



**REPORT TO FINANCE AND CORPORATE SERVICES COMMITTEE**

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Pending #:

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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:** M. PROWSE, CHIEF ADMINISTRATIVE OFFICER

**DATE:** SEPTEMBER 26, 2018

**SUBJECT:** 2018 YEAR TO DATE INTERNAL AUDIT STATUS UPDATE AND YEAR ONE FRAUD & WRONGDOING PROGRAM PILOT SUMMARY

**WARD:** ALL

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**RECOMMENDED MOTION**

1. That the 2018 Year to Date Internal Audit Status Report be received as information.
2. That the City's Year One Fraud & Wrongdoing Program Pilot Summary be received as information.

**PURPOSE & BACKGROUND**

3. The purpose of this staff report is to provide the 2018 Year to Date Internal Audit status report and to provide a summary of the Year One Pilot of the City's Fraud & Wrongdoing Program.
4. The following report provides a summary of Internal Audit activities performed from January to August 2018:

| # | Project                             | Focus                 | Status      |
|---|-------------------------------------|-----------------------|-------------|
| 1 | Fraud Risk Assessment               | Entity Level Controls | Complete    |
| 2 | Cash Handling – Recreation Services | Process review        | Complete    |
| 3 | Fleet                               | Consulting            | Complete    |
| 4 | Sports Fields Maintenance           | Process Review        | Complete    |
| 5 | Accounts Payable                    | Compliance            | Complete    |
| 6 | SAP                                 | Controls              | In progress |
| 7 | Emergency Services Campus           | Consulting            | In progress |



5. In addition to the projects noted above, Internal Audit provided ad hoc consultations to departments, managed the Fraud & Wrongdoing Program and completed 8 confidential investigations.
6. The projects in progress will be included in the next Internal Audit update to the Finance and Corporate Services Committee upon completion.

## **ANALYSIS**

### **FRAUD RISK ASSESSMENT**

#### Background

7. Fraud can happen in any organization. The primary factor that distinguishes fraud from error is whether the underlying action is intentional. For the purposes of this fraud risk assessment, fraud is defined as any intentional act or omission designed to deceive others, resulting in the victim suffering a loss and/or the perpetrator achieving a gain.
8. Fraud can have significant impact on a business including negative effects on employee morale, business relations, and the organization's reputation. Fraud cannot be completely eliminated but it can be managed. A fraud risk assessment is a tool the City uses to identify potential vulnerabilities to internal and external fraud and is a key element of an effective anti-fraud regime.

#### Objective

9. To conduct an assessment of the City's potential fraud risks.

#### Methodology

10. The following activities were performed:
  - a) Conducted a workshop with the Senior Leadership Team to identify potential fraud risk scenarios in an environment absent controls;
  - b) Considered past allegations and actual incidents of fraud and misconduct;
  - c) Review of publicly available information regarding fraud in both private and public sector organizations;
  - d) Met with the Executive Management Team to review identified fraud risks and obtain input;
  - e) Developed a likelihood and impact rating scale to assess identified fraud risks;
  - f) Rated the likelihood of and impact of the risks, without consideration of existing controls; and
  - g) Identified internal controls relevant to the potential fraud risks through reviews of policies and procedures and discussions with staff across the organization.

#### Conclusion

11. Through the fraud risk assessment process a total of 60 potential fraud risks were identified. Of these risks, 15 were assessed as high, 18 as medium and 27 as low. It is important not to draw the conclusion that there must be significant issues or gaps in controls at the City from the number of risks identified. The risks were identified and assessed assuming there were no controls in place (i.e. inherent risk) with the goal of identifying as many inherent risks as possible after which an assessment of mitigating controls was completed to arrive at the remaining risk to be addressed.

12. Of the 60 potential fraud scenarios compiled, we identified controls for all but 2 of the risks such that the residual risk could be considered mitigated to a low level. This assessment of residual risk assumes that the controls identified are operating effectively which will be validated in future internal audit work plans.

Findings

13. The fraud risk assessment was performed in three phases:
- i. Developed an inventory of potential fraud risks by conducting a workshop, meetings and discussions with City departments.
  - ii. Assessed the inherent risk of fraud considering the impact and likelihood of the risk taking place, without considering the impact of mitigating controls. Reputation and potential dollar impacts were considered in the significance assessment while likelihood looked at the opportunity and incentive to commit fraud. A combined rating – high, medium or low – was determined based upon the significance and likelihood ratings.
  - iii. Identified mitigating controls and assessed the residual fraud risk. From review of City policies and procedures and discussions with departments, mitigating controls were identified for each of the risks in order to facilitate a high-level assessment of residual risk. In future Internal Audit work plans, testing of the identified controls will be included to assess the operating effectiveness of the mitigating controls.
14. The ratings for the 60 potential fraud risks identified are set out in the heat map below:

Summary of Potential Fraud Risks by Assessed Risk Rating

|                   |        |            |               |             |
|-------------------|--------|------------|---------------|-------------|
| <b>LIKELIHOOD</b> | High   | 2          | 5             | 6           |
|                   | Medium | 7          | 9             | 4           |
|                   | Low    | 3          | 17            | 7           |
|                   |        | <b>Low</b> | <b>Medium</b> | <b>High</b> |
| <b>IMPACT</b>     |        |            |               |             |

15. The heat map demonstrates how the 60 potential fraud risks are disbursed across the likelihood and impact ratings. The colour coding denotes the highest risk priorities in the upper right corner of the map in red, areas of moderate concern in the middle of the map in orange and low risk areas in the lower left corner in yellow. There are 15 risks assessed as high.
16. Internal documentation for policies and procedures was reviewed and discussions were held with staff to identify controls related to each fraud risk. The internal controls included transaction-level



controls and broader entity-level controls. Generally, controls exist for all the identified risks, however, there are potential fraud risks that require stronger transaction-level controls which was acknowledged in discussions with management.

17. The rated risks were allocated between five fraud categories as set out in the table below:

**Summary of Potential Fraud Risks by Category**

| Fraud Category                                       |                 | Category Description   | # of Potential Fraud Risks |
|--|-----------------|--|----------------------------|
| Asset Misappropriation                               | Cash            | Theft of cash, securities, inventory or fixed assets, the circumvention of controls and procedures | 19                         |
|  | Payroll         |  | 11                         |
|  | Tangible Assets |  | 2                          |
| Financial Misconduct by Management                   | Procurement     | Inappropriate activity by management in connection with financial transactions                     | 5                          |
|  | Other           |  | 10                         |
| Fraudulent Reporting                                 |                 | Manipulation of financial and non-financial information reported to the public                     | 2                          |
| Unauthorized Use of City Assets for Personal Benefit |                 | Involves misuse of physical assets, information or other items for personal gain                   | 3                          |
| Other Schemes  |                 | Scenarios not described above (i.e. cybercrime)  | 8                          |
| <b>Total Potential Fraud Risks</b>                   |                 |  | <b>60</b>                  |

18. The identified fraud risks are mitigated by the City through transaction level controls such as facility and system access controls, segregation of duties, and timely reconciliations and entity level controls such as the City’s Code of Conduct and the Fraud & Wrongdoing Program.
19. A fraud risk assessment should be performed on a comprehensive and recurring basis and will be updated annually as part of Internal Audit’s work plan.

**CASH HANDLING – RECREATION SERVICES**

Background

20. In connection with the broader corporate-wide cash handling project, a review of Recreation Services’ cash handling practices was completed to assess if processes and controls are sufficient and whether efficiencies can be gained to improve operations.
21. Recreation Services maintains and operates 11 recreation/community centres across the City, 7 of which have cash handling responsibilities.



Objective

- 22. The objective of this review was to understand the sources of cash handled by Recreation Services and the procedures followed by staff to serve customer needs and safeguard City employees and assets.

Methodology

- 23. The following activities were performed:
  - a) Review of procedures for Recreation Services related to cash;
  - b) Review of City records supporting Recreation Services operations;
  - c) Meetings with Recreation Services staff;
  - d) Tours of the Recreation Services operating facilities; and
  - e) Observation of cash handling.

Findings

- 24. Observations identifying areas for improvement, recommendations and management’s response are summarized in Appendix “A”. The recommendations relate to the following areas:

| Area                    | # Recommendations |
|-------------------------|-------------------|
| Operations              | 2                 |
| Physical security       | 2                 |
| Policies and procedures | 2                 |
| <b>Total</b>            | <b>6</b>          |

Conclusion

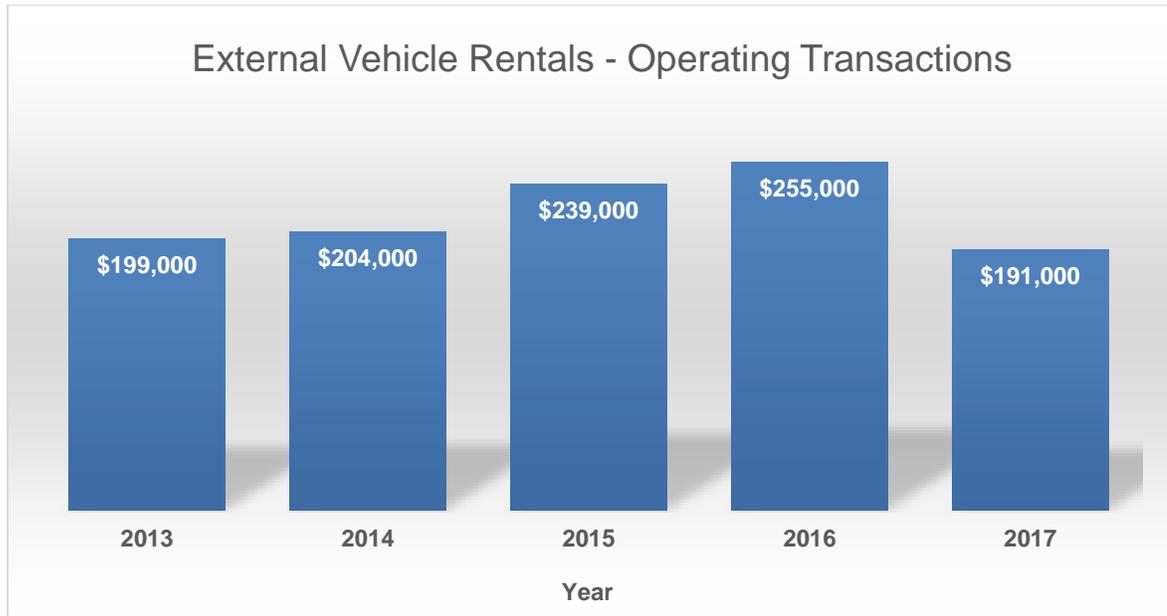
- 25. Recreation Services has implemented effective procedures and controls to address the inherent risks of cash handling. Recommendations around operations, physical security and formalizing cash handling procedures across all branches will enhance the strong controls currently in place to further safeguard City employees and assets in the department.

**FLEET**

Background

- 26. The City’s Fleet Services Branch (“Fleet”), part of the Roads, Parks & Fleet Department, manages the City’s fleet of 1,000 corporate vehicles and pieces of equipment with an estimated replacement value of approximately \$50 million. Fleet Services staff are responsible to supply, maintain, and repair vehicles in order for all business operations and program staff to deliver City services in a safe and efficient manner.
- 27. To address the escalating cost of rental vehicles that businesses rented on a long term (greater than a month) basis, the Fleet Manager proposed consideration of a lease to own option. In 2014, there were fourteen vehicles ranging in size from a small sport utility vehicle to a mini dump truck with monthly rental costs ranging from \$740 to \$1,940. A financial analysis of long term rentals compared to leasing and purchase options was completed and alternative vehicle acquisition options were considered. A lack of clarity regarding the permissibility of leasing resulted in the continuation of long term vehicle rentals.

28. Total annual external vehicle rental operating transaction expenditures for the City from 2013 to 2017 are set out below:



#### Objective

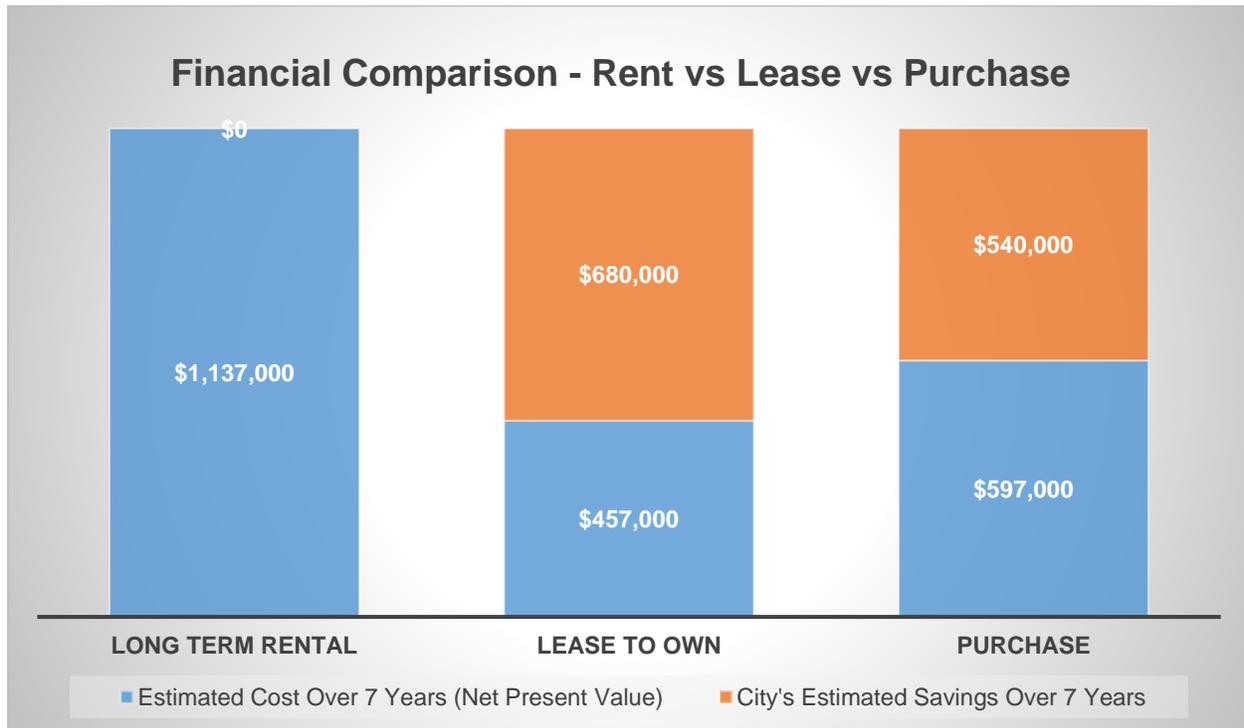
29. The purpose of this review was to analyze how rental vehicles are used for operational requirements and compare the cost of long term rentals to leasing and ownership to determine the most cost effective option for the City.

#### Methodology

30. The following activities were performed:
- Financial review of payments to rental vendors;
  - Review of leasing cost estimates;
  - Review of purchase estimates from Fleet based on recent purchases of similar vehicles;
  - Review of financial policies;
  - Meetings with Infrastructure & Growth Management Division management; and
  - Meetings with businesses using long term rentals.

#### Findings

31. There are currently eleven vehicles rented on a long term basis and expensed monthly to operating rental accounts. Staff require the vehicles to accomplish service delivery objectives and have the support of management to continue the rentals until an alternative vehicle acquisition option is approved.
32. The rental vehicles are used to meet on-call requirements, to transport staff and equipment to field and remote work locations, to transport soil and gravel materials, and to pull equipment trailers. The graph below provides the estimated cost over a seven year period, the typical period of use for these vehicles, to rent the eleven vehicles compared to alternative options of lease-to-own or the purchase of comparable vehicles.



33. As the financial comparison graph demonstrates, and as set out in detail in Appendix B, purchasing or lease to own options could save the City \$540K to \$680K over the seven year period. Appendix C contains a qualitative comparison of the vehicle acquisition options considered in this review including an additional option of employee mileage reimbursement.

Factors Contributing to the City's Use of Long Term Vehicle Rentals

34. Unapproved Capital Budget Requests
- a) The City used long term rental vehicles when capital budget requests for vehicles were not approved and leasing was not understood as a permissible option. New and replacement vehicle requests are generally submitted through the annual capital budget process.
  - b) When capital budget requests were not approved, staff advised that they began renting vehicles funded by their operating budgets to achieve service delivery objectives. Rental accounts are intended for short term timeframes such as renting equipment for seasonal work, emergency repairs, and daily use.
35. Vehicles Pulled Out of Service for Safety Reasons
- a) Fleet advised that, on average, two light duty vehicles are pulled out of service per year. There is currently no short term solution to this situation as Fleet staff cannot order a replacement vehicle until a budget request is approved by council.
  - b) In discussion with Fleet and the businesses there is a concern that the City is not keeping pace with replacement requirements in the capital budget. As a result, vehicles are used for longer durations and become less reliable, require more extensive or frequent repairs, and can be pulled out of service before a replacement vehicle is available.
  - c) Fleet staff have been trying to reallocate under-utilized (less than 8,000 km per year) vehicles from other business areas to address the gap in service when vehicles are not safe to operate. The City's under-utilized fleet consists of six vehicles and not all can be reassigned due to business response requirements.



36. Fluctuation in Staff Levels
- a) Vehicles are rented to address fluctuations in staff levels due to the seasonal nature of the business. For example, Enforcement staff rent two vehicles for three months, to accommodate an increase in parking enforcement staff from June to August, because Fleet does not have enough spare vehicles during the summer months.

#### Fleet Management

37. Fleet staff are responsible to initiate a capital request for approval to replace current vehicles and equipment. Computer fleet analysis software is used to track the cost and usage of vehicles and equipment, which identifies a vehicle when the criteria for replacement is met. Fleet staff meet with business staff to understand the need for replacement and whether the need is the same or if the business requires a different type of replacement vehicle or equipment.
38. The request for a new vehicle or piece of equipment is the responsibility of business staff. New requests for vehicles and equipment can be the result of a new staff position, growth of a service or due to an operational change. Business staff may engage Fleet staff to understand the specifications of the vehicle or equipment being requested and or to provide an estimate of the purchase price. The business then prepares the business case to support the request for the new vehicle request.
39. Currently there is no requirement to obtain input from Fleet on what vehicles or equipment are rented therefore Fleet staff do not have full visibility to vehicle and equipment usage, including rentals, across the organization.

#### Conclusion

40. Based on the financial comparison analysis and discussions with management, we recommend the vehicles currently rented by the City on a long term basis be replaced with either leased or purchased vehicles which could result in approximately \$700K in savings to the City over the next seven years (approximately \$100,000 annually).
41. We also recommend businesses consider whether employee mileage reimbursement for use of a personal vehicle could be utilized as an option to reduce the number of City vehicles required.

### **MAINTENANCE OF SPORTS FIELDS**

#### Background

42. "Sports fields" refer to the baseball diamonds and soccer pitches operated by the City of Barrie. Historically, with the exception of the Barrie Community Sports Complex (the "Complex") located in Midhurst, the responsibility for the maintenance of sports fields primarily resided with Parks Operations. Currently, the City operates 91 sports fields. Fields outside of the Complex are referred to as "in-town fields".
43. Recreation Services staff administer bookings of sports fields and are the primary point of contact for paying users of sports fields.
44. In February 2013, a Memorandum of Understanding ("MOU") regarding the maintenance and operations responsibility for sports fields was finalized. The Recreation Services and Roads, Parks & Fleet departments agreed to a new distribution of duties related to the maintenance of in-town



sports fields which resulted in turf care, other than grass mowing, and infield grooming performed by Recreation Services.

Objective

- 45. The objective of this review was to review the efficiency and effectiveness of the City's maintenance of sports fields.

Methodology

- 46. The following activities were performed:
  - a) Review and analysis of financial reporting for the operation of sports fields from 2012 to 2017 (pre and post MOU);
  - b) Review of available sports fields maintenance and operation documentation;
  - c) Meetings with management and staff in Parks Operations;
  - d) Meetings with management and staff in Recreation Services department;
  - e) Meeting with management and staff in Service Barrie;
  - f) Meeting with the Acting General Manager of Infrastructure & Growth Management; and
  - g) Meeting with the General Manager of Community and Corporate Services.

Findings

- 47. Recreation Services advised that the purpose of the MOU, which moved sports field maintenance responsibilities to Recreation Services from Parks, was to improve the customer experience by aligning sports field maintenance with the City staff that have primary interaction with users paying to utilize the sports fields.
- 48. Expected or measurable outcomes from the transition of sports fields from Parks to Recreation Services were not established in the MOU which would have facilitated the objective measurement of the impact and success of the transition.
- 49. Observations identifying areas for improvement, recommendations and management's response are summarized in Appendix "D". The recommendations relate to the following areas:

| Area          | # Recommendations |
|---------------|-------------------|
| Operations    | 3                 |
| Financial     | 1                 |
| Communication | 2                 |
| <b>Total</b>  | <b>6</b>          |

Conclusion

- 50. The efficiency of the service provided as measured by the costs to deliver sports fields maintenance and the effectiveness as measured by available feedback from paying users indicates that sports field maintenance is currently operating sufficiently. Implementation of Internal Audit's recommendations will improve future measurement of the efficiency and effectiveness of the sports field maintenance and better leverage available staff expertise and City assets.



## ACCOUNTS PAYABLE

### Background

51. The City processes a high volume of accounts payable transactions each year. In 2017, more than 40,000 transactions were processed by the City with a total dollar value of approximately \$321 million. Payments are processed by the Accounts Payable ("AP") team in the Accounting Branch of the Finance Department which is comprised of 5 staff led by the Senior Manager of Accounting and Revenue who reports to the Director of Finance.
52. Currently, accounts payable transactions are processed in the City's accounting system Great Plains and a conversion to the SAP system is in progress.
53. Authorization for payments is obtained at the department level and verified by AP prior to processing. The majority of invoices are paid by cheque and mailed to vendors in weekly cheque runs.
54. The vendor master file contains all required information for individuals and organizations that the City uses to pay for goods and services. The integrity and accuracy of the vendor master file is the foundation for valid, efficient and effective payment processing. At the time of our review, the Great Plains vendor master file contained over 50,000 vendors.

### Objective

55. The objective of this review was to evaluate the adequacy and effectiveness of internal controls related to the processing of payments and vendor management.

### Methodology

56. The following activities were performed:
  - a) Review of Procurement By-Law and account payable financial policies;
  - b) Review of accounting records detailing cheque payments from January 1, 2017 to March 31, 2018 (the "Period of Review");
  - c) Review of accounting records detailing external vendors included in the City's vendor master file as of May 10, 2018;
  - d) Interviews with staff in Purchasing, Accounts Payable and Information Technology;
  - e) Judgmental sampling of cheque payment transactions considering dollar values, departments across the organization and approval level thresholds, to identify transactions for examination; and
  - f) Review of supporting documentation for transactions selected to assess compliance with relevant policies; and
  - g) Performed data analytics on cheque payment and vendor master file data to identify potential anomalies for review.



Findings

- 57. Observations identifying areas for improvement, recommendations and management’s response are summarized in Appendix E. The recommendations relate to the following areas:

| Area                                    | # Recommendations |
|---|-------------------|
| Vendor management                       | 6                 |
| Payment processing                      | 4                 |
| System access and segregation of duties | 3                 |
| Policies and procedures                 | 1                 |
| <b>Total</b>                            | <b>14</b>         |

Conclusion

- 58. Based on the procedures performed, the controls related to processing of payments appear to be adequate and operating effectively. An area for improvement noted in our review is vendor management where the implementation of our recommendations, and the planned conversion to SAP, will strengthen the City’s controls resulting in improved operating efficiencies and reduced risk of improper activity.

**SUMMARY OF FRAUD & WRONGDOING PROGRAM PILOT – YEAR ONE**

Background

- 59. In August 2017, Internal Audit advised Council of the City’s two year pilot launching in September 2017 of a whistleblower program, named the “Fraud & Wrongdoing Program”, which is overseen by Internal Audit.
- 60. The Fraud & Wrongdoing Program formalizes a program by which staff can report concerns of fraud or wrongdoing without fear of retaliation. In addition to the ability to report concerns directly to supervisors or other City employees, staff also have the ability to report with anonymity if desired by phone, through a website or a P.O. Box all of which are operated by an independent third party, Clearview Connects.

Findings

- 61. The Director of Internal Audit and the Director of Human Resources are “primary reviewers” of reports received by Clearview Connects. If a reporter does not want the primary reviewers to see their report, they have the option of submitting a “sensitive” report which is sent directly to the Chief Administrative Officer for review. The statistics presented in the findings of this report do not include any sensitive reports that may have been received by the City.
- 62. In its first year of operation, 22 reports were made to the City’s Fraud & Wrongdoing Program. 86% of the reports received were through Clearview Connects as set out below:



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| Method of Submission                              | Number of Reports | Percentage  |
|---|-------------------|-------------|
| Website   | 15                | 68%         |
| Phone   | 4                 | 18%         |
| P.O. Box  | 0                 | 0%          |
| Total reports received through Clearview Connects | <b>19</b>         | <b>86%</b>  |
| Direct to staff                                   | 3                 | 14%         |
| <b>Total</b>                                      | <b>22</b>         | <b>100%</b> |

63. The most commonly used method for reporting was Clearview Connects' secure internet website which received 68% of reports.
64. The Clearview Connects website and phone reporting options include the ability to have anonymous two-way communication by providing reporters access to a report after its original submission. This feature allows an anonymous reporter to submit additional information, track the status of the report and respond to follow-up questions from the City in its review and investigation.
65. In its first year of operation, 16 reports or 84% of reports made through Clearview Connects were accessed after the original report submission as set out below:

| Accessed report | Number of Reports | Percentage  |
|-----------------|-------------------|-------------|
| Yes             | 16                | 84%         |
| No              | 3                 | 16%         |
| <b>Total</b>    | <b>19</b>         | <b>100%</b> |

66. The types of reports received in the Fraud & Wrongdoing Program's first year of operation are set out below:

| Report Type   | Number of Reports |
|---|-------------------|
| Unethical conduct                                       | 8                 |
| Violation of laws, regulations, policies and procedures | 4                 |
| Management/supervisor                                   | 3                 |
| Conflict of interest                                    | 3                 |
| Compensation and benefits                               | 3                 |
| Fraud and theft   | 1                 |
| <b>Total</b>  | <b>22</b>         |

67. A summary of the outcomes from reports received is set out below:

| Report Category                      | Number of reports |
|--------------------------------------|-------------------|
| Substantiated                        | 6                 |
| Unsubstantiated                      | 10                |
| Insufficient information             | 2                 |
| Not applicable to Fraud & Wrongdoing | 3                 |
| Investigation in progress            | 1                 |
| <b>Total</b>                         | <b>22</b>         |



68. Report category descriptions include:

- a) "Substantiated" refers to reports found to be accurate. Appropriate communication with staff involved and or improved processes and controls were implemented to address the concern identified.
- b) "Unsubstantiated" refers to reports that were found to contain inaccurate facts in the concern raised therefore there was no underlying issue to address or remediate.
- c) "Insufficient information" refers to reports that could not be fully investigated due to limited information presented by the reporter despite the City's request for additional information.
- d) "Not applicable to Fraud & Wrongdoing" include questions reported related to Clearview Connects and logistic system access questions rather than concerns related to ethics or violations of the code of conduct.
- e) "Investigation in progress" refers to a report currently being investigated at the time of this report.

**Conclusion**

69. The Fraud & Wrongdoing Program provides staff with additional options for reporting concerns. Use of the Program during its first year demonstrates that staff have utilized these new options in making their reports which has resulted in improved processes and controls at the City.

**ENVIRONMENTAL MATTERS**

70. There are no environmental matters related to the recommendations.

**ALTERNATIVE**

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

**FINANCIAL**

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

**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

73. 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.



**Appendix “A” – Recreation Services Cash Handling Observations, Recommendations and Management Response**

| Observation  | Recommendation  | Management Response   |
|--|---|---|
| <p><b>1. Safeguarding of cash and equivalents</b><br/>Security over cash and equivalents can be enhanced.</p>  | <p>Review the physical security and operating protocols related to cash to ensure achievement of a consistent level of security for both employees and City assets.</p> <p>Upon Human Resources' completion of the security protocol, provide communication and training to staff regarding expected staff response to robbery or hold up situations.</p> | <p>A review of cash handling procedures is being undertaken with staff with an aim to improve current processes while ensuring staff safety. Training will be provided to staff regarding expected staff response to robbery or hold ups upon Human Resources' completion of a security protocol.</p>   |
| <p><b>2. Shared cash float and system access</b><br/>Cash float and system access logins are shared between staff which limits the ability to attribute cash handling transactions to a specific individual.</p> | <p>Assess the ability to assign separate cash tills and system access to each staff member handling cash to provide individual accountability.</p>  | <p>Recreation Services will investigate and install separate cash tills and individual system access as part of our POS system in the major facilities.</p> <p>Remote facilities will have a safe installed and the cash will be picked up by armoured service were feasible or a verification process implemented at both ends of the process.</p> |
| <p><b>3. Segregation of duties</b><br/>A lack of segregation of duties exists outside the large Recreation Centres due to limited number of Recreation Customer Service staff at these locations.</p>            | <p>For each cash handling location, identify a separate staff member who can perform the incompatible duty (receive cash, record transactions and daily balancing) so that the cash handling responsibilities are segregated.</p>   | <p>Recreation Services will work with Finance, Programming and Facilities staff to develop a process to segregate the cash handling responsibilities or develop an audit checking process.</p>  |
| <p><b>4. Monitoring and review</b><br/>Monitoring and review of Recreation Services financial transactions can be improved.</p>  | <p>Implement and enhance the independent verification reviews of cash and cash equivalent transactions for Recreation Services in particular for those that are manually recorded as opposed to uploaded from the POS system into the City's financial records.</p>   | <p>Recreation Services will work with Finance to develop a regular reconciliation process of our accounts.</p>  |



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| <b>Observation</b>   | <b>Recommendation</b>   | <b>Management Response</b>  |
|--|---|---|
| <b>5. Policies and procedures</b><br>While general practices are in place, formalized and documented policies and procedures for cash handling do not exist. | Formalize and communicate documented procedures over cash handling which will define responsibilities and clarify expectations for staff.   | Recreation Services Staff will work with Finance to develop and document cash and equivalent handling policies and procedures. Training on the procedures and process will be embedded in future staff training programs.       |
| <b>6. Definition of duties</b><br>Clearly defined roles and responsibilities with respect to cash handling and position coverage do not currently exist.     | Define and formalize the cash handling duties between different staff which will minimize the risks of errors, decrease the opportunity for fraudulent activity, and reduce duplication of tasks. | Recreation Services will work with Finance and HR in developing and documenting the cash handling duties.<br><br>Training on the procedures and duties will be embedded in job descriptions and future staff training programs. |



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**Appendix “B” – Detailed Financial Comparison by Rental Vehicle**

| Long Term Rental                   |                                   |  | Lease to Own             |  |   |   | Purchase                 |  |                                   |   |
|------------------------------------|-----------------------------------|--|--------------------------|--|---|---|--------------------------|--|-----------------------------------|---|
| Vehicle Description <sup>(1)</sup> | Total Estimated Cost Over 7 Years | Net Present Value of Estimated Cost Over 7 Years | Total Vehicle Lease Cost | Estimated Equipment & Maintenance Costs <sup>(2)</sup> | Estimated Lease-To-Own Costs Over 7 Years | Net Present Value of Estimated Cost Over 7 Years <sup>(3)</sup> | Estimated Purchase Price | Estimated Equipment & Maintenance Costs <sup>(2)</sup> | Total Estimated Cost Over 7 Years | Net Present Value of Estimated Cost Over 7 Years <sup>(3)</sup> |
| Sport Utility Vehicle              | 87,872                            | 77,916   | 31,179                   | 12,375   | 43,554                                    | 37,929  | 30,000                   | 12,375   | 42,375                            | 39,358  |
| Sport Utility Vehicle              | 90,725                            | 80,445   | 31,179                   | 12,375   | 43,554                                    | 37,929  | 30,000                   | 12,375   | 42,375                            | 39,358  |
| Sport Utility Vehicle              | 134,094                           | 118,901  | 31,179                   | 12,375   | 43,554                                    | 37,929  | 30,000                   | 12,375   | 42,375                            | 39,358  |
| 1500 4x4 Pick-up Truck QC          | 89,376                            | 79,249   | 31,917                   | 13,375   | 45,292                                    | 38,281  | 35,000                   | 13,375   | 48,375                            | 44,033  |
| 1500 4x4 Pick-up Truck QC          | 92,143                            | 81,703   | 31,917                   | 13,375   | 45,292                                    | 38,281  | 35,000                   | 13,375   | 48,375                            | 44,033  |
| 1500 4x4 Pick-up Truck QC          | 92,141                            | 81,701   | 31,917                   | 13,375   | 45,292                                    | 38,281  | 35,000                   | 13,375   | 48,375                            | 44,033  |
| 1500 4x4 Pick-up Truck QC          | 123,837                           | 109,806  | 31,917                   | 13,375   | 45,292                                    | 38,281  | 35,000                   | 13,375   | 48,375                            | 44,033  |
| 1500 4x4 Pick-up Truck CC          | 102,856                           | 91,202   | 31,917                   | 13,375   | 45,292                                    | 38,281  | 35,000                   | 13,375   | 48,375                            | 44,033  |
| 1500 4x4 Pick-up Truck CC          | 89,656                            | 79,497   | 34,590                   | 13,375   | 47,965                                    | 40,729  | 40,000                   | 13,375   | 53,375                            | 49,033  |
| 3500 4x4 Truck                     | 189,691                           | 168,198  | 55,960                   | 14,775   | 70,735                                    | 55,694  | 100,000                  | 14,775   | 114,775                           | 105,025   |
| 3500 4x4 Truck                     | 189,691                           | 168,198  | 55,960                   | 14,775   | 70,735                                    | 55,694  | 100,000                  | 14,775   | 114,775                           | 105,025   |
|                                    | <u>1,282,084</u>                  | <u>\$1,136,818</u>                               | <u>\$399,634</u>         | <u>\$146,925</u>                                       | <u>\$546,559</u>                          | <u>\$457,308</u>  | <u>\$505,000</u>         | <u>\$146,925</u>                                       | <u>\$651,925</u>                  | <u>\$597,321</u>  |

**Notes:**

1. The lease and purchase options are based on comparable types of vehicles to those that are currently rented.
2. Equipment and maintenance costs include the cost to outfit comparable vehicles with safety equipment, City markings, annual license fees, and maintenance costs.
3. The net present value lease and purchase estimates include the estimated recovery of the disposal value at the end of the seventh year.



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**Appendix “C” – Qualitative Comparison of Vehicle Acquisition Options**

Vehicle acquisition options considered in this review include:

**1. Rental Option**

Renting allows the City to acquire vehicles when the business needs them and to temporarily augment shortages in the City’s fleet inventory. Renting provides the flexibility to keep the vehicle for the duration required which could be a day, week, month, or longer. Renting for a short duration provides the advantage of lower payments compared to purchasing, where the full value of the vehicle would be incurred.

Rental vehicles have to be returned in the same state as initially rented so no permanent modifications can be made to them. Staff spend time removing equipment and cleaning the vehicles when it is time to exchange the rental vehicle and then time is spent to set up the next vehicle for business use. Any damage to the vehicle as identified by the rental company is an additional cost over the initial rental cost.

In discussion with management and business staff there is no known advantage to continue renting vehicles. In fact the lack of City markings on the vehicles makes it difficult for management to ensure the vehicles are not used for unintended purposes, such as for personal use when not on call.

**2. Lease to Own Option**

Leasing allows the City to incur the cost of a vehicle over the term of the lease with consistent monthly financial outlays. The reason for consideration of the lease to own option rather than a traditional trade-in lease is that the municipality would own the vehicles at the end of the lease allowing Fleet staff to manage the vehicles as a corporate asset and track and monitor usage. Upon receipt of the vehicles, staff outfit the vehicles with safety equipment such as light bars, cameras, and GPS units, and mark the vehicles with the City name. There is no concern with mileage restrictions and penalties for damage that are included in a trade-in lease.

Leasing allows flexibility to obtain a vehicle when needed, rather than at certain times of the fiscal year when capital requests are approved. It provides a financially feasible alternative for the City when vehicles have to be pulled out of service until such time that the fleet replacement program meets the current replacement needs. It could also be an option to build up a small pool of City vehicles that are not assigned to a particular department but rather centralized for shared use.

**3. Purchase Option**

The benefit to purchasing vehicles is that the City owns the vehicle outright. When there are funds to buy the vehicle outright the City avoids interest costs on a lease, can keep the vehicle for the duration of its useful life, and has an asset to sell at auction at the end of its useful life.

Once purchased, the vehicle can be outfitted with safety equipment and marked to identify it as a City vehicle. The GPS unit and mileage tracking helps to ensure fleet optimization and can assist identifying where a vehicle is for resident complaints and liability claims.



#### **4. Employee Mileage Reimbursement Option**

Another cost effective option for occasional transportation requirements is employee mileage reimbursement for the use of a personal vehicle. The City has annual travel reimbursement rates for mileage when staff use their personal vehicles for work purposes. In addition, the City will reimburse employees for the cost of supplementary business insurance for their vehicle when required to use their personal vehicle to perform daily work duties.

No corporate standard or guidelines currently exist to determine if a City vehicle should be supplied or if a personal vehicle can be used and the employee reimbursed based on mileage. It is the responsibility of the business managers to assess the need for a vehicle. There are some business situations when a corporate vehicle is required taking into account risk situations (for example inspectors, enforcement officers) and response time requirements (for example fire, environmental spills, on-call requirements). Other factors taken into consideration include the type of work site staff need to access and the need to transport equipment and tools.

**Appendix “D” – Maintenance of Sports Fields Observations, Recommendations and Management Response**

| Observation  | Recommendation  | Management Response  |
|--|---|--|
| <p><b>1. Formal standards</b><br/>Formal standards for sports fields maintenance at the City do not currently exist.</p> <p>Documented requirements for sports fields, and compliance with external standards, do not currently exist.</p> | <p>Recreation Services should continue to develop measurable standards (i.e. Sports Turf Canada) for maintenance to be followed and monitored which would allow for ongoing objective measurement of the quality of City sports fields.</p> | <p>While formal standards have not been documented. Recreation staff will review current practices being undertaken by staff and develop or document the standards by field type.</p> <p>The standards will be reviewed in collaboration with Parks Operations to ensure a common understanding.</p> <p>To assist in developing a strong baseline for the quality/health of the fields and get further expert advice on techniques to improve the fields condition, Recreation staff will engage a 3<sup>rd</sup> party to evaluate identified sports fields on an annual and rotating basis.</p> <p>Sports Turf Canada will be on site to investigate and report on the health and condition of the City of Barrie In-Town fields. Given the number of fields, Sports Turf Canada’s work will not address all fields in a single year and it is anticipated to be an ongoing process.</p> |
| <p><b>2. Financial result</b><br/>The transfer of sports fields maintenance from Parks to Recreation Services did not result in a significant difference in the total financial cost to deliver the services.</p>                          | <p>Financial costs to maintain sports fields should continue to be monitored to ensure efficiencies are captured between Recreation Services and Parks.</p>   | <p>Recreation Services has implemented specific cost centres to track Recreation Services’ portion of the sports field maintenance costs and related revenues in a continued effort to identify efficiency opportunities.</p>  |



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| Observation  | Recommendation  | Management Response  |
|--|---|--|
| <p><b>3. Documented feedback</b><br/>Documented feedback from user groups is limited.</p> <p>An annual meeting with user groups is held which indicates user group satisfaction with the current service levels for sports fields.</p> <p>Comprehensive feedback from user groups specific to in-town fields and the Barrie Sports Complex is not solicited or retained.</p>   | <p>Formal feedback from all sports field user groups should be obtained to acquire information on specific areas of delivery to objectively assess the effectiveness of sports field maintenance and obtain areas for improvement or change.</p> <p>Specific feedback should be solicited regarding in-town fields and the Barrie Sports Complex.</p> | <p>Recreation will work in collaboration with Parks Operations to expand the existing feedback mechanism to obtain documented feedback specific to in-town fields versus the Sports Complex through a Sports field User Survey, on the satisfaction with service delivery levels as well as areas for improvement.</p> <p>A joint action plan would be developed to deal with items requiring improvement.</p>                                       |
| <p><b>4. Geographic distribution of sports fields</b><br/>Recreation Services staff reside, and equipment is stored, at the Barrie Sports Complex in Midhurst however less than 20% of the City sports fields are located at the Barrie Sports Complex.</p> <p>The movement of staff, equipment and supplies from the Sports Complex to more than 80% of the City sports in-town fields is necessary to service the geographically dispersed fields.</p> | <p>Recreation Services and Parks should continue to explore options for staff and equipment to operate in more central locations to allow for more efficient servicing of in-town fields.</p>   | <p>Recreation staff have initiated investigations into the potential to create a satellite hub operation at an existing facility to service the south end in-town fields more effectively.</p> <p>As part of future facility developments, staff will review opportunities to include an area for site specific sports field maintenance area/garage i.e. new community centre to include an area to store equipment/supplies for that district.</p> |
| <p><b>5. MOU transition communication</b><br/>Parks staff do not have a full understanding of why sports fields maintenance responsibilities were transitioned to Recreation Services.</p>   | <p>Recreation Services and Parks should communicate to Parks staff the business rationale for the transition of sports field maintenance responsibilities to clarify why the shift of responsibilities occurred.</p>  | <p>Recreation Services would support and participate in a joint meeting with Parks Operations to re-emphasize the reason that sports fields were moved to Recreation was to improve the customer service experience.</p> <p>By providing one point of contact for the users that would allow for improved communication in dealing with the client's needs, desires and concerns as well as address response times for users.</p>                    |



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| Observation   | Recommendation  | Management Response   |
|---|---|---|
| <p><b>6. Communication between Parks and Recreation Services</b></p> <p>There is limited communication between Parks and Recreation Services with respect to sports field maintenance.</p> <p>The use of staff from different departments for the maintenance of sports fields can result in a perception to the public of lack of a coordinated City approach to sports field maintenance.</p> | <p>Regular meetings to discuss issues observed and remediation required should be implemented between Parks and Recreation Services to provide a mutual understanding of issues or challenges encountered at the sports fields.</p> <p>Parks and Recreation Services are encouraged to assess viable options for the coordination of staff at in-town fields to minimize the number of separate crews dispatched for maintenance.</p> | <p>To assist with improved communications, Parks Operations staff will be invited to the User meetings.</p> <p>Regular meetings involving representatives from both departments will be established to respond to staff and client concerns as well as to develop strategies to continue to improve services and communication concerning the City's sports fields. Recreation Services will provide Parks Operations with additional details related to the size and scope of events/tournaments impacting operational activities.</p> |



**Appendix “E” – Accounts Payable Observations, Recommendations and Management Response**

| Observation   | Recommendation  | Management Response   |
|---|---|---|
| <p><b>VENDOR MANAGEMENT</b></p> <p><b>1. Inactive vendor accounts</b><br/>More than 50,000 total vendors exist in the vendor master file and more than 5,000 vendors have not received a payment in the last 5 years.</p> <p>Inactive accounts increase the risk of issuing payments to incorrect vendors or duplicating payments to the same vendor.</p>   | <p>Vendor accounts with no current business activity should be deactivated in a timely manner.</p> <p>Vendors without activity in the last 5 years should be identified and not carried forward to the SAP system.</p> <p>The vendor master file should be reviewed at least annually to ensure only relevant and valid vendors are maintained.</p>   | <p>In the current system, there are a large number of vendors that are temporary or one time payments. For example, authorized payments or refunds to organization or residents. Ideally, the vendors list should be reviewed annually. However, with current level of resources available (i.e. 2 Accounts Payable Clerks), current technology, and volume of transactions, this process has been missed. Moving forward, with the implementation of SAP, all temporary vendors will receive the same vendor number, greatly increasing the ability to review and manage vendor master lists.</p> <p>With respect to permanent vendors, a significant amount of work has been undertaken to inactivate these vendors where possible. A system issue within Great Plains is preventing the ability to inactivate a select group of vendors.</p> |
| <p><b>2. Vendor Validation</b><br/>There are no formal validation procedures to ensure new vendors set up are complete, accurate and legitimate.</p> <p>Changes to the vendor master file are not reviewed to ensure modifications have been properly authorized.</p> <p>Without proper vendor validation, there is a risk of poor data quality and errors which can lead to inefficiencies and poor service to vendors. There is also a risk that fictitious vendors can be set up or fraudulent changes made.</p> | <p>Approval of all new vendors and changes to existing vendors should be formalized and reviewed on a regular basis to ensure only legitimate vendors are entered in to the vendor master file.</p> <p>Confirmation of the legitimate existence of the business or person through an external source, such as Canada Revenue Agency's GST/HST registry report, should be obtained before creating the vendor or making changes to the vendor master file.</p> | <p>With the implementation of SAP, Business Processes are being formalized and should include direction on maintaining vendor master file</p> <p>Vendors are created in the system by the Purchasing group, based on appropriate approval from departments.</p> <p>The recommendation of requiring an additional confirmation of a vendor's existence from an external source such as CRA, will potentially further extend processing times and include further administration costs. With existing resources and volumes of work, fully</p>  |



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| Observation   | Recommendation   | Management Response   |
|---|--|---|
|   | Vendor creation and changes to existing vendors should be approved by an authorized employee.  | <p>implementing this recommendation will be a challenge. However, Finance will work with departments to find a balance to support this recommendation.</p> <p>The vendor master lists within SAP will be managed to ensure only authorized staff within the appropriate area (Purchasing or Accounting) can create or change vendor files.</p>  |
| <p><b>3. Incomplete vendor information</b><br/>Vendor information is not consistently entered and complete. More than 3,000 vendors contain incomplete contact information (i.e. no street address or phone number, only PO Box, or no contact information) which can increase the risk of duplicate or incorrect payments and also increases the potential for fictitious vendors and fraudulent payments.</p> | Formal procedures for the set-up of a new vendor should be implemented to ensure the set-up is standardized and complete.  | <p>The vendor request form is completed by the requesting department. Typically, enough information is supplied to ensure the cheque is able to be mailed or picked up from Finance. Providing and entering additional information not necessary to the distribution of the payment may delay the request to payment process. Processes implemented with the bank ensure that the cheque payee cannot be altered prior to cheque cashing.</p> <p>Formal processes are being updated as part of the implementation of SAP.</p> |
| <p><b>4. Duplicate vendors</b><br/>More than 3,000 potential duplicate vendors were identified</p> <p>Duplicate vendors increase the risk that incorrect or duplicate payments may be issued.</p>   | <p>Validation of vendor information will reduce the opportunity for duplicate vendors in the City's vendor master file.</p> <p>Vendors should only be created with verified legal names and contact information.</p> | <p>If a vendor has more than one location to which a PO is sent, then there will be a separate vendor number for each location as Great Plains does not permit more than one delivery location per vendor ID. This is resolved with SAP which can handle multiple addresses within a single vendor ID.</p> <p>A process will be initiated with the implementation of SAP to undertake a review of the vendor master list at a minimum annually, to ensure no duplicate vendors exist within the system.</p>                   |



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| Observation  | Recommendation   | Management Response   |
|--|--|---|
| <p><b>5. Potential conflicts of interest</b><br/>Vendors with the same address as City staff were identified which presents potential conflict of interest situations for staff and the City to assess and manage.</p> <p>There is a risk of perceived or real favouritism if vendors with the same contact information as staff, or those with family or close relationships are used. The City needs to ensure proper assessment, approval and mitigating procedures (if possible) related to potential conflicts are implemented to ensure fair vendor practices and appropriate authorization of payment are achieved.</p>   | <p>The City's Code of Conduct requires employees to disclose any actual or potential conflicts of interest.</p> <p>A comparison of vendor addresses against staff addresses should be performed at least annually to identify potential conflicts of interest.</p> <p>Conflict of interest notification forms should be completed by staff in situations where a vendor has the same address as staff to determine whether the situation represents a conflict of interest and if it can be managed.</p> | <p>Section 6.4 of the City's purchasing by-law states "No goods, services or construction will be purchased from an officer or employee of the City, or any associate or family member of an officer or employee, unless the extent of the interest of such individual has been fully disclosed to the CPO and the purchase has been subsequently approved by the CAO." Any disclosures are maintained within the procurement file.</p> <p>Once SAP is implemented, Finance, along with HR, will investigate ability to automate a report that compares staff addresses with vendor master file invoices.</p> |
| <p><b>6. Responsibility for vendor master file</b><br/>Currently the ultimate responsibility for the vendor master file is not clear. Responsibility for vendor set up and maintenance is shared between Purchasing and Accounts Payable.</p> <p>"Active" vendors, whose goods or services have an associated purchase order, are maintained by Purchasing while "Temporary" vendors without purchase orders are maintained by Accounts Payable.</p> <p>There is a risk that established standards and requirements are not achieved in vendor set up and maintenance when responsibility for the vendor master file is shared and not owned by one functional area.</p> | <p>Responsibility for the vendor master file and vendor maintenance should be formalized and reside within one Finance area.</p> <p>The responsibility for vendor set up and maintenance should be held by a staff member who does not create POs or process vendor invoices to segregate the accountability and responsibility for these duties.</p>  | <p>Purchasing creates new vendors on behalf of departments in order to facilitate the procurement process and follow a standard operating procedure.</p> <p>Due to the large volume and quick turnaround time of temporary vendor creation/payments, these vendors are created by Finance. SAP will eliminate vendor creation for temporary vendors as they will share a common designated ID.</p> <p>Security within SAP will ensure that only Purchasing will have vendor creation and maintenance authorization.</p>   |



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| Observation   | Recommendation  | Management Response  |
|---|---|--|
| <p><b>PAYMENT PROCESSING</b><br/><b>7. Special handling instructions</b></p> <p>While the majority of cheques are mailed to the vendors after printing, there are regular requests from departments for Accounts Payable to deliver cheques to specific staff members to distribute directly to the vendor. Finance has actively worked to reduce the number of special cheque handling situations.</p> <p>Special handling instructions, and additional points of contact after cheque printing, increase opportunities for cheque diversion or fraud.</p> | <p>Finance should continue their efforts to eliminate special handling cheque circumstances. Cheques should be mailed to the cheque payee immediately after printing.</p> <p>Specific cheque handling needs should be documented and approved by Finance and the relevant department on an exception basis.</p> | <p>Currently, specific cheque handling requirements are documented and tracked by Finance based on approved invoices submitted by departments.</p> <p>Implementation of electronic funds transfer (EFT) with SAP will reduce the volume of cheques requiring special instructions. The remaining situations will relate mainly to a small number of departments that require cheques to be hand delivered due to specifics relating to their business environments. All cheques which are not being held are mailed within 24 hours of printing after review by senior staff. These cheques are held in a secure location from the time of printing until mailing.</p> |
| <p><b>8. Discounts</b></p> <p>Discounts offered by vendors are not monitored and captured in Great Plains for potential use.</p> <p>There is a potential opportunity for the City to obtain more favourable payment terms from vendors if discounts are monitored and fully leveraged.</p>  | <p>The ability to capture discount information from vendors in the new SAP system should be explored to enable Accounts Payable to monitor and capitalize on potential savings.</p>   | <p>Payment terms that include discounts for early payment have been configured in SAP. With the implementation of SAP, Finance will be able to monitor if Departments are processing invoices to benefit from any discounts.</p>   |



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| Observation  | Recommendation   | Management Response  |
|--|--|--|
| <p><b>9. Duplicate payments</b><br/>Duplicate payments to vendors were identified in the Period of Review.</p> <p>No testing or reports of potential duplicate payments currently exist.</p> <p>As a result of inconsistencies in the creation of vendor IDs, the risk of duplicate payments increases as automated system controls will not identify duplicate payments involving different vendor IDs.</p> <p>Note: Duplicate payments noted during Internal Audit's review were communicated to Finance and recovery of the amounts had already occurred.</p> | <p>Review of potential duplicate payments should be undertaken on a monthly basis. Transactions to the same/similar named vendor, of the same dollar amount, with the same invoice number should be reviewed to ensure legitimacy and not duplicate payments.</p>  | <p>Vendor master cleanup is underway to deactivate duplicate vendors prior to SAP. Once SAP is live, a combination of same date, invoice number and amount will produce a system message during data entry.</p>  |
| <p><b>10. Invoice Approvals</b><br/>Approved invoices were noted in excess of staff signing authority limits.</p> <p>Staff did not consistently print their name with their approval signature which results in a time consuming manual effort for Accounts Payable to confirm the identity of the signature and potentially result in a misidentification of the approver.</p>  | <p>Staff need to understand their responsibilities and limits of approval authority. Departments should continue to educate their staff as to these requirements.</p> <p>As set out in the signing authority signature sheet, all approvers must print and sign their name(s) once they are satisfied that it is appropriate to do so.</p> <p>Accounts Payable should confirm sufficient signing authority is obtained for all payments to be processed.</p> | <p>The City's Delegated Financial Authority Framework (signing authority) was updated in early 2016. Part of this process included an update of signing authorities approved by Directors and General Managers. With the updating of this framework, staff have an understanding of their approved limits.</p> <p>Due to the volume of invoices, manual process to review, and only 2 Accounts Payable clerks, it is impossible to validate that each has the appropriate signing authority level. This process will be improved in SAP with the introduction of 3 way match and various workflow security levels which will ensure that documents are being approved by the correct levels.</p> |



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| Observation  | Recommendation  | Management Response  |
|--|---|--|
| <p><b>SYSTEM ACCESS AND SEGREGATION OF DUTIES</b></p> <p><b>11. System Access</b></p> <p>Users were identified with inappropriate Great Plains access for accounts payable or vendor management functions.</p> <p>Staff who no longer work in Finance, at the City, or IDs that were set up for testing purposes were identified with access to process Accounts Payable transactions.</p> <p>If users without approved accounts payable or vendor management duties have access to the system, there is a risk that unauthorized transactions could occur and the segregation of duties between the processing of invoices and generation of payments could be compromised.</p> <p>Note: At the time of Internal Audit's work, users with inappropriate access were communicated to Finance to have access removed.</p> | <p>System access to Accounts Payable functions including vendor management should be reviewed by Finance on a regular basis to ensure only current and necessary staff have access.</p> <p>Information Technology should be informed immediately upon any staff departures from Finance so that access to systems is removed.</p> | <p>Accounts payable runs reports of invoices entered prior to every cheque run which would identify if data entry had been carried out by any unauthorized user.</p> <p>Review of security authorization will be more straightforward in SAP.</p> <p>Users with inappropriate access in Great Plains have had this access removed.</p> |
| <p><b>12. System Access reports</b></p> <p>No readily accessible reports exist in Great Plains to allow for review of user access.</p>   | <p>If the use of Great Plains continues, reports should be developed to allow for ease of review of users with access to Accounts Payable functions.</p> <p>In SAP, reporting of access to Accounts Payable functions should be created and distributed to Finance for approval on a regular basis.</p>                           | <p>Review of security authorization will be more straightforward in SAP.</p>   |



**REPORT TO FINANCE AND CORPORATE  
SERVICES COMMITTEE**

File: F00  
Pending #:

| Observation   | Recommendation  | Management Response   |
|---|---|---|
| <p><b>13. Segregation of duties</b><br/>Staff who prepare purchase orders and process accounts payable can create new vendors or modify existing vendors.</p> | <p>The responsibility for the creation of new vendors or the modification of existing vendors should reside with a staff member who does not create POs or process accounts payable transactions to ensure adequate segregation of duties.</p>  | <p>Security access in SAP will ensure adequate segregation of duties. Departments or Purchasing will create purchase orders depending on the dollar limit. Vendor creation or maintenance will reside solely with Purchasing. Purchase orders prepared by Purchasing will still need to be approved by Departments using SAP workflow. Processing of Accounts Payable will reside solely with Finance Accounts Payable group.</p> |
| <p><b>POLICIES AND PROCEDURES</b><br/><b>14. Policies and Procedures</b><br/>Procedures around vendor set up and payment processing can be enhanced.</p>      | <p>Detailed procedures regarding the creation of vendor IDs, the input of invoices and the system processing of cheque payments currently exist.</p> <p>Additional procedures around the creation of new vendors, purging of the vendor master file and the review of the cheque payment process should be formalized and documented.</p> | <p>More detailed procedures and processes will be in place with SAP.</p>  |