance of the council / committee meeting.
- This report supports the delivery of core services.

EXECUTIVE SUMMARY:
The following report provides a summary of the Internal Audit assurance and consulting services completed during the period of July to September 2023. The table below shows the audits contained in this report.

Division / Topic	Scope
Accounting and Payroll	Controls audit

Consulting work is in progress on the following reviews:
- External billable work orders – process review
- Training Documentation - process review

The results of the Accounting and Payroll audit show that no fraudulent transactions were found during this audit. Recommendations for improvement relate to the following areas:
- Transaction backup was missing in some cases. Staff should be reminded of their responsibility to substantiate all entries.

- One major control weakness was identified in payroll processes which will be addressed by staff.
- One major deficiency was noted in the ability to reconcile the Revenue debit/credit card entries, which will be addressed by staff as they work to find the root cause of the reconciliation issue.

Recommendations aim to strengthen controls and minimize the opportunity for theft.

BACKGROUND:

The overarching goal of internal audit is ***to protect the City's assets and interests.*** This includes, but is not limited to, protecting the long-term health of the organization, its financial and physical assets, its reputation, its ability to perform critical services and the safety and well-being of employees and citizens.

Internal Audit provides assurance and consulting services in accordance with the International Standards for the Professional Practice of Internal Auditing (Standards), IIA 2012. These services are independent, objective activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

- **Assurance services** provide an objective assessment of evidence to provide an independent opinion or conclusions regarding an entity, operation, function, process, system, or other subject matter.

- **Consulting services** are advisory in nature and are generally performed at the specific request of an engagement client. When performing consulting services, the internal auditor should maintain objectivity and not assume management responsibility.

Audit topics are selected independently by the Internal Auditor and approved by Audit Committee on an annual basis. Audit results are brought back to Audit Committee in reports such as this on a quarterly basis as completed.

REPORT:
Accounting and Payroll – Controls Audit
Completed: August 30, 2023

Background:
A comprehensive audit of the Accounting and Payroll sections was completed in 2016. A follow-up audit was conducted in 2019. Part of the audit focused on controls within the financial processes. Audit of just the financial controls was then added to the list of recurring assurance audits. This audit was planned for 2021 but due to a variety of factors including workload, staff vacancies, and system upgrades it was postponed until 2023.

Audit Objective:
The overall goal of this review is to document and test various financial controls to ensure assets are adequately protected from fraud, theft, or error.

Scope:
The following areas are within scope for this review:
- SAP Concur controls and reports
- Field orders and parked invoices
- Journal entries
- Duplicate payments
- Payroll – ghost employees, retroactive adjustments, off-cycle payments, salary changes
- Bank reconciliations
- Emerging risk areas, if any

The following areas are out of scope for this audit:
- Employee expenses (mileage, parking, VISA, petty cash, non-trade payables)
- Execution of any of the recommendations

Methodology:
The following activities were undertaken to complete this review:
- Review of past audit findings and recommendations
- Staff interviews to document current processes and controls and to identify any emerging risks
- Testing of the in-scope areas
- Testing of emerging risk areas, if any

Findings and Recommendations:

SAP Concur Controls
A new software system called SAP Concur has been implemented since the last Accounting audit. It is used for employee expenses, including both out of pocket and corporate VISA expenses, and it replaces the previous paper-based processes. The system has many built-in controls to ensure valid business expenses with appropriate support. If the claim fails any of the control checks it will be automatically flagged and returned to the user for correction.

The claim then gets routed to the employee's direct supervisor for review and approval. Supervisors should be checking the business reason and receipts for each expense to ensure they are valid business expenses, since they are ultimately accountable for all expenses charged to their budget. However, in order to review the receipts, they must drill down into the expense item or hover over it to see the detail.

Following the management approval, any claims with the following types of transactions will be routed to the Accounting Clerk for a further audit before releasing for payment or posting:
- Out of pocket transactions

- Conferences
- Mileage
- Parking
- Council expenses

All other claims will flow directly for posting. SAP Concur has several reports which can be run on the claim data for analysis purposes but which are not currently being utilized.

Overall, the SAP Concur system provides another layer of protection against expense fraud compared to the previous paper process. The automated controls will catch most of the ineligible expenses, check for missing receipts, and ensure there is a business purpose for each expense. In addition, the higher risk expenses are still being checked manually by the Accounting Clerk who is very thorough. The risk of ineligible expenses getting reimbursed is small. It is still management's responsibility, however, to ensure items purchased are legitimate and approved expenses for the division. This includes reviewing all receipt detail within Concur to verify the items are being used for the job vs. being taken home by staff for personal use.

Accounting staff are recommended to utilize the SAP Concur reports on a quarterly basis to ensure adequate management oversight and compliance, and to detect any fraud. They are also recommended to periodically remind approvers to review all receipts when approving expense claims.

Purchases <$3000
The previous audit noted that purchases <$3000 have a greater risk of fraud. Specifically, parked invoices and field orders do not have approval paths (management oversight) within SAP nor are audited by Accounting. It was recommended that parked invoices be eliminated and that an approval path be added to SAP for field orders. However, neither recommendation has been implemented yet.

SAP Concur Invoice (automation of Accounts Payable invoicing) is planned to be implemented in 2025. The project will likely see all invoices, regardless of amount, being routed in the system for approvals and will replace parked invoices and field orders. This will work similarly to the existing employee expenses as noted above in the SAP Concur Controls section, with an approval path and automated controls.

Journal Entries
Journal entries (JEs) are accounting entries made to the general ledger to move amounts from one account to another. They are made by staff in Financial Operations (Accounting), Financial Planning & Asset Management, Financial Reporting & ERP Solutions and Revenue.

A random sample of 50 journal entries was tested to determine if they had management approval and sufficient supporting documents to explain the purpose of the entry. 14 of 50 (28%) had insufficient supporting documents where the Auditor was unable to determine the purpose of the entries and 1 entry did not have management approval.

When asked about the entries without sufficient backup, management indicated for most of the entries that they were either small dollars and they did not request backup, or that they were routine entries that they were familiar with. While the entries should be able to stand on their own and be understood by any auditor (internal or external) who reviews them, the main purpose of the backup is to provide control over changes to the ledger through management approvals, not to satisfy the Auditor. Therefore, as long as the approver is comfortable with the entry, then the quality of the backup will not be questioned.

Duplicate Payments
Duplicate payments to vendors can occur if an employee purchases something on their corporate VISA but the vendor also sends an invoice, which may or may not show the VISA payment. The invoice can then get sent to accounts payable and paid in error. Sometimes the vendor is truthful and will return or reverse the duplicate payment, but not always.

A three-month sample of all VISA transactions and vendor cheque payments from the same period were matched on vendor name and amount to determine if there were any duplicate payments. One duplicate was found, but the vendor had already reversed the VISA transaction.

Payroll Controls
One important payroll control is to segregate duties to ensure that no staff has the ability to set up a new employee in the system, change rates of pay, change bank account information, and remove staff from the system. A report run from PeopleSoft shows that there were multiple people in Human Resources, Technology Innovation & Services, Payroll, Financial Planning and Fire that have access to edit job codes, grade, step, and salary as well as setting up or removing employees in the system. Further investigation into access levels revealed that 10 employees with access to edit payroll data only require view access. Edit access was removed from these staff. None of these staff, however, have made any unauthorized payroll transactions with their edit access.

All pay rate changes will appear on the daily audit report, and if someone other than Benefits team tries to make a rate change Payroll staff would detect it. One control weakness was noted related to pay rate changes, which is not described here for security of assets reasons. Recommendations to address have been provided to the relevant staff.

Payroll controls testing was done by reviewing random samples of retro-active payments, off-cycle payments (outside of regular pay periods), and sick leave payments to see whether there was sufficient backup and correct calculations to support the payments. 12 of 62 entries (19%) did not have sufficient backup. In some of these cases the backup existed but was not stored in the shared folder, making it difficult to find. Recommendations focus on the Payroll Supervisor ensuring that staff are attaching sufficient backup for every payout and storing the backup in a shared location.

Bank Reconciliations
This is a daily and monthly process to explain the difference between the City's bank account balances and the SAP records to ensure there are no irregularities, to detect potential fraud, and ensure any differences are explainable. The process involves manual or automatic matching, investigating and adjusting transactions.

In 2022 due to staff shortages the account reconciliations were several months behind. As a result, a single case of theft of cash went undetected for some time. The employee had properly entered the deposit into the deposit slip system which posted to SAP. However, they never deposited the funds in the bank account. If the account reconciliation was up to date this could have been caught sooner. A full investigation was launched to determine the extent of the theft and appropriate remedial actions were taken. A review of the May reconciliations shows that they are now up to date again, however, there were still several outstanding items as of May to be investigated and cleared.

The only significant reconciliation issue is related to the debit / credit card account. There are always timing differences between when the point-of-sale system posts to the ledger and when transactions show up in the bank account. Normally a report would be run to itemize the difference and allow the account to balance. However, since the Revenue Remittance Clerk role has been vacant the account has not balanced. Accounting staff are working on trying to investigate the root cause of the difference and may require changes to the process by the Revenue team.

Emerging Risks

1. Over time there has been a growing list of sub-systems implemented across the organization to accept payments, which are expected to flow to the general ledger and the bank. There has been a lack of consistency in types of payments accepted by various divisions and Accounting has not always been involved when new software solutions are being explored. Accounting would like more input into new systems to ensure seamless integration with SAP and minimize staff time related to work-arounds. The end goal is to make sure that system data flowing from sub-systems happens efficiently and in a format that can be automatically matched within SAP to the bank account line items. It is recommended that Accounting by included in the Technology Solution Assessment vetting process whenever the solution involves payments to the City.

2. The City currently does not have any payment policies which has caused inconsistent practices across divisions. Creating such policies is beyond the scope of this review, however it is agreed that this is required and has thus been noted as a recommendation. Examples of payment policies include standard payment types, whether credit card fees will be charged to the customer, how refunds will be issued, and which point-of-sale software solutions are permitted.

Conclusion

No fraudulent transactions were found during this audit. Transaction backup was missing in some cases. Staff should be reminded of their responsibility to substantiate all entries. One major control weakness was identified in payroll processes which will be addressed by staff. One major deficiency was noted in the ability to reconcile the Revenue debit / credit card entries, which will be addressed by staff as they work to find the root cause of the reconciliation issue. Recommendations aim to strengthen controls and minimize the opportunity for theft.

This audit will continue to be part of the rotating list of standard controls and compliance audits.

STRATEGIC PLAN ALIGNMENT:
This report supports the delivery of core services.

FINANCIAL IMPLICATIONS:
Capital Budget – The recommendation has no impact on the Capital Budget.

Operating Budget – The recommendation has no impact on the Operating Budget.

COMMUNITY ENGAGEMENT:
INFORM – This report has been posted to the City's website with the agenda in advance of the council / committee meeting.

PREVIOUS REPORTS/AUTHORITIES:
- CAO-2022-494 2023 Internal Audit Work Plan

APPROVED BY: Dan Chapman, CAO

ATTACHMENTS:
None