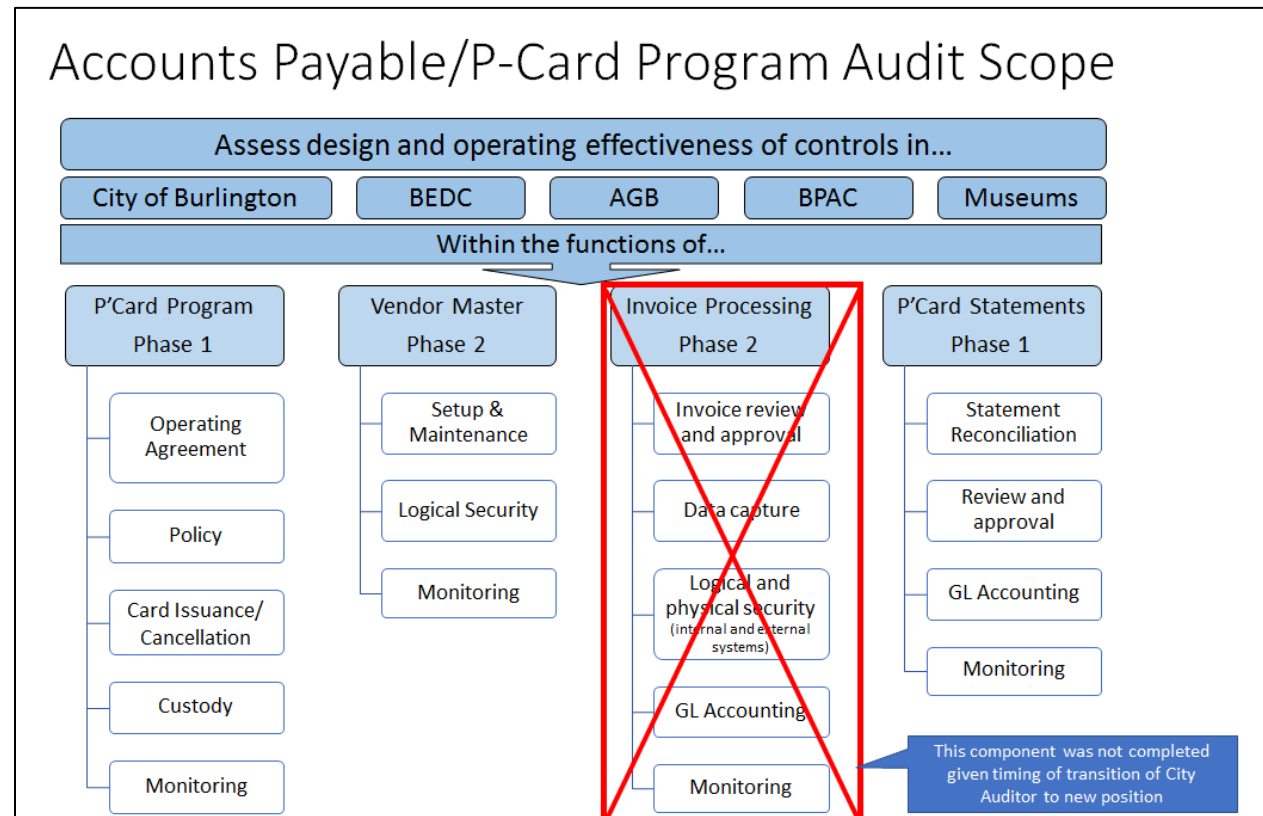


AUDIT INFORMATION

Audit Unit:	Accounts Payable & P'Card Program	Distribution:	Florence Akinloye, Coordinator of Accounting
Service:	Financial Management - Financial Services		Gar Darroch, Manager Procurement
Date Issued:	December 23, 2019		Sandy O'Reilly, Controller & Manager Financial Services
Author:	Sheila M. Jones	cc:	Joan Ford, Chief Financial Officer
			Nancy Shea-Nicol, City Solicitor
			Tim Commisso, City Manager

SUMMARY OF AUDIT RESULTS

Area of Focus



SUMMARY OF AUDIT RESULTS

Audit Period

This audit will cover the period January 1, 2018 to July 31, 2019.

What is Working Well

- Documented purchase card policies and procedures are widely available and communicated.
- Number of “how to” documents for use of CentreSuite are available on 360 Burlington.
- Documented purchase cardholder agreements are current and on file and the card issuance process is functioning well.
- A strong tracking and monitoring process is in place for the review of purchase card use and reporting.
- The use of performance measures, while in early stages, is an appropriate way in which to monitor the uptake and use of the purchase card program vis a vis the overall accounts payable strategy.
- Documented procedures exist to support invoice processing.

Findings by Severity

(See definitions on Page 20)

Category	Area of Focus	Risk Category	Risk Severity
P'Card Program	Operating Agreement	Process	Medium
	Extension of Credit	Process	Medium
P'Card Statements	P'Card Responsibility	Performance & Responsibility	Medium
	Account Reconciliation	Process	Low
Vendor Master	Data Integrity	Process	High
	Logical Security & Segregation of Duties	Unauthorized Activity	Medium

Refer to **Appendix 1** (page 7) for details of the audit findings and recommendations

Overall Rating

FAIR

(See definitions on Page 20)

Why?

Vendor Master – Data Integrity

The heart of the accounts payable process is the vendor master file. “A strong vendor master file management policy is essential to prevent errors. An effective vendor master file policy includes regular reports on activity, communication with vendors, a consistent naming convention, rules governing vendor additions and deletions, and routine cleansing of old or duplicate entries.”¹ While standard operating procedures are documented for the set-up of vendors, the controls over the maintenance and upkeep of the vendor master file are ineffective in design and operation. This situation was reported previously in the

¹ Vendor Master File Case Study, *AP Monthly* March 2009, Volume 1, Issue 7, http://www.theaccountspayablenetwork.com/html/library/newsletters/APMonthly_0309.pdf

SUMMARY OF AUDIT RESULTS

2010 Accounts Payable audit and by the External Auditors in the City's management letter for the 2007 audit.

Closing Comments

We thank management and staff of city staff Finance and other departments, BEDC, AGB, BPAC and the Museums for the cooperation and support extended to us during this audit.

Management Comments

Finance management appreciate the recommendations offered. These will not only strengthen internal controls but serve as a basis to ensure proper controls are incorporated in the new ERP.

We appreciate the professionalism with which the audit was conducted and the communication of issues as the audit progressed.

DETAILED AUDIT REPORT**Financial Management – Financial Services**

Accounts payable is corporate function and is responsible for making payments owed by the City to suppliers, other creditors, and employees for expense claims. Typically, an accounts payable unit oversees a variety of tasks including processing approved invoices and expense claims, reviewing credit card statements, organizing cheque runs, posting entries to the general ledger, and auditing expense reports.

Accounts payable depends on the vendor master information to process payments. The vendor master files are maintained within the Procurement function to minimize the risk of fraudulent vendor payments.

Demographics

Invoice Processing 2019:

- Number of invoices processed (annually) = 19,333
- Payment Dollars processed (annually) = \$175.4 million

Purchase Card Program:

- Number of Purchase cardholders (as at December 31, 2019) = 380
- Purchase card dollars expensed (as at December 31, 2019) = \$11.4 million

Vendor Master:

- Total vendor records = 10,429
 - Number of External vendors = 7,197
 - Number of City of Burlington employees (non-salary expenditures) = 2,354
 - City of Burlington internal (e.g. petty cash, etc.) = 878
 - Number of vendors marked "Do not use" = 1,488

Staffing

Accounts Payable

- Manager, Financial Services = 1
- Coordinator of Accounting = 1
- Accounts Payable Clerk = 2

Procurement

- Manager Procurement = 1
- Senior Buyer = 3 (no responsibility for vendor master records)
- Administrative Assistant - Procurement & Financial Services = 1

Audit Objectives

This audit assessed the design and operating effectiveness of controls in key processes supporting accounts payable, vendor master management and the P-Card program to assure:

DETAILED AUDIT REPORT

- The efficiency and effectiveness of operations including accuracy of payments, completeness of payment information, and clarity of responsibilities,
- The integrity and reliability of financial and operational information including proper and timely recording of payments, and legitimacy of vendors,
- The entity assets are safeguarded including payments for legitimate and authorized purchases and authorized use of payment cards, and
- Compliance with policies and procedures and operating agreements.

The audit was scaled back to include only the p-card program and the vendor master component.

Audit Scope

The audit included the following entities:

- City of Burlington,
- Art Gallery of Burlington,
- Museums of Burlington,
- Burlington Performing Arts Centre, and
- Burlington Economic Development Corporation.

Audit procedures included:

- Review of relevant policies and procedures, operating agreements, and other documents,
- Interviews with management and staff with accounts payable, vendor management, and purchase card responsibility,
- Examination of a sample of transactions for P-Card issuance/cancellation, vendor setup and maintenance, accounts payable invoices, P-Card statement reconciliation, related general ledger accounting,
- Observation of payment processing and P-Card activities, and
- Review of system access and physical security for purchase cards, vendor management, and accounts payable systems and activities.

The scope of the review specifically excluded:

- Procurement/purchasing practices (e.g. needs identification, market scan, RFI/RFP/tenders, vendor selection and contract development/ negotiation, vendor analyst, etc.),
- Receipt/receiving of goods and services including confirmation to contract/order,
- Contract management, and
- How delegated authorities are determined.

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:

- 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.

DETAILED AUDIT REPORT

Risk Category/Definition	Inherent Risk Rating
Theft and Fraud – Internal: Loss arising from acts intended to defraud or misappropriate property or assets, involving at least one internal party.	High
Process: Loss arising from transactions processing or process management.	High
Unauthorized Activity: Loss arising from acts, involving at least one internal party, intended to circumvent regulations, the law or City policy.	High
Performance & Responsibility: Loss arising from failure to demonstrate accountability for key responsibilities.	High
Efficiency: Loss arising from inefficient processing	Medium
Vendor and/or Supplier Performance: Loss arising from vendor relationships.	Medium
Community Trust/Confidence: Loss arising from an activity undertaken by the City or its representatives that will impair its image in the community or lower public confidence in it.	Medium
Privacy & Confidentiality: Loss arising from an authorized or negligent failure to meet a professional obligation to safeguard employee, citizen, and/or organizational information.	Low

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: Medium

P'Card Program - Operating Agreement

What is happening?

The agreement with City's provider of purchase card services was signed in 2008 for a 5-year term. In 2009, the City authorized the inclusion of the Burlington Public Library (BPL) to enter into an agreement with the purchase card provider including a credit facility to support the program within BPL. In 2011, the credit facilities for both COB and BPL were confirmed through commitment letter. In 2013, the City signed a renewal agreement with the purchase card provider for another 5-year term with a one-year automatic renewal; extending the agreement to March 2019.

1. The agreement with the purchase card services provider is technically a line of credit that is not supported by a borrowing by-law.
2. The City is in the process of issuing a request for proposal for the provision of purchase card services. In order to accommodate the time required for this process the City's desire to extend the existing agreement was communicated to the purchase card provider prior to the agreement expiry date. Clear acceptance of this request was received during the course of the audit at the request of the auditor.

What is the impact?

1. The city's temporary borrowings are not fully acknowledged by the Corporation.
2. Failure to confirm the extension of the agreement past the agreed upon extension date may have caused significant operational issues had the purchase card services provider cancelled their services.

Recommendations:

1. Establish the necessary borrowing by-law to acknowledge the short-term financing related to the extension of credit through the purchase card program.
2. Ensure agreement extensions and confirmation of services continuing are formally acknowledged.

APPENDIX 1 – DETAILED FINDINGS, RECOMMENDATIONS & MANAGEMENT ACTION PLANS

Management Action Plan – Audit Finding #1

Comments: Agree

Action Plan:

1. Establish the necessary borrowing by-law to acknowledge the short-term financing related to the extension of credit through the purchase card program.
2. Follow-up communication request exercised.

Responsibility:

1. Controller and Manager of Financial Services
2. Manager of Procurement Services

Target Date:

1. April 30, 2020
2. Completed

APPENDIX 1 – DETAILED FINDINGS, RECOMMENDATIONS & MANAGEMENT ACTION PLANS

Audit Finding #2

Risk Category: Process

Severity: Medium

P'Card Program - Extension of Program to Agencies

What is happening?

Over the last 3 years, the City has supported the issuance of purchase cards to the Burlington Performing Arts Centre (BPAC), Art Gallery of Burlington (AGB), Burlington Economic Development Corporation (BEDC), and Burlington Museums (BM). Each of these agencies operate under their own governance model; that is, each has its own board of directors and operates as a separate entity. At a point in time, the City entered into operating agreements with these agencies.

At this time, the status of these agreements is not well understood or documented. This situation is not the sole responsibility of Finance; however, the functions provided by Finance (and other City functions) may be affected by these agreements.

With the exception of BPAC, these operating agreements (while dated) do not expressly cover the extension of credit facilities or the acceptance of liability associated with use of credit facilities. Nor is there any documentation from the boards of these agencies expressly agreeing to the use of the purchase card program and the acceptance of liability associated with their use.

What is the impact?

Potential liability exposure exists by not having current agreements to acknowledge purchase card use and/or indemnification of liability.

Recommendations:

Include the use of purchase card services in renegotiated operating agreements.

While work on agreements is underway, an interim solution maybe be to obtain board resolutions supporting the use of purchase card services, the extension of credit by the City on behalf of the agency, and the indemnification for any loss or liability arising from the use of the purchase card program implemented by the City.

APPENDIX 1 – DETAILED FINDINGS, RECOMMENDATIONS & MANAGEMENT ACTION PLANS

Management Action Plan – Audit Finding #2

Comments: Agree

Action Plan: Request agencies obtain board resolutions agreeing to use of City's purchase card services and the indemnification for any loss or liability arising from the use of the purchase card program implemented by the City.

Resolutions will be provided to City staff responsible for revising operating agreements so that they can be incorporated into the new operating agreements.

Responsibility: Coordinator Accounting Services

Target Date: end of Q2 2020

APPENDIX 1 – DETAILED FINDINGS, RECOMMENDATIONS & MANAGEMENT ACTION PLANS

Audit Finding #3

Risk Category: Performance & Responsibility

Severity: Medium

P-Card Responsibilities

What is happening?

Cardholder Responsibilities

User responsibilities are addressed in the Payment Card User Policy and Procedures Reference Guide (July 2017). This guide is provided to every cardholder upon initial delivery of the card to the cardholder.

Within this document, it states:

- *In the opening section I HAVE MY PAYMENT CARD -WHAT DO I DO NOW?*
“5. Obtain your supervisor's approval signature directly on the statement whether the expenditures are within your signing authority limit or not. Approval signature should also be accompanied by printed name for easy identification.”
- In cardholder responsibilities:
“5. Ensuring that the Card, monthly statement, significant date and other documents bearing the card number are kept in a secure location with controlled access
6. Ensuring that the card information is confidential, as with a personal credit card.”
- In Restrictions:
“7. The card must not be loaned to anyone or used by anyone other than the specific named cardholder.
10. Purchases are not to be split in order to stay within the Payment Card transaction value limit.”

In two of the agencies, cards are being shared among staff for purchases. In one agency, both the executive director and their direct report's reconciliations are not being reviewed. In the other agency, purchases are split between cards due to card limits.

Payment Card Coordinator

Payment Card Coordinator responsibilities are addressed in the Payment Card User Policy and Procedures Reference Guide (July 2017) wherein it states the coordinators responsibility for:

“Notifying Payroll immediately if a cardholder terminates their employment, changes departments or takes a leave of absence or maternity leave so the payment card account can be cancelled.”

APPENDIX 1 – DETAILED FINDINGS, RECOMMENDATIONS & MANAGEMENT ACTION PLANS

P-Card Responsibilities (continued)

What is happening? (continued)

As of July 2019, six (6) of 365 card accounts were not cancelled immediately upon staff leaving the City or agency where employed or being on a leave of absence. Of these six accounts, only 1 cardholder used the card for a minor purchase after leaving the city.

What is the impact?

- Shared card use diminishes accountability.
- Lack of supervisory review of spending or failure to cancel cards may result in inappropriate or unauthorized use of card.
- Split purchases are circumventing card limits established to protect the City from overspending.

Recommendations:

Work with staff in both the City and agencies to:

- review operating procedures for comprehensive understanding of responsibilities
- establish appropriate supervisor review of spending in affected agency,
- include purchase card on City's Conclusion of Employment form to automate notification to Payroll for card cancellation,
- review card cancellation procedures with agencies, and
- determine appropriate card issuance and limits to support operations.

Management Action Plan – Audit Finding #3

Comments: Agree

Action Plan: Reinforce the responsibilities of cardholders and supervisors and assist the boards in establishing and documenting appropriate review procedures.

Liaise with HR & IT to include purchase card on City's Conclusion of Employment form to automate notification to Payroll for card cancellation

Responsibility: Coordinator Accounting Services

Target Date: end of Q2 2020

APPENDIX 1 – DETAILED FINDINGS, RECOMMENDATIONS & MANAGEMENT ACTION PLANS

Audit Finding #4

Risk Category: Process

Severity: Low

Account Reconciliation

What is happening?

Cardholder statements are expected to be reconciled monthly to include allocation of expenses to appropriate cost elements and attachment of receipts. Reconciliations are to be completed, signed and reviewed by one's supervisor within a stated number of days past month end.

Currently, there are two types of statements being used for monthly reconciliation: (1) Commercial Card Monthly Statement and (2) Statement of Account Report. Of these two statements, the commercial card monthly does not contain the cost element details, nor does it provide a signature block for either the cardholder or the supervisor to sign and date.

What is the impact?

The lack of information related to the allocation of expenses impairs the ability of the supervisor to certify all charges on the cardholder's statement are correct and were made for official purposes, which meet the business needs of the City.

A signature block with a date line is a reminder to include the date of the review which in turn, assists in determining if timelines are being followed.

Recommendations:

Connect with Department Payment Card Coordinators to use only the Statement of Account report for the monthly reconciliation of cardholder charges for review by supervisors.

Include in the AP Clerk audit procedures to confirm use of appropriate statement type.

Management Action Plan – Audit Finding #4

Comments: Agree

Action Plan: Send email communication to Payment Card Coordinators to advise their card holders to use only the Statement of Account report for the monthly reconciliation of cardholder charges for review by supervisors. Also communicate their responsibility for tracking receipt of signed and reconciled statements going forward. Include in the AP Clerk audit procedures to confirm use of appropriate statement type.

Responsibility: Coordinator of Accounting

Target Date: February 28, 2020

APPENDIX 1 – DETAILED FINDINGS, RECOMMENDATIONS & MANAGEMENT ACTION PLANS

Audit Finding #5

Risk Category: Process

Severity: High

Vendor Master

Data Integrity

What is happening?

The Vendor Master File contains all the necessary information the City needs to process payment transactions for employees and vendors. This information includes names, addresses, and bank account information. Categories are used during vendor record set up to distinguish between employees, internal vendors (e.g. petty cash, floats, etc.) and regular vendors. The integrity and accuracy of the Vendor Master File is the foundation for efficient and effective payment processing.

The current vendor master file contains 10,429 records including employees, internal vendors and external vendors. Of these records, 1,488 records indicate “Do Not Use” (or some variant e.g. “.Do Not Us” or “Do No Use”) and 1,470 have been blocked from payment using the central deletion flag, central posting block, central purchasing block, payment block or some combination of all four blocking mechanisms. Payments can be processed against the remaining 18 vendors; 9 of which are external vendors and 9 of which are employees.

Sorting of the vendor master file records reveals inconsistencies in how vendors are named, addresses are input, vendors are marked as “do not use”, and how the search term is defined.

Review of the 6988 regular external vendors indicates:

- missing address information for 229 (3.5%) active and 52 blocked vendors, and
- missing primary phone number for 1185 (16.9%) of active vendors.

A search of records by name, address, or phone number results in a number of instances of potential duplicate vendors. Within a sample of records, 23 vendors were identified as potential duplicates wherein either name, address or both are the same, or the name is similar, and the address is the same.

Changes to vendor data (e.g. name, address, email, etc. with the exception of banking information) are made on the basis of information received either on an invoice or through email. Such information may be checked for validity; yet it is not a common practice.

This situation is the same as when Accounts Payable was audited in 2010. At that time, management indicated a review of the vendor master was performed and standard operating procedures were documented and implemented. This situation may be attributed, in part, to the lack of current standard operating procedures and the lack of quality assurance of the vendor master data as required by the SOPs. The SOPs were updated in 2017; however, these SOPs were not finalized nor communicated to staff and processes were not implemented.

Vendor Master (continued)

Data Integrity (continued)

What is the impact?

Inaccurate and inconsistent vendor master data may result in:

- Inefficiencies for users (e.g., additional paperwork to process or correct payments)
- False vendors
- Erroneous or duplicate payments
- Duplicate vendors.

Recommendations:

1. Within Procurement, undertake a project to clean up the current Vendor Master File including removal of duplicate vendors, completion and accuracy checks of fields, correction of file structures, and blocking of inactive or dormant vendors and former employees.
2. Update and communicate the standard operating procedures and ensure a cycle of regular review is established.
3. Establish and enforce procedures for data entry formats (e.g., naming conventions, record structure, physical address required, direct communication information required).
4. Implement the monitoring required to ensure the vendor master information and updates are legitimate and input correctly and accurately.

Management Action Plan – Audit Finding #5

Comments: Agree

Action Plan:

1. Perform a review of the vendor master report with a goal of both culling redundant vendors as well as looking for any suspect situations and investigating accordingly.
2. Update SOPs including vendor master report process.
3. Identify mandatory fields required for vendor setup (both external and internal vendors) and incorporate into the existing SOPs.
4. Establish the processes to implement the Quality Control of the Vendor Master File SOP. With the review of the vendor master report being performed by end of June 2020, the processes for quality assurance will begin at the end of 2020.

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

Management Action Plan – Audit Finding #5 (continued)

Responsibility: Manager of Procurement Services

Target Date:

1. June 30, 2020
2. Completed January 10, 2020
3. June 30, 2020
4. December 31, 2020

APPENDIX 1 – DETAILED FINDINGS, RECOMMENDATIONS & MANAGEMENT ACTION PLANS

Audit Finding #6

Risk Category: Unauthorized Activity

Severity: Medium

Vendor Master

What is happening?

SAP Roles and Permissions

Staff requiring access within the various account payable duties are granted permissions through SAP – the City's financial system.

Through review, three procurement staff were identified as having inappropriate access: one staff to vendor master administrative functions and two staff to account payable park functions. When notified of the issues, the business took measures to restrict access.

Segregation of Duties

The City has set up processes to separate the creation of vendors and changes to non-payment related information from changes to banking information. Within SAP Vendor Master Admin functions, the staff assigned responsibility for creating and maintaining vendor information are able to access the banking information screen and make changes. While staff maintain they can't change banking payment information because they don't know how, this is not a control.

Vendor set up is expected to be performed by one position on a regular basis. While the majority of the vendor master records indicate this position (over time occupied by various people) have created the records, 325 vendors were set up by a financial analyst (also a super user in SAP) and 30 records were set up by the manager (also a super user in SAP). While these super users have the ability to set up and change vendor information, this is contrary to the established practice. To date, this situation has not been identified because monitoring of vendor setup and maintenance is not performed.

What is the impact?

Unauthorized or inadvertent changes to vendor master information may occur resulting in re-directed payments and fraudulent vendors.

Recommendations:

Where possible, control the permissions to add, delete or change vendor master information within SAP.

Where not possible, a compensating monitoring/detective control is needed to ensure changes made to the vendor master information, including banking information, are legitimate and authorized.

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

Management Action Plan – Audit Finding #6

Comments: Agree

Action Plan: Remove inappropriate access for vendor changes

Responsibility: Controller and Manager of Financial Services

Target Date: completed.

APPENDIX 2 – ADDITIONAL OBSERVATIONS

Additional Observation #1

What is happening?

The Accounts Payable clerk is responsible for monitoring receipt of reconciled statements. This task is onerous given the over 360 cardholders within the City and agencies.

Recommendation

Assign responsibility for tracking receipt of signed and reconciled statements to the Department coordinators. Included in the responsibility is the process to escalate to managers and directors when statements are not provided in a timely basis. The Accounts Payable Clerk could then connect with department coordinators to ensure the process is working as intended.

LEGENDS & INTERNAL AUDIT STANDARDS

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

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

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.