



**REPORT TO FINANCE AND CORPORATE SERVICES COMMITTEE**

**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:** NOVEMBER 6, 2019

**SUBJECT:** 2019 3RD QUARTER INTERNAL AUDIT STATUS REPORT AND YEAR TWO FRAUD AND WRONGDOING PILOT PROGRAM SUMMARY

**WARD:** ALL

**RECOMMENDED MOTION**

1. That the 2019 3rd Quarter Internal Audit Status Report be received as information.
2. That the Year Two Fraud and Wrongdoing Pilot Program Summary be received as information

**PURPOSE & BACKGROUND**

3. The purpose of this Staff Report is to provide the 2019 3rd Quarter Internal Audit Status Report and to provide the Year Two Fraud and Wrongdoing Pilot Program summary.
4. A summary of the Internal Audit activities performed from June to September 2019 is set out below:

#	Project	Focus	Status
1	SAP – Segregation of Duties	Controls	Complete
2	Payroll	Controls	Complete
3	Emergency Services Campus	Consulting	Complete
4	Five Points (formerly “Mady”) Centre Cash Handling	Follow Up	Complete
5	Legislative & Court Services Cash Handling	Follow Up	Complete
6	Audit and Accountability Fund Service Delivery and Modernization Review	Project Facilitation	In Progress



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#	Project	Focus	Status
7	Fraud & Wrongdoing Program Oversight	Consulting	Ongoing

5. In addition to the projects noted above, Internal Audit provided ad hoc consultations to address business requests and completed compliance requirements for departments.

### SAP – SEGREGATION OF DUTIES

#### Background

6. The Centre for Continuous Improvement (CCI) led the City's implementation of SAP, a new Enterprise Resource Planning (ERP) system in 2018. SAP replaced the Great Plains system and is used for financial reporting, purchasing, human resources and payroll at the City. SAP Human Resources and Payroll functions were launched in December 2018 and SAP Finance functions commenced in February 2019.
7. Internal Audit conducted work in two phases related to the ERP implementation:
- a) Phase One - assessed the completeness and accuracy of data migrated from Great Plains to SAP;
  - b) Phase Two – assessed the effectiveness of the segregation of duties set up in SAP.
8. The findings of the data migration from Great Plains to SAP were reported on May 23, 2019 and this report contains the findings from the Phase Two segregation of duties assessment.

#### Objective

9. Perform an assessment of the adequacy of the design of segregation of duties for user access in SAP.

#### Methodology

10. The following activities were performed:
- a) Meetings with SAP project leads;
  - b) Meetings with Finance staff;
  - c) Meetings with the City's external auditors;
  - d) Analysis of output from the external auditor's proprietary tool to identify segregation of duties conflicts in SAP; and
  - e) Review of SAP procedures and relevant documentation.
11. The scope of this review included the City of Barrie and its service partners who moved to SAP at the time of conversion (Library, Police, LSRA).
12. CCI provided SAP data to our external auditors who utilized a proprietary tool to identify potential user access conflicts in SAP. The output from the tool was provided to Internal Audit for review.
13. Conflicts prioritized as High Risk were assessed in this review and Medium Risk conflicts will be assessed in the future.



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Findings

- 14. Segregation of incompatible duties is a key control against fraud and ensures that users cannot initiate and complete a transaction without secondary review and approval.
- 15. The High Risk segregation of duties conflicts in SAP identified in this review are summarized below:

Area	Conflicts Identified	Proposed Remediation to Address Conflicts	Conflicts After Proposed Remediation
Expenditures	3	3	-
Fixed assets	7	7	-
Financial reporting	78	78	-
Inventory	4	4	-
Revenue	80	80	-
<b>Total</b>	<b>172</b>	<b>172</b>	<b>-</b>

- 16. Proposed remediation to address the identified conflicts includes the following:
  - a) Composite roles that currently exist in SAP related to transitional support roles will be removed from all users in production. Once these roles are removed, CCI advised there will no longer be a conflict.
  - b) CCI advised that existing roles, temporarily applied to accommodate a business activity, will be adjusted to remove the conflict or the existing access is limited such that the identified conflict does not contribute to the identified control risk.
  - c) The configuration of workflow approval in SAP acts as a compensating control to address financial reporting conflicts. While particular transactions codes result in a conflict, the work flow functionality in SAP has been designed to prohibit a user from both creating a transaction and posting the same transaction.
  - d) Compensating controls (such as the periodic review and approval by supervisors/managers of transactions performed by users with conflicts) will be implemented to allow monitoring and review of user activities where identified segregation of duties conflicts exist. CCI advised these conflicts are expected to remain in SAP for certain roles due to the limited team sizes which do not allow for the segregation of incompatible duties.
- 17. After the proposed remediation is completed by CCI and Finance, the high risk segregation of duties conflicts will be addressed.
- 18. Observations identifying areas for remediation, recommendations and management's response are summarized in Appendix "A". The recommendations related to the following areas:

Area	# Recommendations
Conflicts	2
Monitoring	1
Testing	1
<b>Total</b>	<b>4</b>



#### Conclusion

19. Based on the work performed, the current design of segregation of duties for user access in SAP is not adequately configured. CCI is in the process of implementing the recommended changes for user access identified in this review which, along with the design of compensating controls where necessary, will result in an adequate segregation of duties in SAP.

#### **PAYROLL**

##### Background

20. The City of Barrie employs as many as 1,400 staff during the year with payroll of over \$90 million annually.
21. The Compensation & Benefits branch is responsible for managing the pay and benefits for all employees at the City. The team responsible for payroll is comprised of Payroll Specialists, a Payroll Assistant and a Manager of Compensation and Benefits who reports to the Director of Human Resources.
22. Timekeeping and entry for employees is decentralized and performed by Time Administrators in departments across the organization for use by the Compensation and Benefits Branch. Systems used for time entry include SAP, OSL and i-Works.
23. In 2019, the City implemented the HR modules of SAP for payroll processing which replaced the legacy Great Plains system.

##### Objective

24. To review the adequacy and effectiveness of internal controls related to payroll processing.

##### Methodology

25. The following activities were performed:
  - a) Review of payroll procedures and documentation;
  - b) Meetings with staff in the Compensation & Benefits branch;
  - c) Meetings with Time Administrators across the organization;
  - d) Review of SAP and Great Plains records for employees from June 1, 2018 to May 31, 2019 (the "Period of Review");
  - e) Judgmental sampling of payroll processing transactions related to new hires, terminations, and alternative rates of pay to identify payroll transactions for examination;
  - f) Review of supporting documentation for transactions to assess the accuracy and completeness of the payroll processed; and
  - g) Review of security access for users in SAP.
26. Our scope of work did not include a review of payroll deductions, benefits, overtime, or payroll processed by the City on behalf of Service Partners.



Conclusion

- 27. Due to the decentralized nature of payroll functions, the Compensation and Benefits branch is highly dependent on information provided by departments to effectively process payroll. Based on the work performed, the City’s controls related to payroll processing in the business units can be improved. Internal Audit’s recommendations will strengthen the existing controls for payroll processing.

Findings

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

Area	# Recommendations
Approvals	4
System access	1
Procedures	2
<b>Total</b>	<b>7</b>

EMERGENCY SERVICES CAMPUS

Background

- 29. The Barrie-Simcoe Emergency Services Campus (BSESC) is a partnership between the City of Barrie and the County of Simcoe. The Campus project commenced in 2016 and is expected to be complete in 2020. The facility will house the Barrie Police Service, Simcoe County Paramedic Services and Barrie Fire and Emergency Service backup dispatch communications in one location in Barrie.
- 30. Integrated Project Delivery (IPD) is a project delivery approach that brings project stakeholders together early in the project. IPD allows for collaboration to connect the talents and insights of all participants to optimize the project results, increase value, reduce waste, and maximize efficiency through all phases of design, fabrication, and construction. The BSESC IPD project signatories are actively involved in the review and approval of monthly payments for the project which are billed by the Joint Venture Gillam Chandos (Barrie) JV Corp.

Objective

- 31. To provide support to the City project team by assessing the effectiveness of controls over Emergency Service Campus project monthly payments.

Methodology

- 32. The following activities were performed:
  - a) Review of relevant procedures and documentation;
  - b) Review of the BSESC IPD agreement Exhibit K;
  - c) Meetings with staff in the Facilities department; and
  - d) Review of the Gillam Chandos (Barrie) JV Corp. invoice for April 2019 and supporting documentation provided by the Facilities department.
- 33. We did not review third party records other than those provided with the monthly invoice documentation.



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Findings

34. The signatory members of the BSESC IPD team are:
1. City of Barrie
  2. County of Simcoe
  3. Lett Architects Inc. - Conceptual Architect
  4. AECOM Canada Limited - Mechanical/Electrical/Civil/Landscape Architecture
  5. AECOM Canada Architects Limited - Architect of Record
  6. LEA Consulting Ltd. - Structural Design
  7. Gillam Group Inc. - IPD JV General Contractor
  8. Chandos Construction - IPD JV General Contractor
  9. Alliance Forming Limited - Formwork
  10. BMG - Curtainwall & Glass
  11. Cesaroni Contracting Inc. - Drywall
  12. Geo. A. Kelson - Mechanical Constructor
  13. Ontario Fox Corp. - Masonry Constructor
  14. Vipond Fire Protection - Sprinkler Systems
  15. Wallwin Electric Services Ltd. - Electrical Constructor

Monthly Invoice Review

35. A formalized and documented process exists for the review of monthly project expenses incurred for the Emergency Services Campus.

Project Management Team (PMT)

36. The PMT consists of representatives of the parties in the IPD team.
37. Exhibit K (Payment Protocol) of the BSESC Integrated Project Delivery Agreement outlines the PMT deliverables and timelines for payment submissions for the project.
38. Exhibit K Supplemental contains descriptions of each step in the PMT invoicing and sign off verification process.
- The supplemental exhibit outlines the invoice process steps, description of the steps (deliverables), timeline and defines the responsibility between the Professional Service Providers, Builders, PMT, City of Barrie and the Joint Venture.
  - A designated area is provided for the date of the payment certificate and a list of all PMT members.
  - Each PMT member initials beside their business name to acknowledge payment approval.
39. City of Barrie project staff advised that PMT members also review their staff rates and ensure the accuracy of submitted invoices and support. Team members are expected to review the consolidated invoice and other team members' submissions and chargeable costs. Any comments or identified items for discussion are submitted to the team member for response to the PMT and possible revision.



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City of Barrie

40. City of Barrie project staff advised the consolidated invoice is reviewed in detail by the Project Technologist and Project Supervisor, consistent with the PMT review process, after which it is reviewed by the Manager of Facility Planning and Development and the Director of Corporate Facilities for amounts up to \$5 million. Payments greater than \$5 million are reviewed by the General Manager of Community and Corporate Services. Once City reviews are complete, request for payment of the monthly project invoice is sent to the City's Finance department.
41. City of Barrie staff have developed a process that provides independent review and verification of the accuracy and completeness of project payments.

Invoice Documentation

42. The City obtains and retains an electronic version of the monthly invoice, supporting documentation and approvals which facilitates review, follow up or audit subsequent to the invoice payment.
43. The costs substantiated in our review of the April 2019 invoice are summarized below:

Parties	April 2019 Invoice \$	April 2019 Substantiated \$	Net Difference Under billed \$
AECOM Canada Architects	36,239	37,480	1,241
AECOM Canada	26,988	27,878	890
BMG Glass + Aluminum	96,863	98,062	1,199
Cesaroni Contracting	284,286	284,286	-
Chandos	126,094	126,094	-
Geo.A. Kelson Limited	1,496,693	1,496,693	-
Gillam Group	707,094	707,243	149
LEA Consulting	673	673	-
Lett Architects	3,595	3,595	-
Ontario Fox Corp.	429,623	431,142	1,519
Vipond Fire Protection	89,389	89,389	-
Wallwin Electric Services	<u>276,829</u>	<u>276,829</u>	-
Current Progress Amount before overhead and profit	3,574,367	3,579,365	5,197
Gillam Chandos (Barrie) JV Corp. – Overhead and Profit	-	<u>131,578</u>	<u>131,578</u>
<b>Total Current Progress Amount before Holdback and Taxes</b>	<b>\$3,574,367</b>	<b>\$3,710,943</b>	<b>\$136,576</b>

44. Based on our review of supporting documentation for the April 2019 Emergency Services Campus invoice, we noted \$136,576 was under billed by the parties. The largest difference in billed costs was \$131,578 of overhead and profit not charged by the Joint Venture in the April 2019 invoice which was subsequently billed on the May 2019 project invoice prior to our review. The remaining variances related to differences in hourly labour rates charged from approved rates and discrepancies in materials billed.



45. Identifying billing discrepancies, both over and under billed, is valuable to ensure the project team has accurate and timely cost reporting for future decision making. While we identified the billing discrepancies noted above, the overhead and profit under billing had been previously identified by the PMT and the remaining differences have been communicated to the project team for correction in future billings.

Conclusion

46. Based on the procedures performed, the controls over BSESC payments are operating effectively. IPD team members actively participate in the monthly review of invoices and provide sign off before the City of Barrie issues payments to the Joint Venture.

**FIVE POINTS THEATRE (FORMERLY MADY CENTRE) CASH HANDLING FOLLOW UP**

Background

47. The cash handling review for the Five Points Theatre was completed in 2018. The findings, observations and recommendations from the review were presented to the Finance and Corporate Services Committee on February 28, 2018. There were five recommendations for improvement related to the following areas:

Area	# Recommendations
Operations	2
Physical security	1
Policies and procedures	2
<b>Total</b>	<b>5</b>

48. Internal Audit performed a follow up review to assess the status of the recommendations to ensure that appropriate and timely actions had been taken.

Objective

49. Assess the status of the recommendations from the Five Points Theatre cash handling review performed in 2018.

Methodology

50. The following activities were performed:
- a) Meeting with Supervisor of Venue Management; and
  - b) Review of procedures for Venue Management related to cash.

Conclusion

51. Staff in the Creative Economy Department demonstrated considerable effort with the implementation of enhanced cash handling processes at the theatre venues. Each of the five recommendations have been completed resulting in improved cash handling processes and controls.



Findings

- 52. Appendix "C" contains the first three columns originally reported along with a fourth column which includes Internal Audit's follow-up comments.

LEGISLATIVE & COURT SERVICES CASH HANDLING FOLLOW UP

Background

- 53. The cash handling review for Legislative & Court Services was completed in 2018. The findings, observations and recommendations from the review were presented to the Finance and Corporate Services Committee on February 28, 2018. There were nine recommendations made related to the following areas:

Table with 4 columns: Area, Legislative Services, Enforcement Services, Court Services. Rows include Operations, Physical security, and Total.

- 54. Internal Audit performed a follow up review to assess the status of the recommendations to ensure that appropriate and timely actions had been taken.

Objective

- 55. Assess the status of the recommendations from the Legislative & Court Services cash handling review performed in 2018.

Methodology

- 56. The following activities were performed: c) Meetings with Legislative & Court Services staff; d) Walkthrough of Enforcement Services and Court Services areas; and e) Review of procedures for Legislative & Court Services related to cash.

Conclusion

- 57. The Legislative & Court Services Department is in the process of implementing recommendations made by Internal Audit in the 2018 cash handling review. Five of the recommendations have been addressed and the remaining four recommendations are in various stages of completion which we will continue to monitor through completion.

Findings

- 58. Appendix "D" contains the first three columns originally reported along with a fourth column which includes Internal Audit's follow-up comments.



YEAR TWO FRAUD & WRONGDOING PILOT PROGRAM SUMMARY

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. At the conclusion of the two year fraud and wrongdoing program pilot, approval was obtained from the Executive Management Team to continue the program at the City.
- 62. 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 do not include any Sensitive reports that may have been received by the City.
- 63. In its second year of operation, 8 reports were made to the City's Fraud & Wrongdoing Program. 4 reports or 50% of the reports received were through Clearview Connects' secure internet website as set out below:

Method of Submission	Number of Reports	
	2018	2019
Website	15	4
Phone	4	0
P.O. Box	0	0
Total reports received through Clearview Connects	19	4
Direct to staff	3	4
<b>Total</b>	<b>22</b>	<b>8</b>

- 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.



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65. In its second year of operation, 4 reports or 100% of reports made through Clearview Connects were accessed after the original report submission as set out below:

Accessed report	Number of Reports	
	2018	2019
Yes	16	4
No	3	0
<b>Total</b>	<b>19</b>	<b>4</b>

66. The types of reports received by the Fraud & Wrongdoing Program during the two year pilot are set out below:

Report Type	Number of Reports	
	2018	2019
Unethical conduct	8	2
Violation of laws, regulations, policies and procedures	4	1
Management/supervisor	3	
Conflict of interest	3	1
Compensation and benefits	3	1
Fraud and theft	1	3
<b>Total</b>	<b>22</b>	<b>8</b>

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

Report Category	Number of Reports	
	2018	2019
Substantiated	6	4
Unsubstantiated	10	4
Insufficient information	2	0
Not applicable to Fraud & Wrongdoing	3	0
Investigation in progress	1	0
<b>Total</b>	<b>22</b>	<b>8</b>

68. Report category descriptions include:

- a) "Substantiated" refers to reports found through investigation 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 City staff with additional options for reporting concerns. Use of the Program during the two year pilot demonstrates that staff have utilized these new options which resulted in improved processes and controls at the City.

**ENVIRONMENTAL MATTERS**

70. There are no environmental matters related to this Staff Report.

**ALTERNATIVES**

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 Staff Report.

**LINKAGE TO 2018-2022 STRATEGIC PLAN**

73. The information included in this Staff Report supports the following goal identified in the 2018-2022 Strategic Plan:
- Offering innovative and citizen driven services
74. 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 to make tax dollars go further.



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**Appendix “A” – SAP Segregation of Duties Observations, Recommendations and Management Response**

Observation	Recommendation	Management Response
<p><b>1. Identified conflicts</b> High Risk conflicts were identified with composite roles in SAP resulting from inadequate segregation of incompatible duties.</p>	<p>CCI is in the process of modifying composite roles and user access to address the high risk conflicts identified.</p> <p>Where the team size does not allow for the segregation of incompatible duties, compensating controls must be designed to allow for the monitoring and review of user actions to mitigate the risks associated with incompatible user access.</p>	<p>Most high risk conflicts have been resolved, with the last remaining issue to be completed before the end of October 2019.</p> <p>Finance and CCI are leading a review of processes to ensure appropriate compensating controls are in place and documented.</p>
<p><b>2. Medium Risk conflicts</b> Due to prioritization and availability of resources, conflicts rated as Medium Risk in the SAP production environment have not yet been fully assessed.</p>	<p>Conflicts prioritized as Medium Risk should be assessed to ensure appropriate compensating controls are in place or access is configured to achieve segregation of incompatible duties.</p>	<p>Finance and CCI will continue to work together to prioritize allocation of resources to address areas of risk, including developing any required compensating controls.</p>
<p><b>3. Monitoring</b> A comprehensive review of segregation of duties for High Risk conflicts has been performed by CCI.</p> <p>Monitoring of SAP access and associated conflicts on a periodic basis will allow the organization to assess the appropriateness of user access on a continuing basis.</p>	<p>CCI and the Finance department should continue to evaluate if access is required for all remaining composite roles and users. Limiting access should be considered where possible rather than implementing compensating controls to monitor incompatible user activities.</p> <p>Composite roles and user access should continue to be reviewed on a regular basis (i.e. annually) to ensure appropriate.</p>	<p>CCI and Finance will continue to evaluate access for composite roles and related compensating controls. The evaluation process will include criteria assessing risk, cost of controls, and efficiency in processes.</p> <p>Agreed, this process will be completed on an annual basis for the first few years or until the City’s evolution with SAP is more stable.</p>



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<b>Observation</b>	<b>Recommendation</b>	<b>Management Response</b>
<p><b>4. Testing</b> Assessment of the design of access and compensating controls for SAP in this review identified potential user access conflicts for remediation.</p> <p>Testing of the access and compensating controls will assess whether access and related controls are operating as intended.</p>	<p>The planned remediation and compensating controls for SAP should be tested to assess whether identified conflicts have been adequately addressed.</p>	<p>Agreed. CCI and Finance will continue to work together to ensure planned remediation or compensating controls are tested to ensure they are adequate.</p>



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**Appendix “B” – Payroll Observations, Recommendations and Management Response**

Observation	Recommendation	Management Response
<p><b>1. Time Entry</b>            Time entry is decentralized at the City with 46 different time administrators in roles responsible for the entry of time for their departments each pay period.</p> <p>Time administrators also enter their own time into SAP.</p> <p>The practices for Time Administrators to obtain approval of staff hours for payroll purposes are not consistent and do not always contain evidence of the approval.</p> <p>Approvals are obtained outside the SAP system prior to SAP time entry but there is no independent verification to ensure the hours approved are the same as those entered into SAP.</p> <p>There is a risk that hours entered into SAP and paid to staff are not approved which could result in unauthorized payroll payments.</p>	<p>Approval of hours <u>entered into SAP</u> for payment should be obtained.</p> <p>Consider the use of approvals using SAP online functionality or manually outside the system by implementing an independent review of time entered into SAP.</p> <p>Formalize and document procedures for Time Administrators to obtain approval of staff hours to ensure consistency across the organization.</p>	<p>This is an issue that has existed in the corporation for many years, and a risk that would be beneficial to mitigate moving forward. That being said, a manual review of time entered, outside the system, would do nothing to prevent a Time Administrator from changing the data in the system after management completed the manual review and approved the report. The only effective way to mitigate this risk would be to use the SAP online functionality, with workflows and approvals. As there are no workflows currently built in the system to facilitate this, it could only be done at significant cost to the corporation. A rough estimate would be between a quarter of a million, to a half of a million, dollars. In addition, if this solution were implemented, there would need to be a number of issues ironed out including the potential time delays of adding an approval step that is currently non-existent, as the current process is very time sensitive, and departments are only just making deadlines in the current state. Lastly, significant training would need to be rolled out to all people leaders, increasing the overall cost.</p> <p>As recommended however, once a decision has been made by the HR department on how to address this risk, it will be formalized and documented to ensure consistency across the organization.</p>



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Observation	Recommendation	Management Response
<p><b>2. Alternative Rates of Pay</b> When staff are filling roles other than their home position, they may be eligible for an alternative rate of pay.</p> <p>If the intended role is expected to last for a defined period of time, it is considered a “short term transfer”. An Employee Change Form is completed and Payroll changes the staff member’s base rate of pay.</p> <p>If the intended role outside a home position is not expected to last for a defined period, it is considered “sporadic” and the hourly rate is changed in SAP by the Time Administer for the applicable hours.</p> <p>We noted more than 500 employees received an alternative rate of pay during the Period of Review. We tested a sample of 20 employees receiving alternative rates of pay and noted only 6 had approved employee change forms.</p> <p>Increased use of alternative rates of pay increases the risk of manual errors in the rate entry or potential use of unauthorized rates of pay.</p>	<p>Ensure Employee Change Forms are completed, approved and submitted to HR by departments when alternative rates of pay are required for approved short term transfers.</p> <p>For sporadic alternative rates, consider implementing reporting to applicable departments on a periodic basis (i.e. quarterly) to increase visibility to the alternative rates used for their teams and document the department’s approval of the alternative rates.</p> <p>Consider reviewing the Salary Administration Procedure to add further clarification as to when an “Acting assignment” (where an alternative rate of pay is assigned) is required as opposed to a “Cover-Off assignment” (where no compensation is provided for extra duties undertaken). Communication and clarification to departments about the distinction between cover-off assignments and acting assignments may reduce the use of alternative rates.</p>	<p>Human Resources will be reviewing its current procedure and communicating it out to all people leaders, to ensure the parameters around acting assignment and alt rates are followed. As an additional measure, Time Administrators will be directed to produce a manual report for review by people leaders to ensure accuracy and adherence to procedures.</p>



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Observation	Recommendation	Management Response
<p><b>3. New hires</b> An Employee Activation Form is completed for new staff set up in the payroll system.</p> <p>In our sample testing, we noted Employee Activation forms that contained approval from Human Resources but not from the business where the staff member resides.</p> <p>There is a risk that the employee set up for payroll has not been approved by the home department which could result in unauthorized payments.</p>	<p>Approval from the department in which the new employee resides should be obtained and evidenced on all employee activation forms to ensure the position, and associated costs to be charged to the cost centre, are documented and approved.</p>	<p>The current process involves the operations department filling out the initial part of the form with position/employee details and emailing it over to Human Resources for finalizing in their orientation with the new employee. HR considers the email from the operating department as authorization or approval from that department.</p> <p>Moving forward however, HR is currently undergoing a forms review, which will review the automation and creation of e-forms, with electronic approvals by operations departments to further eliminate this risk.</p> <p>It must be noted that any solution that mitigates this risk, must be one that does not jeopardize the time sensitivity of enrolling a new employee in order to pay them in accordance with legislative requirements.</p>
<p><b>4. Terminations</b> An Employee Termination Form is completed for staff that are leaving the organization.</p> <p>In our sample testing, we noted Termination Forms that were not submitted to HR until up to four months after the employee's termination date.</p> <p>Staff who have left the organization but have not been deactivated from the SAP system increases the risk that inappropriate or unapproved payroll transactions could occur after the date of termination.</p> <p>Note: For the staff identified in our sample testing, we confirmed payroll payments were not made subsequent to the employee's termination date.</p>	<p>Departments need to ensure that Employee Termination Forms are approved and submitted to HR prior to the date of termination to ensure that payroll ceases immediately upon termination.</p>	<p>The analysis of employees whose Termination Form was sent in late shows a mixture of permanent and non-permanent employees. In some cases for non-permanent staff, there is valid justification to keep inactive employees in the system for a period of time, based on how their business operates. In other cases, and with permanent full-time employees, there is no justification. Departments will be notified to bring awareness of the need for timeliness. In addition, the completion of regular audits by departments to identify active employees without time keyed to them can be initiated. Beyond this, any increased level of oversight and diligence would result in a resource strain.</p>



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Observation	Recommendation	Management Response
<p><b>5. System Access</b> To limit the risk of fraud and misuse, payroll system access should be configured so that users do not have the ability to create or modify transactions, then approve and process the same transactions.</p> <p>Current SAP access for payroll staff is not sufficiently segregated to avoid potential misuse or inappropriate actions.</p>	<p>Incompatible duties should be segregated so that users cannot create, approve and process a transaction.</p> <p>If segregation is not possible due to the size of the payroll team, an audit report of incompatible transaction processing should be reviewed by a staff member who is not involved in payroll processing on a periodic basis (i.e. monthly) to assess any irregular transaction processing activity.</p>	<p>Due to the sensitive nature of some pay-related items and their financial implications to employees, a small number of payroll setup actions are done only by the payroll team, rather than other HR or departmental staff, resulting in some overlapping access to SAP modules by the setup team and payroll team.</p> <p>There is a standard SAP report that can be run that shows all employee changes made by users. This report could be used to audit changes made to employee data by payroll staff who run payroll, however determining the validity of each of the change items on the report would require extensive investigative time and effort via a manual file audit. This level of increased oversight and diligence would result in resource strain.</p> <p>The feasibility of segregating staff duties or implementing additional measures of review will be assessed by HR and CCI.</p>
<p><b>6. Payroll Period Cut-Off</b> In order for Time Administrators to enter staff time within the payroll processing requirements, payroll is entered into SAP prior to the end of the pay period. For example, time is entered on Thursday for the pay period that ends on Friday. This practice can result in adjustments for actual time incurred (such as sick or vacation days) after the payroll deadline.</p> <p>There is a risk that staff do not advise the Time Administrator of required adjustments which could result in payroll being processed incorrectly.</p>	<p>Consider the feasibility of aligning payroll entry deadlines for Time Administrators after the end of the pay period to allow actual results to be captured and avoid corrections and adjustments to estimated time entered.</p>	<p>In order to process payroll in accordance with time deadlines, Time Administrators need to have their payroll information entered into the system by Monday at 10:00 a.m. Decisions surrounding early entry of time are made at the department level, and are driven by department resourcing and/or volume.</p>



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<p><b>7. File Management</b>            Historic practices for the management of staff documents in Human Resources and Payroll have resulted in the maintenance of multiple sets of employee files.</p> <p>Without efficient file management procedures, there is a risk that records may not be readily available to address the City's needs.</p>	<p>Current methods of staff file management should be reviewed and assessed to ensure there is no duplication of activities and the best efficiency of processes is attained.</p>	<p>The time at which this audit took place was right in the middle of a file overhaul project that amalgamated two separate filing systems within HR, along with the shifting of files to different physical locations. Moving forward, HR will work with the Records and Information branch to create documented filing procedures to ensure efficiency and timely accessibility of needed documents. HR is also completing a review of the ownership of document filing responsibilities as part of an organizational structure review of the department, which should also result in improved file management practices.</p>



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**Appendix “C” – Five Points Theatre (Formally Mady Centre) Cash Handling Observations, Recommendations, Management Response and Follow Up**

<b>Observation</b>	<b>Recommendation</b>	<b>Management Response</b>	<b>Follow Up September 2019</b>
<p><b>1. Safeguarding of Assets</b> Security over cash and equivalents can be improved.</p>	<p>Review the physical security and operating protocols for the two City theatres related to cash and equivalents to ensure achievement of a consistent level of security for both employees and City assets.</p>	<p>New procedures will be developed and documented as a result of physical environment changes and input from the Corporate Facilities audit. New equipment will be purchased in Q1 of 2018 to enable tighter security measures.</p>	<p><b>Status: Complete</b>  Enhanced processes and procedures have been developed and implemented to improve security for employees and City assets.</p>
<p><b>2. Policies and procedures</b> While general practices 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>Processes and procedures will be developed with the assistance of staff. The new procedures will be documented and all staff will receive training on the new procedures.</p>	<p><b>Status: Complete</b>  Cash handling procedures were developed and implemented for both the Five Points and Georgian Theatres.</p>
<p><b>3. Point of Sale System Reporting</b> Ticket transactions are processed in a point of sale system. Currently, limited information is obtained from the point of sale system resulting in the need for manual tracking for financial analysis which is time consuming and susceptible to human error/potential abuse.</p>	<p>Assess options with the point of sales system vendor to provide additional ticket transaction reporting. Investigate potential opportunities to integrate the point of sales system data with the City's financial system.</p>	<p>Staff will work with TixHub to acquire more detailed reports on tickets sales. Staff are in the process of investigating a new service provider for ticketing and will be doing an open call for potential providers.  The Creative Economy staff will investigate the options of aligning the point of sale system data the current financial system. Great Plains has been problematic and with the new SAP system, this will increase efficiency.</p>	<p><b>Status: Complete</b>  New point of sales systems were implemented which provides enhanced reporting and alignment of financial information with SAP.</p>



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Observation	Recommendation	Management Response	Follow Up September 2019
<p><b>4. Definition of duties</b> Clearly defined roles with respect to cash handling and position coverage do not currently exist.</p>	<p>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. Defining position coverage will ensure tasks, such as deposits, are completed in a timely manner.</p>	<p>Staff are currently undertaking a full review of the two theatres, Mady and Georgian. As part of the review job descriptions are being evaluated and redesigned. Cash handling will be addressed in the job review. The review will assist management to review how cash is currently being handled and ensure that it is clearly attached to more than one job description.</p>	<p><b>Status: Complete</b></p> <p>The staffing for venue management has been restructured and new job descriptions were created which clearly define roles for cash handling.</p>
<p><b>5. Monitoring and Review</b> Monitoring and review of Mady financial transactions can be improved.</p>	<p>Enhance the independent verification reviews of cash and equivalents for all Mady transactions to ensure completeness and accuracy of the financial transactions reported. Perform reasonability analysis on revenue reported by show on a periodic basis (i.e. quarterly).</p>	<p>Processes will be created to ensure that cash is clearly accounted for and signed off on by a supervisor. A new process will be implemented to review reconciliations for accuracy. New processes will be developed to review each show on a monthly basis.</p>	<p><b>Status: Complete</b></p> <p>Staff have reduced the handling of cash and equivalents with the implementation of the new point of sale systems.</p> <p>Regular independent verification of financial reporting has been established.</p>



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**Appendix “D” – Legislative & Court Services Cash Handling Observations, Recommendations, Management Response and Follow Up**

**Option A: Eliminate cash handling responsibilities in Legislative Services**

Observation	Recommendation	Management Response	Follow Up September 2019
<p><b>1. Limited cash handling responsibilities</b> Legislative Services staff handle a low volume of payment transactions with a limited number of staff.</p>	<p>Consider transferring cash handling responsibilities to Service Barrie to eliminate receipt of customer payments in Legislative Services.</p> <p>Staff in Legislative Services can still retain customer service activities for transactions where Service Barrie accepts customer payments (i.e. commissioning and declarations of documents, validation of marriage certificates and issuance of burial permits).</p>	<p><b>Legislative Services Response:</b> From a customer service perspective, until such time that Service Barrie assumes the majority of the cash handling responsibilities – these responsibilities will remain with the Legislative Services Branch to avoid customers being required to line up at more than one counter for a single transaction.</p>	<p><b>Status: Complete</b></p> <p>Legislative Services has transferred all cash handling responsibilities to Service Barrie and no longer handles cash.</p>

**Option B: Legislative Services retains cash handling responsibilities**

Observation	Recommendation	Management Response	Follow Up September 2019
<p><b>1. Safeguarding of Assets</b> Security over cash and equivalents can be enhanced.</p>	<p>Review the physical security and operating protocols related to cash and equivalents 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><b>Legislative Services Response:</b> A review of cash handling procedures is being undertaken with staff with an aim to improve current processes and ensure staff safety at all times.</p> <p>The Legislative Services Branch will formalize monitoring and reconciliation of cash equivalents and the manual receipts process.</p>	<p><b>Legislative Services Status: N/A</b> Eliminated Cash Handling Responsibilities (Option A)</p>



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Observation	Recommendation	Management Response	Follow Up September 2019
	Formalize the monitoring and reconciliation of cash equivalents and manual receipts process in Legislative Services.	<p><b>Enforcement Services Response:</b> Note – this building and specific area is a secured area with only key card access for staff. Staff will review and implement further securities for deposits &amp; petty cash holding areas.</p> <p><b>Court Services Response:</b> Current procedures will be reviewed to investigate enhanced ways to achieve less handling of cash and equivalents.</p>	<p><b>Enforcement Services Status: In Progress</b> Enforcement Services staff have implemented improvements to the handling and storage of cash assets and are continuing to implement additional security measures.</p> <p><b>Court Services Status: Complete</b> The cash handling procedures have been reviewed and formally documented. Staff took this opportunity to implement additional enhancements to reduce cash handling.</p>
<p><b>2. Segregation of duties</b> A lack of segregation of duties exists for cash handling in Legislative Services since the staff who receive customer payments also issue receipts, prepare the bank deposit and reconcile the deposits.</p>	Segregating cash handling duties between different staff will minimize the risks of errors and decrease the opportunity for fraudulent activity.	<p><b>Legislative Services Response:</b> The duties associated with preparing/reconciling deposits will be transitioned to a position that does not or rarely handles payments.</p> <p>A Supervisor/Manager will be required to sign off on all deposits.</p>	<p><b>Legislative Services Status: N/A</b> Eliminated Cash Handling Responsibilities (Option A)</p>
<p><b>3. Shared cash float and system access</b> Cash float and system access logins are shared between staff in Enforcement Services which limits the ability to attribute cash handling</p>	Assess the ability to assign separate cash tills and system access to each staff member handling cash to provide individual accountability.	<p><b>Enforcement Services Response:</b> Currently staff are scheduled for specific coverage of counter operations (specific to times of day), which provides some ability to attribute transactions to specific individuals however staff will continue to review and where</p>	<p><b>Enforcement Services Status: In Progress</b> Staff are required to initial all transaction receipts and there is a structured schedule for counter coverage.</p>



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Observation	Recommendation	Management Response	Follow Up September 2019
<p>transactions to a specific individual.</p>		<p>possible, make changes to systems for logins to enhance the overall protections. Note – there are limitations associated with the various applications currently used.</p> <p>The recommendation for a corporate POS system should assist with this in the future. It is understood that a corporate point of sale system is recommended for 2018.</p>	<p>There is no plan to change this approach until a corporate POS system is implemented.</p>
<p><b>4. Monitoring and review</b> Monitoring and review of Enforcement Services financial transactions can be enhanced.</p>	<p>Formalize the monitoring and reconciliation of funds received to include independent verification of the completeness and accuracy of the financial transactions reported.</p>	<p><b>Enforcement Services Response:</b> Management will work with Finance to develop a regular reconciliation of our accounts. Currently Enforcement revenue accounts appear to be at least a month to 2 months behind in data entry related to manual work undertaken in Finance which limits the ability for timely reviews.</p>	<p><b>Enforcement Services Status: Not Started</b></p>



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Observation	Recommendation	Management Response	Follow Up September 2019
<p><b>5. Point of Sale System</b> All transactions are processed manually in Legislative and Enforcement Services which is time consuming, prone to error and offers no form of transactional reporting.</p>	<p>Assess options for an automated point of sales system that will allow for reporting and receipting for all Legislative Services operations and integrate with the City's financial system.</p>	<p><b>Legislative Services Response:</b> Legislative Services Branch is slated for phase 3 of the Service Barrie transition plan. As part of the transition, it will be determined whether the limited remaining transactions would necessitate an automated point of sale system.</p> <p><b>Enforcement Services Response:</b> Current systems have limitations however, very limited errors have taken place and no abuse of our transactions have ever been noted within Enforcement Services.</p> <p>Some safe guards are in place to assist with the limitations, those include but are not limited to all transactions / receipts etc. are to be initialed by staff at the time of the transaction, all receipt numbers are documented on the applications/documents received so that it may be traced back.</p> <p>Staff look forward to the implementation of a corporate POS system which will further enhance the ability to track and report all service transactions.</p>	<p><b>Legislative Services</b> <b>Status: N/A</b> Eliminated Cash Handling Responsibilities (Option A)</p> <p><b>Enforcement Services</b> <b>Status: In Progress</b></p> <p>The department's progress on this recommendation is on hold until a corporate POS solution is approved.</p>