



### AUDIT INFORMATION

**Audit Unit:** GL Account Reconciliation Follow Up      **Distribution:** Michelle Moore, Coordinator of Financial Reporting

**Service:** Financial Management      Sandy O'Reilly, Manager Financial Services & Controller

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### SUMMARY OF AUDIT RESULTS

#### Area of Focus

In the 2016 Financial Review – Phase II audit, there was one high-risk finding related to the operating effectiveness of the reconciliation control. This follow up audit focused on the management action plans implemented to mitigate the risk.

#### Audit Period

This audit included the period January 1, 2017 to March 31, 2019.

#### What is Working Well

- Policies and procedures are in place to provide guidance for those with reconciliation responsibility. Also provided are templates for preparers to use when performing the reconciliation.
- Recent implementation of SAP Open Items functionality for reconciliation of clearing accounts, while still manual, has limited the number of items for review.
- Preparer and reviewer responsibilities are segregated.

#### Findings by Severity

(See definitions on Page 8)

Category	High	Medium	Low
Reconciliation	-	-	1

Refer to **Appendix 1** (page 5) for details of the audit findings and recommendations

**Overall Rating**      Good

(See definitions on Page 8)

## **SUMMARY OF AUDIT RESULTS**

### **Why?**

Reconciliation is a key control to ensure account balances are accurate and legitimate and transactions are processed in the correct period. When the control is not operating effectively, the organization is at risk of unauthorized activity and unknown errors.

The activities and controls in place need fine-tuning to ensure the reconciliation process remains strong.

### **Closing Comments**

In 2015, the Manager Financial Services requested an audit within the Financial Services area with specific focus on the general ledger/chart of accounts. A three-phased approach resulted in:

- Phase I - controls over the chart of accounts with an overall rating of GOOD (July 2015).
- Phase II - general ledger account reconciliation with an overall rating of FAIR (February 2017).
- Phase III - testing manual journal entries in the general ledger with an overall rating of GOOD (January 2016).

Over this time, the Manager, Financial Services and Coordinator of Financial Reporting have improved and enhanced the processes; introducing consistency and reliability to improve the quality of the controls.

The general ledger reconciliation process relies significantly, if not entirely, on manual effort. The time and energy spent, and the risk of error introduced, in manually matching transactions and identifying outstanding items could be reduced dramatically with improved functionality and business process design through the implementation of a new enterprise resource planning system. Staff time currently spent on performing manual reconciliation could re-focus time and energy on analysis and/or other activities of higher priority and need.

I wish to thank management and staff of Finance and Parks & Recreation for the cooperation and support extended to me during this audit.

### **Management Comments**

We would like to express thanks to the internal auditor for conducting a proficient and professional audit. While large strides have been made to strengthen our reconciliation process, we value the recommendations made to help further strengthen the controls.

## DETAILED AUDIT REPORT

### **General Ledger Accounts**

The chart of accounts is a set of accounts and represents an element of the City's accounting framework along with the accounting policies, configuration of the SAP system and oversight and analysis.

All of Burlington's financial transactions are recorded in the general ledger; maintained in the City's financial system, SAP. The City's general ledger now contains 781 accounts; of which 342 are active balance sheet accounts and 439 accounts are blocked from transactions.

The chart of accounts is maintained by staff responsible for financial services. This team also delivers processing of day-to-day financial transactions such as accounts payable, accounts receivable, payroll, donations, debit/credit card payments and cash management as well as reconciling City accounts.

### **Staffing**

Overall accountability for the chart of accounts and the related financial controls rests with the Controller and Manager of Financial Services. The Coordinator of Financial Reporting is accountable for: General Ledger Account Reconciliation Guidelines, managing and maintaining the inventory of accounts, and ensuring the controls are operating as intended. In addition to the manager and coordinator, there are 19 staff designated with general ledger account reconciliation activities.

General ledger reconciliations are performed primarily by the two Financial Analysts and the Accounting Clerk, as well as, designated staff in Finance-Tax, Finance-Payroll, Halton Court Services and Parks & Recreation.

### **Audit Objectives**

This follow up audit was conducted to assess the operating effectiveness of management action plans implemented to address the risks identified in GL account reconciliation and communicated in the 2016 audit report.

### **Audit Scope**

Specifically, the follow up audit focused on the activities, processes, and operations implemented to mitigate the risk identified in the area through interviews with relevant management and staff, and examination of a sample of GL account reconciliations.

The scope of the review specifically excluded other processes and operations in managing general ledger accounts including ownership and the responsibility for the criteria and process to classify general ledger accounts.

### **Role of Management & Inherent Risk**

Management is responsible for designing internal controls to lessen the risks in the service or activity and to meet the following objectives:

## DETAILED AUDIT REPORT

- Safeguarding of assets (including reputation)
- Compliance with laws, regulations and corporate policies
- Reliability and integrity of financial and operational information
- Efficiency and effectiveness of operations.

Risk Category	Risk Rating
<b>Theft &amp; Fraud – Internal:</b> Loss arising from acts intended to defraud or misappropriate property or assets, involving at least one internal party.	High
<b>Performance &amp; Responsibility:</b> Loss arising from failure to demonstrate accountability for key responsibilities	High
<b>Process:</b> Loss arising from transactions processing or process management	High

**Legend:**

High – significant/large/critical impact on City operations, financial results and/or image

Moderate – moderate/modest/sensitive impact on City operations financial results and/or image

Low – insignificant/little/subtle impact on City operations, financial results and/or image

## APPENDIX 1 – DETAILED FINDINGS, RECOMMENDATIONS & MANAGEMENT ACTION PLANS

**Audit Finding #1**

**Risk Category:** Process

**Severity:** Low

### **Reconciliation**

#### **What is happening?**

The following indicates the activities and controls are in place within the reconciliation program and processes; yet need fine-tuning to ensure the reconciliation process remains strong.

#### *Training*

Training occurred in September 2017 with a walkthrough of the guidelines demonstrating the requirements and template use through an example. Several employees with reconciliation responsibility attended this training session; however, not all employees with reconciliation responsibility attended. Two (2) persons with responsibility of preparing reconciliations and three (3) persons with responsibility of reviewing/approving reconciliations did not attend the training.

#### *Reconciliation Requirements*

Two (2) of eight (8) accounts sampled are not reconciled to sub-ledgers or other sources to validate the legitimacy of the entries. Another 2 of the 8 accounts are not reconciled at the prescribed frequency (e.g. daily, monthly, quarterly, etc.). The balances, in the four accounts, are not material.

The reconciliation of one (1) of eight (8) accounts sampled does not contain information to explain outstanding items and items outstanding for a long period of time. The balance in this account is not material; the 2 items have been outstanding since 2014 and 2015 respectively.

The reconciliation of one (1) of eight (8) accounts sampled occurs 2 to 3 weeks after SAP closes. Guidelines indicate reconciliation should be performed “no later than 10 business days after close”. This account has a high volume of receivables transactions.

One suspense account is not subject to formal reconciliation and review. This account was not selected for the sample. The lack of formal reconciliation was disclosed by the clerk who uses the account. This account has a low volume of transactions and the balance is not material.

#### *Supporting Documentation & Evidence*

The reconciliation guidelines require the preparer and reviewer to sign the account reconciliation. For 1 of 8 accounts sampled, the preparer does not sign reconciliation and for another of the accounts sampled, the reviewer does not leave evidence that support documentation was reviewed. For this reviewer, one month’s reconciliation did not contain the documentation supporting the bank balance.

## **Reconciliation (continued)**

### **What is the impact?**

Reconciliation is a key control to ensure account balances are accurate and legitimate, and transactions are processed in the correct period. When the control is not operating effectively, the organization is at risk of unauthorized activity and unknown errors.

### **Recommendations:**

- Manager, Financial Services and/or Coordinator of Financial Reporting conduct one-time meetings with reviewers who did not attending training to determine their level of understanding of responsibilities including review of supporting documentation and providing/leaving evidence of review.
- Coordinator of Financial Reporting engage in discussion with P&R Business Process Coordinator and P&R Supervisor Business Services to confirm general ledger account responsibilities with objective of clearly establishing accountability within P&R. Further, triage P&R GL Accounts to determine those requiring Finance oversight (e.g. review of high-risk accounts by limited resources) and to remove duplication of effort.
- Formalize the reconciliation for Tax Suspense – 3021070.
- Identify appropriate supporting documentation to justify reconciliation of:
  - 4081010 - Deferred Revenue General Account, and
  - 3123060 - Accounts Receivable – Local.
- Clarify with preparers the appropriate frequency of reconciliation, timing of reconciliation, and level set expectation of evidence of review when on-line review is performed. For example, maintaining notes of questions asked about outstanding items or length of time items outstanding when doing review of accounts using Open Items for reconciliation.

## **Management Action Plan – Audit Finding #1**

### **Comments: Agree**

### **Action Plan:**

- 1) The Coordinator of Financial Reporting will meet with reviewers that did not attend training to ensure that they fully understand their responsibilities as a reviewer. This will include communicating the importance of review of supporting documentation with appropriate evidence of review.
- 2) The Coordinator of Financial Reporting will meet with the identified staff from P&R to establish objectives and responsibilities over P&R GL Accounts, including the identification of high-risk accounts that would require finance review.

**Action Plan (continued):**

- 3) The Coordinator of Financial Reporting will follow up to formalize the reconciliation of the tax account identified and ensure that appropriate supporting documentation is obtained for all reconciliations.
- 4) The Coordinator of Financial Reporting will reach out to all preparers to clarify reconciliation frequency and set expectations for evidence of review.

**Responsibility:** Controller and Manager of Financial Services and Coordinator of Financial Reporting

**Target Date:** Q4 2019

## LEGENDS & INTERNAL AUDIT STANDARDS

Overall Audit Ratings	
Rating	Description
Excellent	<ul style="list-style-type: none"> <li>No internal control weaknesses noted.</li> <li>Good adherence to laws, regulations, and policies.</li> <li>Good control environment.</li> <li>Operations are considered efficient and effective.</li> </ul>
Good	<ul style="list-style-type: none"> <li>Several low and/or one or two medium findings.</li> <li>Minor contraventions of policies and procedures with compensating controls in place.</li> <li>No violation of laws.</li> <li>Minor opportunities for improvement in efficiency and effectiveness.</li> </ul>
Fair	<ul style="list-style-type: none"> <li>Many medium findings and/or one or two high findings.</li> <li>Several contraventions to policy.</li> <li>Minor violations of regulations/laws with minimal impact to City.</li> <li>Moderate opportunities for improvement in efficiency and effectiveness.</li> </ul>
Weak	<ul style="list-style-type: none"> <li>Several high findings and some medium and/or low findings</li> <li>Controls weak in one or more areas.</li> <li>Noncompliance with policies put the City at risk.</li> <li>Violation of law/regulation put the City at risk.</li> <li>Substantial opportunities for improvement.</li> <li>Operations are considered consistently inefficient and/or ineffective</li> </ul>

Audit Finding Severity Scale	
Severity	Details
High	<ul style="list-style-type: none"> <li>Residual risk is very high or high</li> <li>Key control does not exist, is poorly designed or is not operating as intended</li> <li>Serious non-compliance to policy or regulation</li> <li>May result in immediate or material loss/misuse of assets, legal/regulatory action, material financial statement misstatements, etc.</li> <li>Indicates a serious business control weakness/deficiency requiring immediate action</li> </ul>
Medium	<ul style="list-style-type: none"> <li>Residual risk is medium</li> <li>Key controls are partially in place and/or are operating only somewhat effectively</li> <li>Some non-compliance to policy or regulation</li> <li>May negatively affect the efficiency and effectiveness of operations and/or financial reporting accuracy.</li> <li>Indicates a business control concern requiring near-term action be taken</li> </ul>
Low	<ul style="list-style-type: none"> <li>Residual risk is low to very low</li> <li>Key controls are in place, but procedures and/or operations could be enhanced.</li> <li>Minor non-compliance to policy or regulation</li> <li>May result in minor impact to operations.</li> <li>Indicates a business control improvement opportunity for which longer-term action may be acceptable.</li> </ul>

### Audit Methodology

The audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing. The City Auditor relied upon interviews with and observation of key personnel, examination of information, data, and other documentary evidence and re-testing of controls.

### Audit Conclusions

The conclusions reached in this report are based upon information available at the time. The overall conclusion is only applicable to the function/area of this audit. It reflects the professional judgment of the Office of the City Auditor based on a comparison of situations as they existed at the time against audit criteria as identified in the scope of the audit.

### Reasonable Assurance

This conclusion is intended to provide reasonable assurance regarding internal controls. There are inherent limitations in any controls, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective controls may provide only reasonable assurance with respect to City operations.