

# Report to Finance and Corporate Services Committee

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**TO:** FINANCE AND CORPORATE SERVICES COMMITTEE

**PREPARED BY AND KEY CONTACT:** S. MACGREGOR, DIRECTOR OF INTERNAL AUDIT EXT# 5452

**SUBMITTED BY:** S. MACGREGOR, DIRECTOR OF INTERNAL AUDIT

**GENERAL MANAGER APPROVAL:** N/A

**CHIEF ADMINISTRATIVE OFFICER APPROVAL:** C. LADD, CHIEF ADMINISTRATIVE OFFICER

**DATE:** APRIL 26, 2017

**SUBJECT:** 1<sup>ST</sup> QUARTER INTERNAL AUDIT STATUS REPORT

**WARD:** ALL

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## **RECOMMENDED MOTION**

1. That the 1<sup>st</sup> Quarter Internal Audit Status Report be received as information.

## **PURPOSE & BACKGROUND**

2. The following report provides a summary of the Internal Audit activities undertaken during the first quarter of the City's fiscal year, January to March 2017:

Project	Focus	Status
Procurement	Compliance: Corporate-wide	Complete
Cash handling	Process review: Transit	Complete
Entity level controls	Consulting: Code of Conduct	In progress

3. In addition to the projects noted above, Internal Audit provided ad hoc consultations to departments as organizational awareness and acceptance of the Internal Audit function has continued to grow.

## **ANALYSIS**

### **PROCUREMENT**

#### Background

4. In prior years, incidents at the City have identified areas for improvement related to processes and controls for the procurement of goods and services. As a result, in May 2016 a new Procurement By-Law was approved to address areas of concern and confirm expected procedures for City staff.

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## Objective

5. The objectives of this audit were to assess whether procurement at the City was in compliance with the new Procurement By-Law, expense and PCard policies and procedures applicable to the purchase of goods or services and also to identify potential opportunities to increase efficiency.

## Methodology

6. The following activities were performed:
- a) Review of Procurement By-Law, PCard and expense policies;
  - b) Review of accounting records detailing purchases, PCard transactions and expense claims from May (after the release of the new Procurement By-Law) to December 2016;
  - c) Interviews with staff in Purchasing, Accounting, Human Resources and Departments across the City;
  - d) Judgmental sampling of purchasing transactions considering dollar values, initiating departments and procurement characteristics noted in past reviews, to identify transactions for examination; and
  - e) Review of supporting documentation for transactions selected to assess compliance with relevant policies and procedures.

## Findings

7. Observations identifying areas for improvement, recommendations and management's response are summarized in Appendix A. The recommendations relate to the following areas:

Area	# Recommendations
PCards	7
Expense reports	1
Purchase orders	6
<b>Total</b>	<b>14</b>

## Conclusion

8. The City has undertaken significant efforts to improve the processes and controls over procurement of goods and services which have resulted in generally good compliance for the sample of transactions assessed. The audit's findings demonstrate that, while compliance in many areas has been achieved, there are opportunities for improvement to attain full compliance. Continuing education of staff will be critical to achieve increased compliance as it was noted that a lack of clarity persists across the City regarding staff and department responsibilities to fully comply with City policies and procedures.

## CASH HANDLING – TRANSIT

### Background

9. In connection with a broader corporate-wide cash handling project, a review of the Transit department's cash handling practices was completed to assess if processes and controls are sufficient and whether efficiencies can be gained to improve operations.

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## Objective

10. The objective of this audit was to understand the sources of cash handled by the Transit department and the procedures followed by staff to serve both customer needs and safeguard City employees and assets.

## Methodology

11. The following activities were performed:
- a) Review of procedures for Transit operations related to cash;
  - b) Review of City records supporting Transit operations;
  - c) Interviews with Transit staff at the Terminal and Garage;
  - d) Tours of the Transit Terminal and Garage; and
  - e) Observation of cash handling.

## Findings

12. Observations identifying areas for improvement, recommendations and management's response are summarized in Appendix B. The recommendations relate to the following areas:

Area	# Recommendations
Operations	4
Physical security	2
Policies and procedures	1
<b>Total</b>	<b>7</b>

## Conclusion

13. The Transit department has done a commendable job of developing manual controls and processes to address inherent cash handling risks. Future automation for City of Barrie sales at the Terminal would reduce the potential for human error and increase the efficiency of operations allowing for more effective customer service delivery. Recommendations around operational considerations, physical security and formalizing cash handling procedures will clarify roles and responsibilities for staff and further safeguard City employees and assets.

## ENTITY LEVEL CONTROLS – CODE OF CONDUCT

13. Internal Audit is working with Human Resources to update and augment the City's Code of Conduct for staff which will be included in the next Internal Audit update to the Finance and Corporate Services Committee upon completion.

## ENVIRONMENTAL MATTERS

14. There are no environmental matters related to this report.

## ALTERNATIVES

15. As this report is being presented for information purposes only, no alternatives are presented.

## FINANCIAL

16. There are no immediate financial implications for the Corporation related to this report.

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## LINKAGE TO COUNCIL STRATEGIC PRIORITIES

The information included in this Staff Report supports the following goal identified in the 2014-2018 Strategic Plan:

☒ Responsible Spending

17. Implementation of the recommendations identified in the Internal Audit projects will achieve enhanced processes and controls to protect the City's assets as well as increase efficiency in the delivery of services.

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## Appendix A – Procurement Observations, Recommendations and Management Response

Observation	Recommendation	Management Response
<p><b>PCARDS</b></p> <p><b>1. Employees with a change in work status</b></p> <p>Instances where PCards for employees with a change in employment status (i.e. ceasing employment with the City, commencing a leave of absence) were not deactivated at time of departure.</p> <p>Transactions were made on PCards of employees who were not actively employed at the time of purchase.</p> <p>Instance where a PCard approver no longer works with the City.</p>	<p>Review the procedure for obtaining and deactivating PCards upon an employee's change in status to ensure current PCard status is appropriate.</p> <p>Verify that all current PCard holders and approvers are current employees at the City and ensure departed employee's cards have been cancelled.</p> <p>Review PCard transactions for departed employees and determine the nature/cause of transactions made after departure.</p>	<p>In response to continually improve the City's internal controls, a new PCard Policy and PCard procedures manual was rolled out to City staff with training completed in March 2017. As well, the City's PCard provider, Bank of Montreal (BMO), introduced a new PCard interface that has improved reporting functionality.</p> <p>The new policy clarifies roles and responsibilities. Supervisors are required to advise the City's PCard Administrator in Purchasing of any changes in status of their staff. Work is underway with HR to review and update the employee exit process, to ensure any PCards are cancelled immediately. The PCard Administrator will be reviewing the PCard holder list quarterly.</p> <p>The PCard holder listing has been reviewed and updated. All PCards for departed staff have been cancelled.</p> <p>PCard transaction records for departed employees have been reviewed, and no additional transactions were found after departure date.</p>
<p><b>2. City of Barrie purchases</b></p> <p>PCard purchases were charged to the City of Barrie.</p>	<p>Review City of Barrie purchases on PCards and determine alternative methods of charging departments to avoid transaction and commission charges associated with PCard purchases.</p>	<p>As part of the staff training in March 2017, this issue was identified and communicated to staff.</p> <p>Staff within Purchasing and Accounting, will develop and communicate a process for inter-departmental charges by using journal entries.</p>

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Observation	Recommendation	Management Response
<p><b>3. PCard limits</b></p> <p>PCard limits by title are not consistent.</p>	<p>PCard limits should be reviewed by both function and level to standardize as appropriate.</p>	<p>The new PCard policy established threshold limits into four categories. General Managers (GM) and Executive Directors (ED) approved the required categories for their staff.</p> <p>The diversity of roles across the City, and the need for efficient procurement methods, results in different limits for positions with similar titles. However, Purchasing will review with operating departments to find opportunities to better align PCard limits by title.</p> <p>On an annual basis, the PCard administrator will monitor and review spending patterns of PCard users with GM's/ED's to ensure limits on cards are appropriate.</p>
<p><b>4. Signing Authority Listing</b></p> <p>Signing Authority Listing does not include all PCard holders.</p>	<p>Review the Signing Authority Listing to ensure a consistent approach to PCard holder inclusion.</p>	<p>The signing authority listing was reviewed and updated in 2016. Accounting Services and Purchasing will review and reconcile to ensure consistency between PCard holders and signing authority.</p>
<p><b>5. PCard documentation and use</b></p> <p>Instances where PCard receipts and statements were not contained in the accounting records.</p> <p>Instances where purpose of meals and attendees is not specified.</p> <p>Instance of card used by someone other than cardholder.</p> <p>PCard reconciliations and documentation not received by Finance within the timelines set out in policy requirements. Timing of submission of claims not</p>	<p>Ensure records are obtained from each cardholder on a timely basis.</p> <p>Educate cardholders regarding documentation and use requirements.</p>	<p>As part of the PCard Policy training in March 2017. PCard holders and approvers were reminded of their obligations under the PCard Program. This included providing guidance on record keeping and the PCard approval process.</p> <p>The PCard administrator and Accounting Services will continue to monitor and provide reports to Supervisors and the Senior Management Team.</p>

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<p>consistent between policies (PCard, travel, business entertainment). Instances where PCard statement not signed by approver.</p> <p>Photocopied support provided rather than originals as specified in policy.</p>		
<p><b>6. PCard holder agreements</b></p> <p>Instances where PCard holder agreements are not signed by the cardholder.</p>	<p>Obtain signatures on all PCard holder agreements to document the holder's agreement and understanding of all terms and conditions including unauthorized personal purchases or use of the card by anyone other than themselves.</p>	<p>The training completed in March 2017 included review of roles, responsibilities, and authorized vs unauthorized personal purchases.</p> <p>All PCard holders' agreements have now been signed.</p>
<p><b>7. Unreconciled PCard balances</b></p> <p>PCards are not fully allocated to GL accounts resulting in unreconciled balances remaining in holding accounts.</p>	<p>Review outstanding balances in PCard holding accounts and follow up with departments to fully allocate. Monitor holding accounts on a monthly basis and follow up to ensure fully allocated.</p>	<p>With recent training, departments are aware of responsibilities to ensure all PCard transactions are appropriately allocated to GL accounts within month end deadlines.</p> <p>Accounting Services and the PCard administrator will continue to work with departments and monitor deficiencies. As well, compliance reports will be provided to the Senior Leadership Team on a quarterly basis.</p>
<p><b>EXPENSE REPORTS</b></p> <p>8. Duplicate payment noted (PCard and expense reimbursement) for reimbursement of expenses for an elected official.</p>	<p>Review the process and forms for expense reimbursement to elected officials to ensure that amounts charged to a PCard are not sent to Human Resources for reimbursement.</p>	<p>Expense reimbursement forms for elected officials have been amended to indicate to whom PCard and reimbursed expenditures should be submitted.</p>
<p><b>PURCHASE ORDERS</b></p> <p>9. Instances when purchase orders are issued after invoices are received.</p>	<p>Monitor procurement practices and determine cause for purchase orders that are issued after the invoice date.</p> <p>Continue to put standing agreements and non-standard procurement vendor contracts in</p>	<p>Purchasing will monitor and develop a quarterly compliance report for the Senior Management Team.</p> <p>Purchasing has allocated a full time resource to work with departments in identifying and</p>

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	place to expedite purchasing.  Educate departments as to when purchase orders should be created in regular, standing agreement, non-standard and emergency procurement situations.	creating standing agreements.  Continuing from the training that was provided to City staff in 2016. Purchasing is developing a Corporate Procurement Training Program.
10. Instances when the signing authority listing is not aligned with Great Plains approval levels for purchase order creation and approval.  Instances in the Authorized Signing Listing when signature is not on file	Review differences between Great Plains approval levels and the authorized signing listing and determine if Great Plains approval should be removed or if the Authorized Signing Listing needs to be updated.  Obtain specimen signatures for all employees on the authorized signing listing.	Accounting and Purchasing will develop a process with IT and operating departments, to review and ensure Great Plains approval settings aligns with the authorized signing list.  A comprehensive review and updating of the signing authority list occurred in 2016. Accounting services will work with departments to ensure the list is keep current and up to date.
11. There is a zero tolerance for purchase order discrepancies with the associated vendor invoice.	Assess impact on efficiency of procurement and invoice processing if a low dollar value tolerance discrepancy between purchase orders and invoices was adopted.	With the upcoming implementation with SAP, will explore this option with the Continuous Improvement group.
12. Inconsistent practices across the City as to the documentation obtained and retained in connection with low value procurement.  Documentation of issuance of the purchase order to the vendor is not consistently retained.	Consider adding clarity in the procurement manual specifically around low value procurement.  Education to staff as to the requirements with low value procurement.	Additional clarity will be added to the procurement manual related to low value procurement. As well, the Corporate procurement training program will include a section on low value procurement.
13. There does not appear to be a requirement for suppliers to indicate they are in compliance with the Procurement By-Law setting out expectations of supplier conduct and conflicts of interest.	Determine whether suppliers confirm compliance with the procurement by-law at any point in the procurement process (illegal or unethical behavior, conflicts of interest).  Incorporate language to confirm compliance with the procurement	Suppliers confirm compliance with the City's Procurement by-law for all Open Competition Procurement, Supply Agreements and Rosters, through the signing of their submission forms.  For other procurement processes, Purchasing will review, discuss



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	by-law in supplier contracts or obtain supplier confirmations of compliance.	and develop an appropriate mechanism.  While suppliers do confirm as part of the bid process (i.e. terms and conditions of the bid process). Purchasing will look to strengthen the wording in the City's standard contracts.
14. Due to the number of user licenses currently held by the City, users often cannot access Great Plains in a timely basis to create purchase orders.	<p>When SAP goes live, named licensing (where each user has a license) will be in place rather than concurrent licensing (where licenses are shared between users) which will address this observation.</p> <p>Until SAP goes live, the shared licenses should be assessed to determine if there are other factors that can be addressed to improve access for departments across the City.</p>	<p>The City's Great Plains license is limited to 60 concurrent users. Because of the cost of more licenses, combined with the City's upcoming implementation of SAP, IT has implemented an alternative solution.</p> <p>Through the creation of a web application, Great Plains users who cannot log into the system, can access a list of active users and request they log out of the system. While not a perfect solution, it is hoped this cost effective method will bridge the gap until SAP implementation is complete.</p>

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## Appendix B – Transit Cash Handling Observations, Recommendations and Management Response

Observation	Recommendation	Management Response
<p><b>1. Point of Sale System</b></p> <p>The current point of sale system at the Terminal for City of Barrie sales is manual which is time consuming and susceptible to human error/potential abuse.</p>	<p>Following on previous department initiatives considering point of sale systems, assess current viable options for automated point of sales systems that will allow for reporting, receipting and increase efficiency and effectiveness of the Terminal operations.</p> <p>Consider whether options can integrate the current systems for all types of sales at the Terminal to consolidate reporting of revenue from all sources.</p>	<p>i) Transit staff has reviewed the option to use the same system as Recreation called Activenet. Given the current contract in place, Transit would see an annual operating budget increase of \$78,500 in transactional costs.</p> <p>ii) Transit staff has followed up with the Centre for Continuous Improvement as they were investigating a corporate-wide POS system. The project has been tentatively planned to begin in 2018 subject to budget approval.</p>
<p><b>2. Policies and procedures</b></p> <p>While general guidelines are in place, formalized and documented policies and procedures for cash handling do not exist.</p>	<p>Formalize and communicate documented procedures over cash handling which will define responsibilities and clarify expectations for staff.</p>	<p>i) Transit staff are currently reviewing and updating all cash policies and procedures. Staff has identified missing procedures and will develop and forward to the Internal Auditor for review once completed.</p> <p>ii) All procedures are to be formalized and approved by Q3 2017.</p>
<p><b>3. Safeguarding cash and equivalents</b></p> <p>Security over cash and equivalents (passes, ride cards) can be improved.</p>	<p>Review the physical security over cash and cash equivalents throughout the cash handling processes in Transit to ensure achievement of a consistent level of security for both employees and the assets.</p>	<p>i) Implemented new cash and cash equivalent handling procedures on April 3<sup>rd</sup> to reflect Internal Audit's recommendation, which include; installation of additional security cameras and policy &amp; procedural changes to ensure staff do not transport cash/cash equivalents.</p>
<p><b>4. Cash floats</b></p> <p>Cash floats are shared between staff which limits the ability to attribute cash handling transactions to a specific individual.</p>	<p>Assess the ability to assign a cash drawer to each employee handling cash to provide individual accountability for cash handling.</p>	<p>i) This procedural change will be dependent on the decision with regards to the POS system solution. Staff is currently investigating the impact of providing individual floats based on the current systems in place.</p>

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Observation	Recommendation	Management Response
<p><b>5. Segregation of duties</b></p> <p>There is a lack of segregation of duties at the Terminal in that individuals can access cash/cash equivalents, and related control records.</p>	<p>Assess the ability to restrict responsibilities of employees at the Terminal so that the collection cash is segregated from related control activities.</p> <p>Perform a periodic independent verification of inventory for cash and equivalents at the Terminal and other sales locations which will provide a level of review which is segregated from individuals involved in the transactions.</p>	<p>i) The segregation of duties would further be improved with an automated POS system solution.</p> <p>ii) With the current systems in place, staff are running a pilot program that only front line staff are to perform transactions involving cash/cash equivalents.</p> <p>iii) Staff implemented use of tamper evident cash bags on April 12<sup>th</sup> for end of shift float deposit to mitigate the opportunity for deposits to be manipulated.</p>
<p><b>6. Combinations for safes</b></p> <p>Combinations to safes are not changed on a periodic basis.</p>	<p>Change combinations for safes on a periodic basis (i.e. annually) or if there are other significant changes (such as turnover of personnel, movement of the safe to another location etc.).</p>	<p>i) This has been implemented in Transit's current practice and will be included in the updated policies &amp; procedures.</p>
<p><b>7. Expired passes</b></p> <p>Expired passes are retained indefinitely without a formalized destruction protocol which results in the storage of excess records.</p>	<p>Once expired passes are returned by agents and put into inventory, ensure an independent verification of the returned inventory is performed and documented.</p> <p>Destruction of the records in accordance with document retention policies can then occur which will reduce longer term storage needs and costs.</p>	<p>i) Expired passes are now being destroyed after each external audit. Current 2016 passes are to be removed and destroyed upon completion of the 2017 audit.</p> <p>ii) Handling of expired passes will also be added to the updated policies and procedures.</p>