To:	Finance Committee
From:	Beverly Hendry, Interim City Manager City Manager's Office
Report Number:	FIN-15-105
Date of Report:	November 10, 2015
Date of Meeting:	November 19, 2015
Subject:	Accounts Payable and Purchasing Audit
File:	C-3100

1.0   PURPOSE

The purpose of this report is to transmit the KPMG Accounts Payable and Purchasing Audit Report.

2.0   RECOMMENDATION

It is recommended to City Council:

That Report FIN-15-105 dated November 10, 2015 and Attachment No. 1, being the KPMG Accounts Payable and Purchasing Audit Report, be received for information.

3.0   EXECUTIVE SUMMARY

Not applicable.

4.0   INPUT FROM OTHER SOURCES

The audit report by KPMG was conducted with the complete involvement of the appropriate City employees and management group.

5.0   ANALYSIS

On June 29, 2015, Council received for information a 2015 Audit Plan. Three audits were part of the Plan, as follows:

- Accounts Receivable and Cash Handling (complete)

- Accounts Payable and Purchasing (subject of this report)

- Payroll and Overtime (underway)

The Accounts Payable and Purchasing audit results forms Attachment No. 1 to this report. Management and staff will work closely with KPMG to respond to the findings and implement the recommendations on a go-forward basis.

The third audit for 2015, Payroll and Overtime, is underway and will be reported on in the first quarter of 2016.

6.0　　FINANCIAL IMPLICATIONS

There are no financial implications.

7.0　　RELATIONSHIP TO THE OSHAWA STRATEGIC PLAN

This report responds to the Council-approved guiding principle of financial stewardship, which underlies the Oshawa Strategic Plan, Our Focus, Our Future. It also responds to the goals of Economic Prosperity and Financial Stewardship – ensure economic growth and a sound financial future, and Accountable Leadership – ensure respect, responsiveness and transparency.

Helen Break, Director, Corporate Policy, Projects and Performance
City Manager's Office

Beverly Hendry, Interim City Manager,
City Manager's Office

KPMG
cutting through complexity ™

If this information is required in an accessible format, please contact Service Oshawa. Telephone 905-436-3311; email service@oshawa.ca.

Internal Audit of AP and Purchasing Compliance, Purchasing Cards and Travel Expenses

Overall report rating

Partial assurance with improvement opportunities

City of Oshawa

November 2015

Contents

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Status of Report

Discussion draft issued	**20 October 2015**
Management responses received	**2 November 2015**
Final report issued	**3 November 2015**
Presented to Finance Committee	**19 November 2015**

Distribution

To (for action):

- Jay Martin – Manager, Financial Services and Financial Systems
- Dave Lyon – Manager Purchasing Services
- Pat Morrison – Supervisor, Payroll and Accounts Payable

cc (for information):

- Stephanie Sinnott – Executive Director Finance Services / Treasurer

Sponsor

- Stephanie Sinnott – Executive Director Finance Services / Treasurer

Conclusion

We have provided a grading of [e.g. **partial assurance with improvement opportunities (****amber-red****)** for the Accounts Payable (AP) and Purchasing Compliance, Purchasing Cards (Pcards) and Travel Expense Internal audit. We identified opportunities for improvement around key areas including signing authority levels, bid selection processes, segregation of duties and purchasing/corporate cards, mostly due to the manual and paper-based processes in place. There are initial plans in place to upgrade the Finance Systems (PeopleSoft) and we believe this will enhance controls once this is implemented.

Accounts Payable and Purchasing processes consist of mostly manual processes and controls. A new process for vendor set up has just been implemented and this has enhanced segregation of duties, ensuring appropriate approvals are given for new vendors to be set up. We noted there are a large number of staff with authority for approval of purchase orders and expenditure, with 25 staff having unlimited authority. Whilst the requisition passes through Purchasing, we do not believe this to sufficiently mitigate the risk of unauthorized purchases. It is also not common practice to have so many staff with unlimited authority. This is usually restricted to one or two of the most senior staff. The authority matrix requires review as a priority, and a hierarchy should be put in place to ensure approvers are appropriate. We also noted examples where the bid process set out in the By-Law is not being adhered to with regards to ensuring an RFP/RFQ is prepared or three quotes received.

Although controls exist to ensure access to Pcards and the corporate card are appropriate and limitations are in place to control use, these controls are not consistently enforced. We noted instances where staff were able to self-approve the use of the card. In addition, the Pcard Policy needs to be updated to reflect current processes and a review of the Pcard holders listing to be performed by someone in Finance. Furthermore, a corporate card Policy should be added to the Pcard policy. We noted a number of potential efficiencies and leading practice which could be achieved through review of the Pcard provider. Other Pcard services could provide more data on card usage and enhance information on transactions, as well as rebates on transactions.

Administration of travel expenses is paper-based. Efficiencies could be achieved through an electronic system (see next paragraph). The travel expense form along with the supporting backup is forwarded to the accounts payable group by Department Managers. There is no up to date travel expense policy in place to govern allowable expenses. In addition, the current per diem guidelines are listed separately and there is a need for time restriction on the submission of travel expenses to prevent processing delays.

We understand there are initial plans in place to upgrade the Finance Systems, including use of the Accounts Payable and Procurement modules from PeopleSoft. We support this initiative and believe a strategy should be developed. These upgrades could provide enhanced controls and allow improved segregation of duties for the approval of purchase orders and expenditures. It would also allow for greater use of electronic documentation and reduction of manual paper forms, including travel expense forms which are printed, signed and manually submitted with receipts to accounts payable. This process change would result in improved efficiency through electronic submission (i.e. receipts) and opportunities to reduce paper usage and documentation storage costs.

Background

An efficient and effective accounts payable system is important to the overall workings and support function of the City. It ensures that purchases are appropriately authorized and effective controls are in place to ensure the efficient and appropriate issuance of payments. The City had a trade payables balance of $6.9M as of December 31, 2014 and $4.5M as of June 30, 2015.

The use of Pcards as a means for making payments is common in most organizations. Total Pcard expenditures in 2014 were $669k and $455k for 2015 up to the end June. As a result, effective controls to manage requests for new cards, purchasing cards, the storage of these cards and ensuring appropriate use of needs will be controlled. The City currently has 132 purchasing cards and 1 corporate card which are used by Employees at the City.

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Objectives

Objective	Description of work undertaken
Objective one Purchasing Cards	We reviewed the following key processes in place around purchasing cards: • Setting up purchasing cards and oversight of access to purchasing cards; • Policy for usage of a purchasing card and identifying best practice versus the use of credit or corporate cards; • On a test basis, sampled a selection of monthly expense reconciliation packages that covered management's review of transactions and whether they were in accordance with policy • On a test basis, sampled a selection of purchasing cards to ensure they were stored securely.
Objective two Travel and policies and compliance	We reviewed the City guidelines. This included the following; processes for submitting travel expense claims and segregation of duties surrounding approval of travel expenses; on a test basis, sampled a selection of travel expenses to ensure they were in compliance with City policies, including obtaining evidence to support the claim and validating rates against the policy and due to limited data provided, data analytics could not be performed using our IT tools.
Objective three Purchasing compliance and policies	We reviewed the policies around purchasing to ensure appropriateness based on our experience of working with other public sector bodies. We undertook sample testing on purchases made during 2015 to ensure compliance with the purchasing policy and consistency in application of the RFP process. We also considered the appropriateness of the signing authority for individuals at the City.
Objective four Accounts payable	We built on the work from objective three to review and test other controls in the purchasing function based on new controls recently put in place (or being put in place), that included processes and controls for setting up new suppliers; controls for making amendments to supplier bank details; access controls to the AP module of PeopleSoft and the use of purchase orders and approval of expenditure. We also undertook data analytics on purchases, identifying anomalies, risk areas for further investigation and included recommendations for improvement.

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Areas of good practice

✓ **Accounts Payable:** We note that the vendor set up process has recently been enhanced to ensure segregation of duties is established relating to the set up of new vendors for payment. In addition controls have been enhanced when making changes to bank details.

✓ **Purchasing Cards:** Pcards are programmed individually with the ability to limit staff purchases by imposing transaction limits, billing period limits, merchant blocking and industry blocking.

✓ **Travel Expenses:** There are appropriate segregation of duties controls for the review of expenses.

Areas for development

• Currently there are large numbers of staff with the ability to approve purchase orders and expenditures, with some having no limits on approvals. In order to enhance controls, the signing authority matrix needs to be reviewed and adjusted to ensure these levels are appropriate and a hierarchy for approval is introduced (**Recommendation One**).

• We noted inconsistency in the bid solicitation process. More specifically, we note instances where the three quote requirement for RFPs/RFQs were not always obtained for expenditure requiring such, and no documented explanation supporting the decision for non-compliance with the By-Law (**Recommendation Two**).

• Segregation of duties needs to be enhanced between the requisitioner of a purchase and the approver. Our testing identified that the same individual could be the requisitioner and approver (**Recommendation Three**).

• There are significant number of controls and processes that are paper based. There are initial plans in place to upgrade PeopleSoft. This would enhance controls around approval of expenditure but also reduce paper usage (as many forms are currently printed) and storage costs (**Recommendation Four**).

Recommendations raised

We have raised the following recommendations (high priority represents the most urgent and high risk category):

	High	Medium	Low	Total
Raised	1	1	8	**10**
Accepted	1	1	8	**10**

Acknowledgment

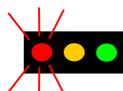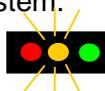We thank the staff involved for their help in completing this review.

Recommendations

This section summarises the recommendations that we have identified from our work. We have given each of our observations a risk rating as follows:

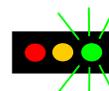| Priority rating for recommendations raised		
High – (Priority One): Issues arising referring to important matters that are fundamental and material to the system of internal control. The matters observed might cause a system objective not to be met or leave a risk unmitigated and need to be addressed as a matter of urgency.	**Medium – (Priority Two):** Issues arising referring mainly to issues that have an important effect on the controls but do not require immediate action. A system objective may still be met in full or in part or a risk adequately mitigated, the weakness represents a deficiency in the system.	**Low – (Priority Three):** Issues arising that would, if corrected, improve internal control in general but are not vital to the overall system of internal control. These recommendations are of leading practice as opposed to weaknesses that prevent systems objectives being met.

#	Risk	Recommendation	Management response, executive and deadline
1	🔴 **(high)**	**Signing authority processes need to be enhanced** We noted the following issues: • Presently, there are 227 staff that have signing authority across City of Oshawa; • There are 25 individuals that have unlimited signing authority (at manager and director level). Whilst there is a check done in Purchasing once a requisition is raised, we do not believe this to be a sufficient mitigation as there may not be an appropriate level of challenge to the reason for the expenditure. It is also not common practice to have so many staff with unlimited signing capacity to commit the City to expenditure; • There are some levels of staff that have approval capabilities which may not be appropriate e.g. five administrative/executive assistants can authorize up to $7,500 in some cases. There is no consistent structure amongst approval authority levels; • There is presently no review of the signing authority matrix undertaken regularly; and • One individual on the signing authority matrix does not have any approval limit boxes checked off but this individual is able to approve any amount up to the approved budget and associated P.O. This could lead to individuals having inappropriate authority levels and able to approve subsequent expenditure without review. *(continued overleaf)*	Management is not in agreement with the level of risk identified by KPMG. The sample population data KPMG tested relating to requisition and invoice approval was 100% in compliance with the signing approval matrix. Additionally the individuals that currently have unlimited signing authority are at the appropriate decision making level for the organization. Management agrees that the signing authority matrix should be reviewed with recommendations to the Corporate Leadership Team on a matrix that is more hierarchical based but not seniority based. This review would include standardized levels of authority across business units but not necessarily across the organization. *(continued overleaf)*

#	Risk	Recommendation	Management response, executive and deadline
		We recommend the following: • A review of the authority levels should be undertaken and consideration given to developing a hierarchical structure of approval authorities dependent on seniority. The signing authority matrix should be reviewed to remove individuals that do not require a signing authority limit and provide limits for each individual based on seniority. Approval authority should be restricted to Management level or above and this should be consistent across all departments. The number of individuals with unlimited signing authority should be significantly reduced. • The authority matrix should be reviewed, maintained and updated on a periodic basis by a member of the finance department. This review should consist of updating the listing for individuals who leave the City, new hires or changes in job positions/roles, job titles and appropriateness of authority level.	Finance Services, as of November 1, 2015 has assumed responsibility for the updating and maintenance of the signing approval matrix. The matrix will be updated as changes occur. Owner: Stephanie Sinnott Due date: 31 December 2016
2	● (medium)	**Request for bid process** We noted four purchase orders where there was no Request for bid completed, no advertisement was made, at least three bidders were not obtained. We believe the key reason for this was because the bid process is sometimes run by departments despite the By-Law stating the process should pass through Purchasing Management. We recommend the following: • All formal bid solicitations should be run through Purchasing to ensure the By-Law is followed. • The policies around the bid selection process should be re-iterated on a periodic basis to remind employees the importance of following organization policies and to reduce instances of non-compliance. • Purchasing Management should perform self-audits on a periodic basis (i.e. monthly) to ensure bid selection processes are being followed. • For instances where the bylaw cannot be followed, reasons should be documented and bid selection process should go through Purchasing.	Management agrees with the recommendations. The four cases of non-compliance the business unit acted independently of purchasing therefore circumventing the Purchasing By-law Purchasing Services will ensure that education session are developed and purchasing practices reinforced with the business units Purchasing self-audits are not an effective, independent an un-bias method of audit so it is recommended that Financial Services perform independent reviews quarterly commencing Q1-2016 to ensure compliance is achieved. In situations where the by-law is not followed a template form will be completed by the Manager Purchasing Services, approved by the business unit and retained in the purchasing file. Owner: Dave Lyon Due date: 31 December 2016

#	Risk	Recommendation	Management response, executive and deadline
3	● (low)	**Segregation of duties between the requisitioner and approver** We noted in our sample testing, eight out of 30 samples where the requisitioner was the same individual as the approver of the requisition and four out of 30 instances where the requisition and invoice was approved by the same individual. It should be noted that the policy does not specify that segregation of duties required and as a result the City has been operating in compliance with its policy. A lack of segregation of duties at the requisition stage can lead to inappropriate expenditure being incurred. However, it should be noted that Purchasing Management have some oversight of the requisitions prior to purchase order creation. We recommend that : • The policy should be reviewed as it pertains to requisition and approval. • Quarterly self-audits performed as per recommendation two should incorporate appropriate requisition approval process.	Management agrees with the recommendation. An appropriate procure to pay process will formulate part of the PeopleSoft Financials upgrade in which automated approvals and policy alignment will be incorporated as indicated in recommendation 4. Owner: Dave Lyon Due date: 31 March 2016
4	● (low)	**Upgrade of PeopleSoft** We noted in our audit that a significant number of controls and processes are paper based. This limits the effectiveness of some controls (such as in recommendations two and three) and also increases costs through use of paper and storage. We recommend a strategy and action plan is put in place for the upgrade of PeopleSoft. This must consider the key controls that are required as part of the new system, including procurement controls, enforced segregation of duties around approval of expenditure, and travel expenses.	Management agrees with the recommendation. A PeopleSoft upgrade RFP, which will include an independent consultant review of systems and processes will be issued Q4-2015 Owner: Jay Martin Due date: 31 December 2017

#	Risk	Recommendation	Management response, executive and deadline
5	● (low)	**Ensuring Pcard holder listing is up to date** Accounts Payable staff are not routinely informed of changes in employment status (e.g. staff leaving), thus are unable to determine whether Pcards have been returned on a timely basis by the relevant Manager. In addition there is no review performed on the current Pcard listing to ensure it is up to date for leavers or changes in staff roles (to determine if staff still require a Pcard). This could lead to leavers keeping their Pcard and inappropriate expenditure being incurred. We recommend that: • AP Admin staff be notified of change of employment status by HR on a weekly basis. This would allow AP Admins to take the necessary steps to have Pcards revoked, blocked or updated depending on current job functions and status. • A review is put in place on a regular basis (at least quarterly) of the Pcard listing to ensure it is up to date.	Management agrees with the recommendation. Finance Services will work with business units on a process of notification to ensure the listing and maintenance of P-cards is current and regulated. Owner: Jay Martin Due date: 30 June 2016
6	● (low)	**Updates to the Pcard Policy and creation of Corporate Card Policy** The Pcard Policy does not reflect current practices around the Monthly Pcard Expense reconciliation process, review of Pcard holders listing and repercussions around non-compliance of the Pcard Policy. This could lead to staff not being aware of their responsibilities. In addition, there is currently no Corporate card Policy in place to provide rules on use of the card which could lead to confusion over what it can be used for and who can use it. We recommend the following: • The Corporate card Policy should be added to the Pcard policy and include the following key areas: Card holder responsibilities, Visa Credit Card Request Form, acceptable use, requirements for expenditure approval and submission of receipts. • The Pcard Policy should be updated to reflect the current practices around the monthly reconciliation process and maintenance of PCard listing. • The Pcard Policy should specifically identify any repercussions around non-compliance of the Pcard Policy.	Management agrees with the recommendations. Finance Services will ensure the P-Card policy is up to date and reviewed on an annual basis or as processes are revised and implemented. The recommendation does not indicate non-compliance of transactional activity but a reflection of enhancements to the existing policy. The existing P-card policy was reviewed and implemented April 29, 2014. The Corporate Visa Credit Card will be considered as part of the P-card evaluation and request for proposals process. Owner: Jay Martin Due date: 30 June 2016

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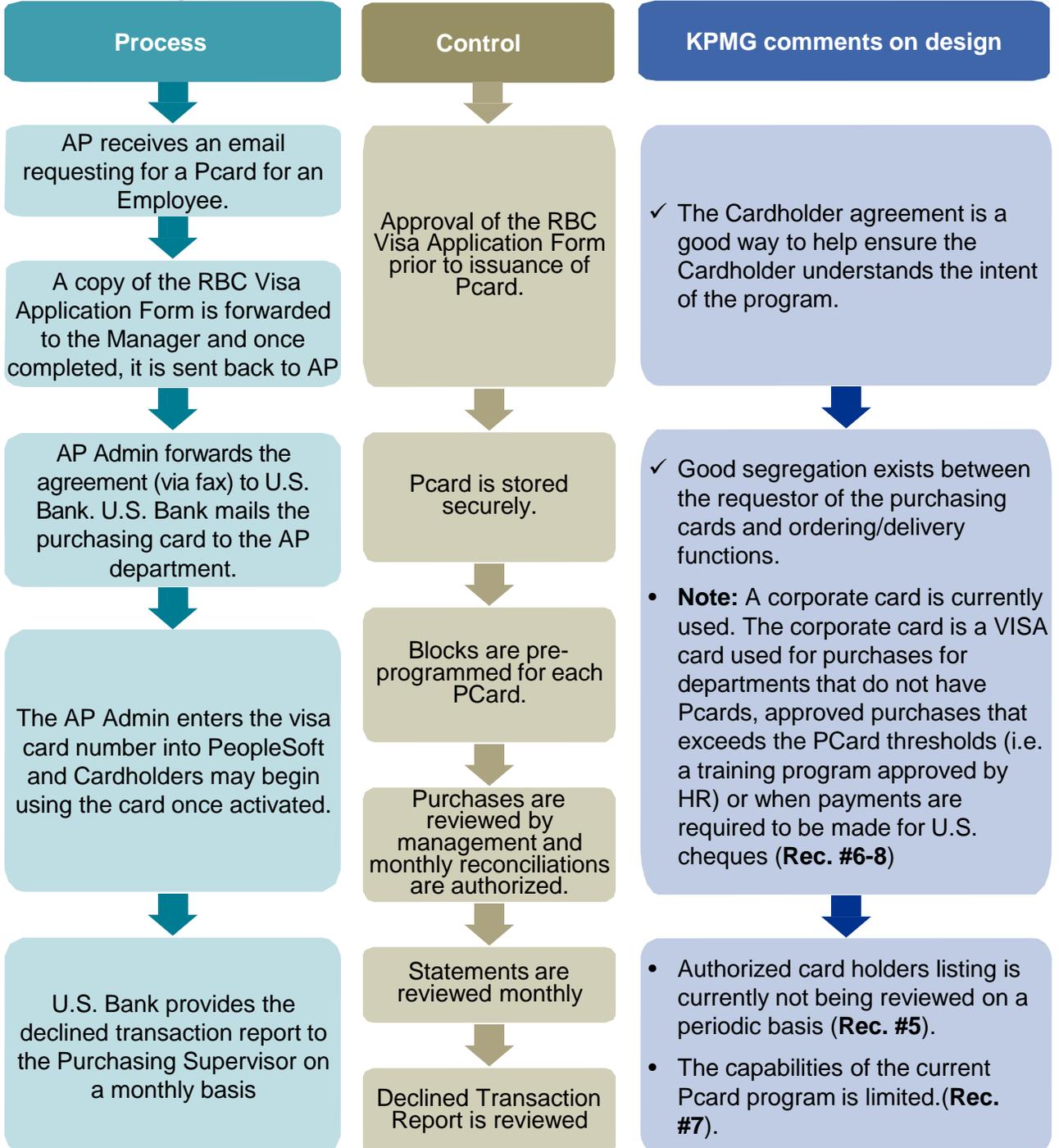| #	Risk	Recommendation	Management response, executive and deadline
7	● (low)	**Review of the current Pcard / corporate card provider** The City currently has a Pcard program (U.S. Bank) which has been in place for more than ten years and since then the market has not been tested for use of another Pcard program. We noted that other Pcard service providers offer additional reporting features over purchases. In addition the statements are all paper based when there may be opportunities for these to be provided electronically. We recommend a review is performed of the current arrangements to consider whether the market should be tested of the City in terms of provision of information on transactions and the necessity to have a separate corporate card.	Management agrees with the recommendation. The issuance of an RFP for P-cards should be undertaken to ensure the City has the most robust program available in terms of automation, flexibility and incentives. Owner: Jay Martin Due date: 30 June 2016
8	● (low)	**Segregation between the requestor/approver and Purchasing Management** Internal audit reviewed 3 Corporate Visa Credit Card Request Forms and noted one individual from the purchasing department signed off as the representative requesting for the corporate card, approver of their own request and signed off in the place of Purchasing Management review. While in these instances we believe the expenditure was appropriate, there could be opportunities for inappropriate expenditure to be incurred. However, the risk is minimized due to Purchasing Management's review and signoff on the monthly statements as well as through self audits performed by Purchasing Management. We recommend the following: • The corporate card should only be released when the appropriate signoffs have been obtained by Purchasing Management to prevent unauthorized access and purchases. • A policy should be sent out periodically to corporate card users reminding them of approval processes.	Management agrees with the recommendation although no action is required. The Corporate Card currently has controlled due diligence around the issuance of the card. Appropriate forms are completed and signed off. The one instance of non-compliance, direction was given to a staff member to utilize the card. In addition as a mitigating control, the Corporate card statement is reviewed and approved appropriately. The Corporate card is issued approximately 100 times per year. The issuance and approval process is internal to the Purchasing Services department. Owner: Dave Lyon Due date: n/a

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#	Risk	Recommendation	Management response, executive and deadline
9	● (low)	**Developing a Travel policy** There is currently no travel policy in place. We recommend a travel policy be created to ensure employees are kept aware and are following current travel policies and procedures. This should include the following: • Purpose of the policy, who the policy applies to and does not apply to; • Authorization of expenses; • Requirement of expense reports (e.g., date, time, place, business nature), retention of original receipts by Employees and approval; • Per diem guidelines and mileage rates (should be combined as part of the travel policy once implemented); • Business related v. non-reimbursable expenses; • Time restriction on submission of travel expenses (i.e. 30 days); • Requirements of what Managers must look for when approving expenses; • Required submission of electronic travel expense forms and receipts to make the process more efficient. This form should include spaces for the identification of AP Admins for input and verification purposes; and • A requirement that periodic reviews are performed on travel expense reports at random by Management.	Management agrees with the recommendation. Finance Services in conjunction with Human Resources will create a recommended travel policy and put forth for organizational approval. Owner: Jay Martin Due date: 31 December 2016
10	● (low)	**Efficiency of payment processing** From our data analytics (Appendix C) we noted that Oshawa Power and Utilities Corporation (OPUC) provide Oshawa with over 600 invoices in the period to the end of August 2015. These were mostly for hydro bills, as each site is invoiced separately. We recommend that Finance discuss the consolidation of invoices with OPUC to see if one invoice could be received monthly with schedules demonstrating the sites which they relate to so costs can be assigned to necessary departments. This will significant reduce time taken to process invoices.	Management agrees with the recommendation. Although recommended Finance Services has investigated this issue in the past with limited success due to third party system capability. This is very low priority and can be revisited in the future. Owner: Jay Martin Due date: 30 September 2016

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In line with the objectives of the scope, we have assessed the processes and controls in place around AP and purchasing compliance, purchasing cards and travel expenses. The following Appendix demonstrates the relevant processes we have identified and the key controls in place to mitigate risks. We have commented on the design of these controls in the right-hand column. Where controls have been deemed to be designed effectively, we have gone on to test their operating effectiveness in Appendix B.

Purchasing Cards Process

Process	Control	KPMG comments on design
AP receives an email requesting for a Pcard for an Employee.	Approval of the RBC Visa Application Form prior to issuance of Pcard.	✓ The Cardholder agreement is a good way to help ensure the Cardholder understands the intent of the program.
A copy of the RBC Visa Application Form is forwarded to the Manager and once completed, it is sent back to AP		
AP Admin forwards the agreement (via fax) to U.S. Bank. U.S. Bank mails the purchasing card to the AP department.	Pcard is stored securely.	✓ Good segregation exists between the requestor of the purchasing cards and ordering/delivery functions.
	Blocks are pre-programmed for each PCard.	• **Note:** A corporate card is currently used. The corporate card is a VISA card used for purchases for departments that do not have Pcards, approved purchases that exceeds the PCard thresholds (i.e. a training program approved by HR) or when payments are required to be made for U.S. cheques (**Rec. #6-8**)
The AP Admin enters the visa card number into PeopleSoft and Cardholders may begin using the card once activated.	Purchases are reviewed by management and monthly reconciliations are authorized.	
	Statements are reviewed monthly	• Authorized card holders listing is currently not being reviewed on a periodic basis (**Rec. #5**).
U.S. Bank provides the declined transaction report to the Purchasing Supervisor on a monthly basis	Declined Transaction Report is reviewed	• The capabilities of the current Pcard program is limited.(**Rec. #7**).

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Purchasing Process

Process	Control	KPMG comments on design
Purchasing Admin date stamps requisition form received by Manager.	Requisition is reviewed by the Manager and approved by Purchasing Management.	• Numerous individuals have access to high level approval authority levels (**Rec. #1**) • The Bid solicitation process is not consistently followed; Noted instances where requisitioner was the same as the approver of the requisition and invoice (**Rec. #2&3**)
Requisition is assigned to a Buyer and Comp. Bid process starts. Note: There is no PO required for items <$2,500		
Purchasing creates purchase order	PO is created and approved by authorized individuals as per the signing authority matrix.	✓ Manual matching of key information is done regularly in Accounts Payable. • Manual processes limits the effectiveness of some controls (**Rec. #4**)
AP Admins receive PO and manually inputs the data on the PO into PeopleSoft		
AP Admins batch control invoices.	3 way match is performed.	
Weekly payment register is generated or cheque run is performed.	Register for Approving AP Cheque Runs and EFT payments is manually reviewed and signed off by the AP Manager.	✓ Payment registers are used for EFT Vendors and manual cheque runs are done. ✓ Automatic notifications of payment receipt are received by the vendors and cheques are manually posted.
Managers send payment file to RBC for payment.		
	AP Admin staff review monthly vendor statements for payments made and variances are followed up.	

Accounts Payable Processes

Vendor Master Setup for New Vendors and Banking Changes

Process	Control	KPMG comments on design
Vendor Set Up Request/Vendor Change Form completed		✓ The vendor set up and vendor change request processes have been combined into one process.
Accounting Analyst receives the Vendor Setup/Change Form and validates information on form	The information on the Vendor Setup/Change Form is validated by the Accounting Analyst	
If incomplete, the form is sent back for missing information. If complete, the Vendor is added into PeopleSoft	PeopleSoft is checked to ensure there is no duplicate vendor.	✓ Segregation of duties has been taken into consideration around the Vendor Setup/Change processes by the hiring of a new Accounting Analyst.
The Vendor Setup Request/Vendor Change Form is submitted to Manager of Financial Services for approval	Manager of Financial Services or AP Supervisor approves new vendor/change in PeopleSoft	
Signed form is submitted back to Accounting Analyst for filing		
If there's a PO associated with vendor then AP emails Purchasing the Vendor # and PO is created accordingly		

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Travel Expense Process

Process	Control	KPMG comments on design

Process

A travel expense claim form is completed by claimer and Manager. Employees submit travel expense or take per diem.

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Travel expense claim form and support is forwarded to A/P.

↓

AP Admins date stamp and travel expenses are paid by the end of the week of submission.

↓

Expense data is entered into PeopleSoft

↓

Cheque run process is run at the end of the week

Control

Conferences and travel are pre-approved.

↓

Travel expense claim form is approved.

↓

The AP admin clerk reviews the travel expense claim form and matches it to the supporting backup

↓

Follow-ups are performed for missing receipts, etc.

↓

A separate Admin will match the information in PeopleSoft to ensure accuracy.

KPMG comments on design

- A requirement to submit travel expense form and receipts electronically will make this process more efficient and allow for key risks to be addressed in an efficient manner **(Rec. #9)**.

- There is no time restriction on submission of travel expenses **(Rec. #9)**.

- There is no updated travel policy in place or training administered. The policy provided dated back to 1975 and no updates have been made **(Rec. #9)**.

Appendix B: Summary of testing results

We summarise below the results of the compliance testing we have performed over the controls in place. It should be noted that recommendations are only raised where actions can be taken and some areas of non-compliance do not have recommendations raised.

Purchase Card

Monthly Pcard Reconciliation

| | Yes | No | N/A |

Findings

We obtained 5 sample Monthly Pcard Reconciliation packages from March to July 2015 and conducted testing.

✓ All five U.S. Bank Pcard Statements were received by the Accounts Payable department

- All five samples did not include evidence of Manager sign off on the Monthly Pcard Expense Reconciliation Package.

- All five samples did not include evidence of Departmental Coordinator sign off on the Monthly Pcard Reconciliation Package prior to forwarding to the Accounts Payable Department.
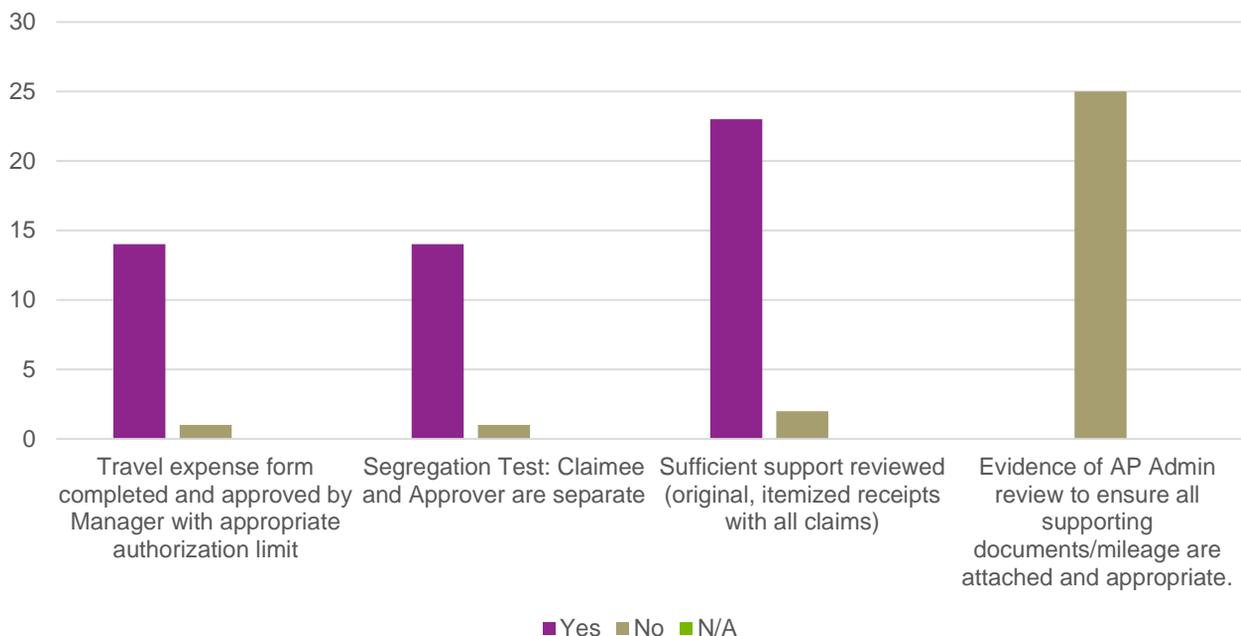
Bid Selection

Findings

We obtained a listing of all PO's raised from January to August 2015. As the controls in place operate on a daily basis (8 months) we selected a sample of 30 PO's to conduct detailed testing **(Rec. #2).**

- ✓ 22/30 requisitions where requisitioner was separate from the approver of the requisition.
- • For eight sample requisitions, the requisitioner was not segregated from the approver of the requisition.
- ✓ 21/25 purchase orders contained a request for proposal or a request for quotations.
- • For four sample purchase orders with amounts greater than $2,500, there was no request for proposal or request for quotations completed.
- ✓ 13/15 purchase orders selected, at least 3 bids were obtained as part of the bid selection process.
- • For two purchase orders selected, at least 3 bids were not obtained.
- ✓ 13/17 purchase orders selected, advertisement occurred as part of the bid selection process.
- • For four purchase orders selected, no advertisement was made.
- ✓ 13/16 purchase orders selected, the contract was awarded and the PO was issued to the lowest bidder or highest scoring proponent.
- • For three purchase orders selected, the contract was not awarded to the lowest bidder or highest scoring proponent.

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Invoice to Payment

| | Yes | No | N/A |
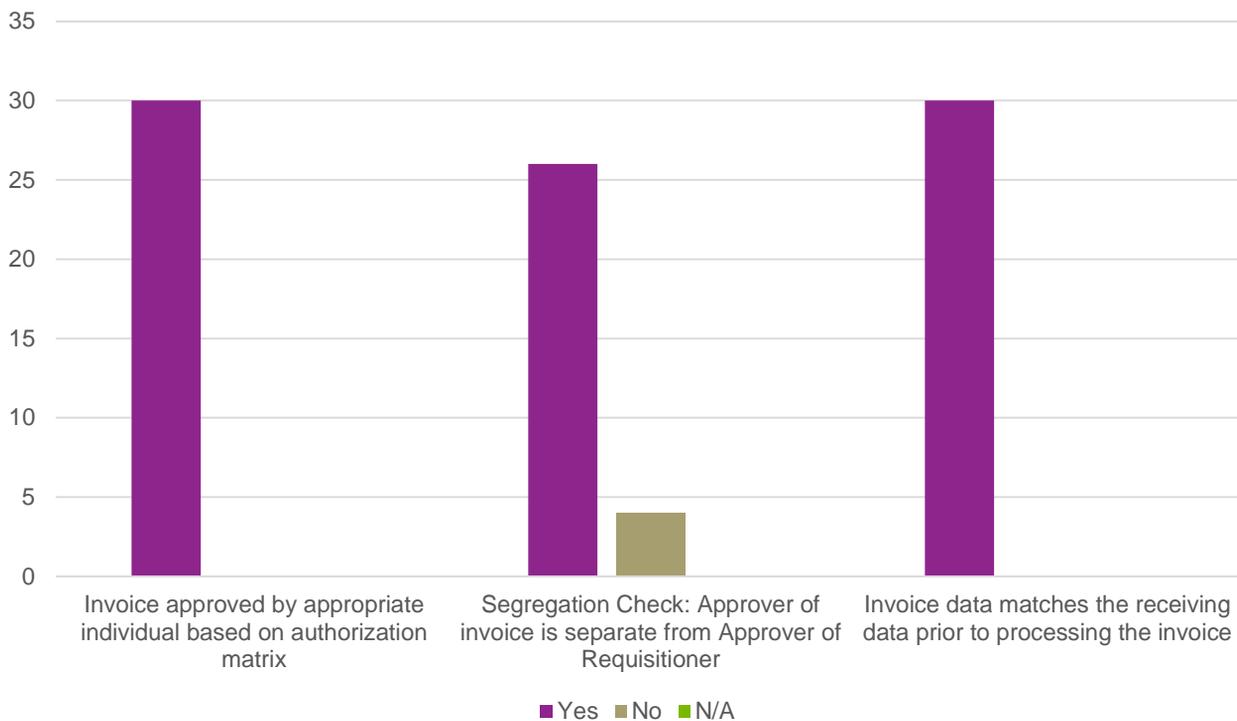
Findings

We obtained a listing of all PO's raised from January to August 2015. As the controls in place operate on a daily basis (8 months) we selected a sample of 30 PO's to conduct detailed testing **(Rec. #3).**

- 30/30 samples showed that the invoice was approved by an appropriate individual based on the authorization matrix.

- 26/30 samples selected, a segregation check was performed. It was noted the approver of the invoice is separate from the approver of the requisition.

- For four samples selected, a segregation check was performed. It was noted the approver of the invoice was not separate from the approver of the requisition.

- 30/30 samples, invoice data matched receiving data prior to processing the invoice

Travel Expenses

| | Yes | No | N/A |

Chart categories (x-axis):
- Travel expense form completed and approved by Manager with appropriate authorization limit
- Segregation Test: Claimee and Approver are separate
- Sufficient support reviewed (original, itemized receipts with all claims)
- Evidence of AP Admin review to ensure all supporting documents/mileage are attached and appropriate.

Findings

We obtained the travel expense accounts with activity during 2015 and randomly selected a sample of 25 travel expenses for detailed testing **(Rec. #9).**

- ✓ 24/25 travel expense forms were completed and approved by the Manager with authorization limit.
- • For one travel expense, internal audit noted that travel expense form was not completed with Manager approval (Voucher #385145).
- ✓ 24/25 travel expense cases, the claimer and approver functions remained segregated
- • For one travel expense (Voucher #385145), internal audit noted that no approvals were obtained for one individuals' expenses prior to them leaving the organization.
- ✓ 23/25 travel expense cases, sufficient support was attached to expense claim form.
- • For two travel expenses, sufficient support was not obtained (Voucher #391443 and #385145) .
- • 25 sample travel expenses showed no evidence of AP Admin review to ensure all supporting documents/mileage are attached and appropriate.

Signing Authority Matrix

We have performed data analytics over Signing Authority Matrix as at 31 August 2015.

Observations

As at August 31, 2015: **Refer to Rec. #1**

- There were approximately 227 individuals with signing authority levels assigned and of those approximately 33 individuals had signing authority over $20,000. Of these 33 individuals, 25 had unlimited signing authority and the remainder 8 had limited signing authority up to $100k.

- There are a various levels that have approval capabilities. Internal audit noted that some Admins can authorize up to $7,500. There is no consistent structure amongst approval authority levels and amounts throughout the departments.

- There is presently no review of the signing authority matrix and the Authority Matrix does not appear to be updated for peoples titles, does not include a header and title of the organization, etc.

- One individual on the signing authority matrix does not have any approval limit boxes checked off to indicate he has signing authority.

Signing Authority Matrix
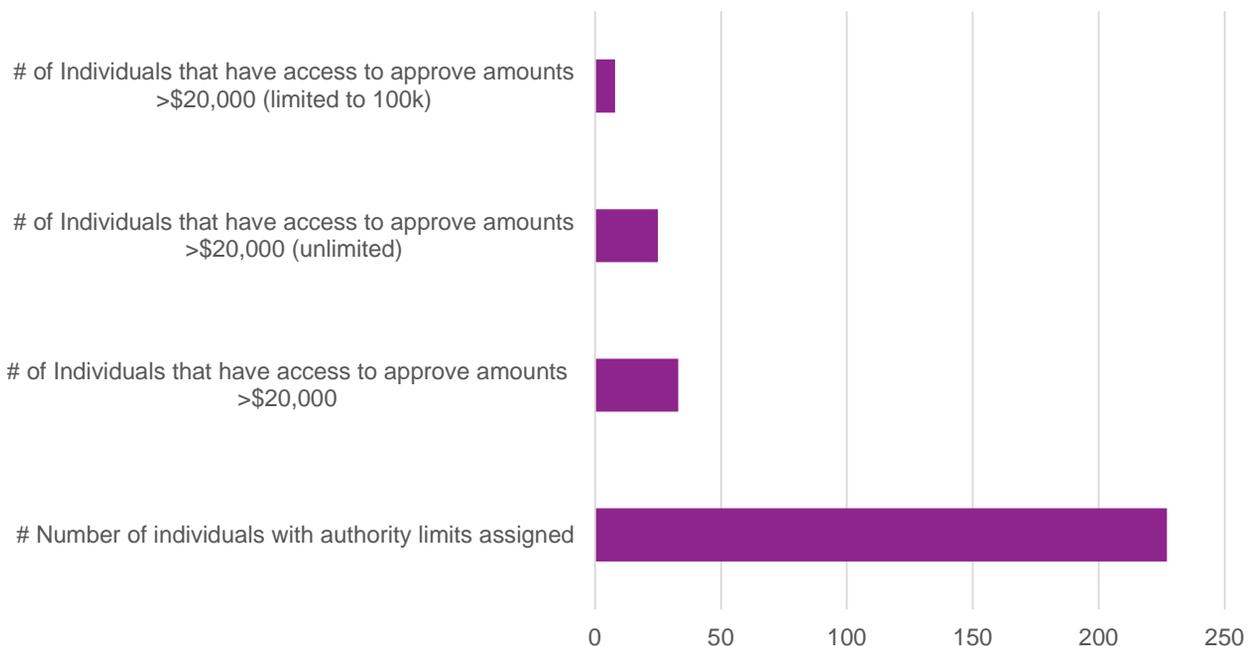
Pcard Spending 2015

We have performed data analytics over Signing Authority Matrix as at 31 August 2015

Pcard spending vs. No spending (2015)
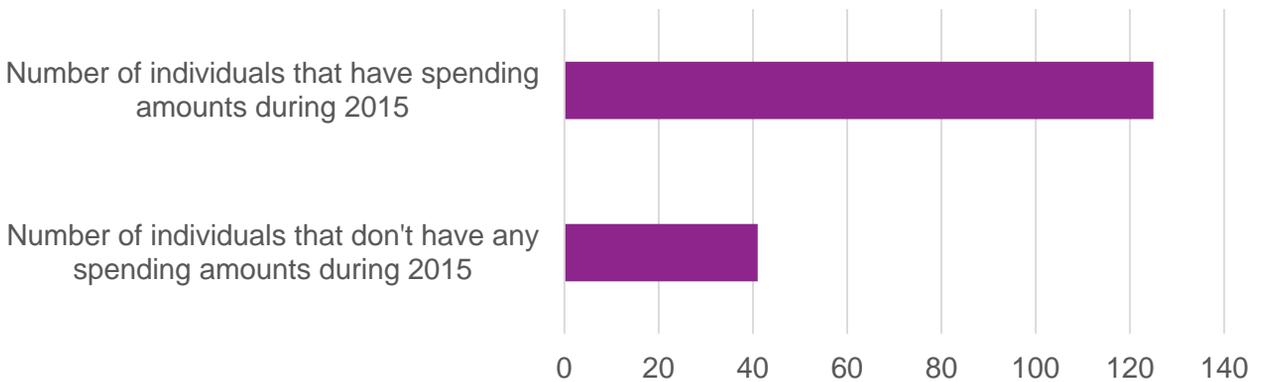
Observations

As at August 2015,

- There were 166 individuals that hold a Pcard and of those, 125 individuals have spending amounts during the past 8 months (2015).
- There were 41 individuals that did not have any spending amounts during 2015. Management should consider whether these individuals require a Pcard and if not then management should consider reducing Pcards. This will reduce any associated costs.
- Total spending between $1,001 to $5,000 accounted for $147,304.90 and $129,175 for spending up to $1,000.

Total spending in 2015

68
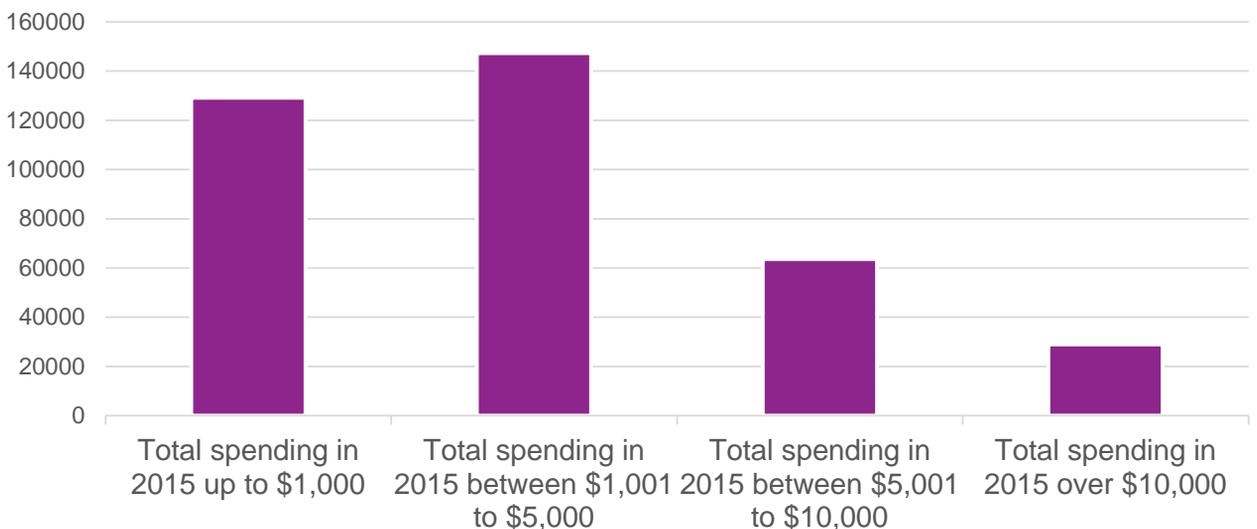
AP Voucher Analysis

We have performed data analytics over the AP Vouchers listing received as at 31 August 2015.

Top 10 Vendors by AP Voucher Amount
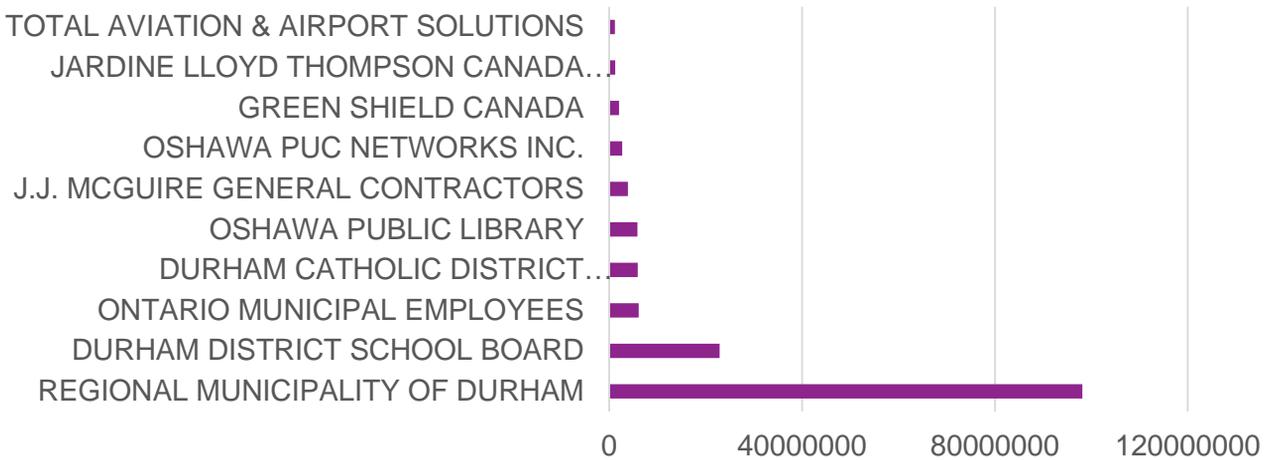
Observations

We obtained the AP voucher listing as of 31 August 2015 and noted the following:

- Regional Municipality of Durham accounts for 66% and Durham District School Board Accounts for 15% of AP Vouchers.

- For the top 10 vendors, AP Vouchers totalled $149,807,122 during the first 8 months of 2015

- AP Vouchers totalled $98,145,724 for Regional Municipality of Durham and $22,873,864.82 for Durham District School Board.

- The majority of the OPUC transactions consist of Hydro bills. Invoices are received for each functional area periodically. The City should explore if OPUC can consolidate invoices to minimize processing costs (**Rec. #10**).

Number of AP Vouchers by Vendor
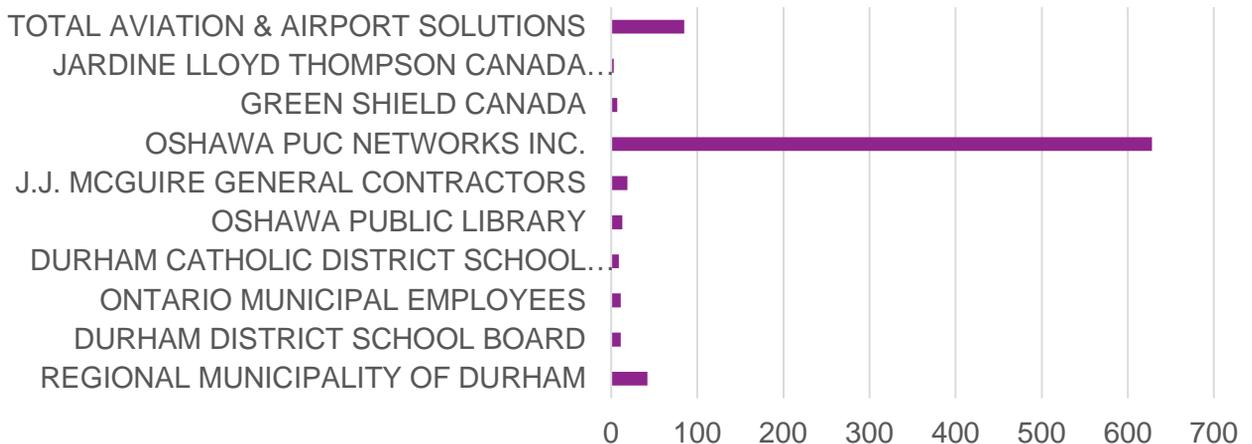
AP Voucher Count Analysis <200

We have performed data analytics over the AP Vouchers listing received as at 31 August 2015.
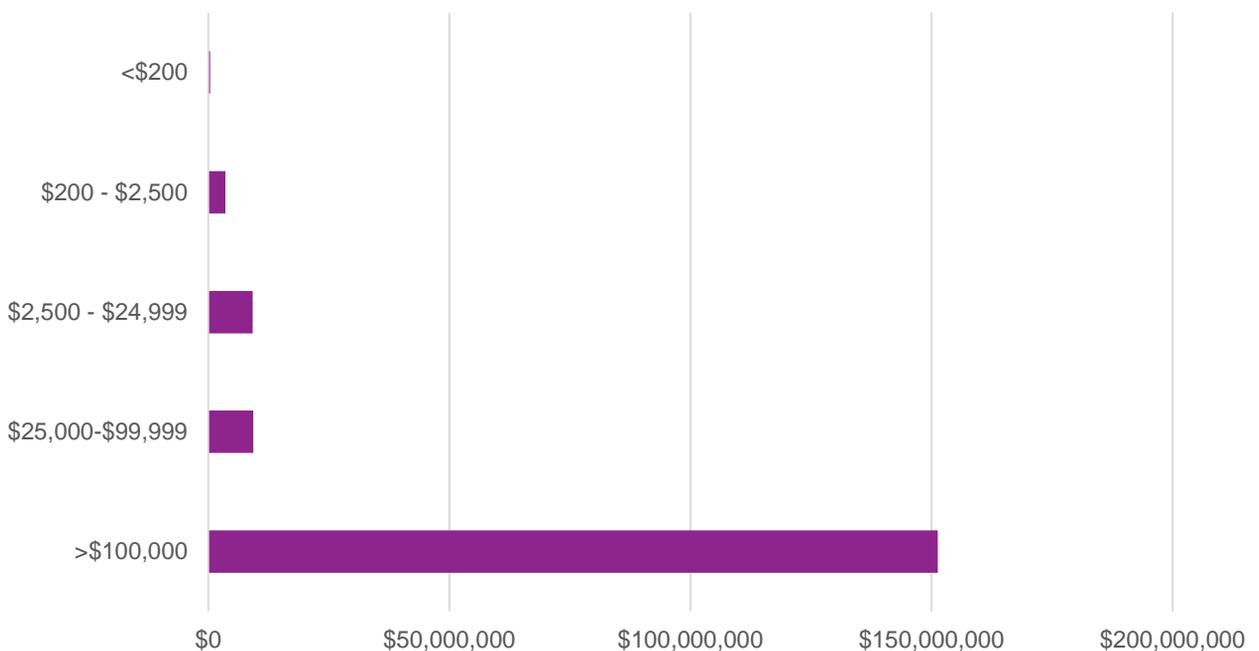
AP Vouchers Count
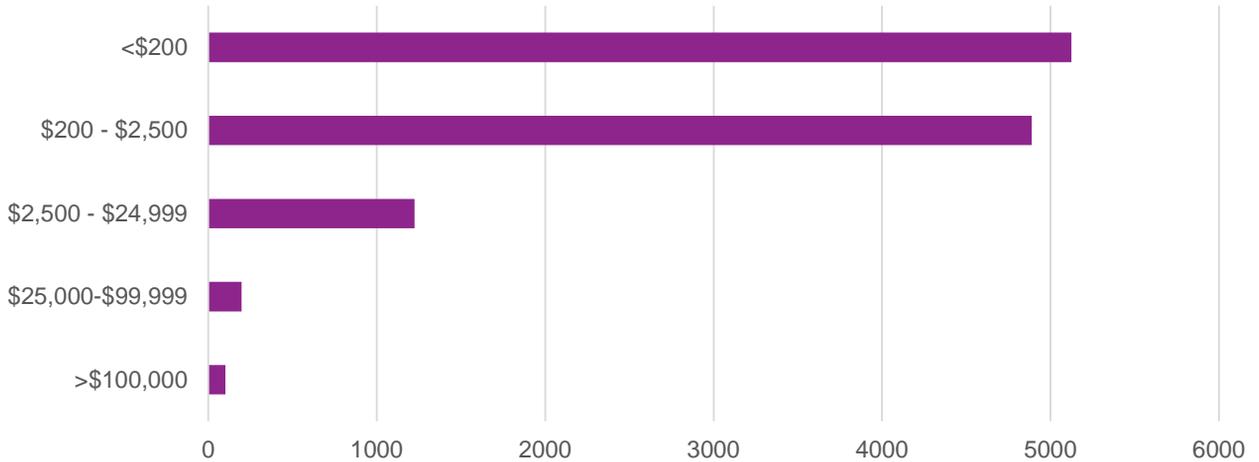
Observations

- In reviewing the data provided, we noted that 5124 vouchers under $200 were raised in the 8 month period. Many of these low-value invoices were raised to the same vendor, with some occurring in the same day.
- During the 8 month period, AP vouchers totalled $151,264,634.11 for bracket >$100,000.

Total Gross Amount

70

Appendix D: Benefits of Purchasing Cards and Leading Practices

We have also considered the current systems and processes in place with regards to the Pcards and corporate card. We set out below the benefits of Pcards:

Purchasing Card Benefits over corporate cards
• Simplification of the procurement process through streamlining (reduction of purchase orders and costly checks)
• Issuance of Pcards can help reduce fraud and unauthorized spending by setting credit limits on each card account tailored to the expected payment use of that account.
• Designating the Merchant Category Codes (MCCs) on vendor-specific P-card accounts also helps prevent unauthorized payments.
• Reporting on payments to vendors becomes as easy as looking at the historical transactions on specific P-card accounts.
• Pcards are widely accepted among vendors
• Vendors that accept Pcards can process payments using the same POS terminal or online merchant terminal used to process other types of payment cards
• Reduction of time and cost through elimination of invoice creation, handling and mailing
• Allows for better expense tracking
• Funds are deposited electronically

We also note weaknesses with the current Pcard system. We believe other Pcard systems could be considered to make additional savings and improve controls (**see Recommendation 7**). The following are leading practices where other Pcard programs may allow for such enhancements:

#	Leading practice	Details of Leading practices
1	Combine p-cards with e-invoicing	• A seamless integration of an electronic invoice presentation and payment (EIPP) system with a p-card program on a single platform opens the door for an expansion of p-card use and allows for other benefits (increased early-payment discounts, enhanced internal controls due to automated invoice approval).
2	Credit rebates to users	• This practice encourages the use of p-cards, since the users are seeing the direct financial benefits from increased card use. This only applies where the Pcard system offers rebates to the organization using it.
3	Include p-cards in contracts	• To increase the number of vendors that will take the p-card, include the p-card as the "preferred way to pay" in vendor contracts. • Also consider having company policy mandate p-card usage for targeted categories and/or vendors.
4	Give your bank your master vendor file	• Adding vendors to your p-card program fuels growth. The p-card provider can do a "merchant matching" operation by telling which vendors are accepting the p-card.

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Appendix D: Benefits of Purchasing Cards and Leading Practices (cont.)

#	Leading practice	Details on the leading practice
5	Check divisional usage	• Sometimes, certain divisions or business units will be using the p-card with a vendor, but other divisions will not, for various reasons. In these cases, the organization should mandate the enterprise-wide use of the p-card for that vendor.
6	Use your bank's technological tools	• Consider your bank your partner in technology. The bank can help with mapping, customize and optimize how coding is assigned to specific transactions. The bank can adapt to the way your system needs to receive the information.
7	Implement strict internal control of p-card spending	• Include penalties for fraudulent use and enforce them. • Your cardholder agreement should state that any fraudulent use of the p-card will result in disciplinary actions up to and including dismissal.
8	Form a p-card advisory board	• A board of advisors can guide the p-card program. • A monthly newsletter to p-card users can communicate on p-card issues and new developments.
9	Management Reporting	• Receive full management reporting from card provider database based on merchant type classifications.
10	General Ledger	• Use a single general ledger account per card issued to ease administration and ensure records of spend are easily accessible.

We undertook interviews in August and September 2015 with key stakeholders to inform this work, including:

Name	Title
Jay Martin	Manager, Financial Services and Financial Systems
Pat Morrison	Supervisor Payroll & Accounts Receivable
Tina Barker	Supervisor Purchasing & Support Services
Dave Lyon	Manager Purchasing Services
Linda Ptasznyk	Purchasing Admin Assistant

We received the following documentation over the course of fieldwork:

- Listing of 2015 Purchase Orders as of 10 August 2015
- Purchasing Card Account User Listing as of 10 August 2015
- Purchasing Card Transaction Listing as of 10 August 2015
- Purchasing By-law 17-2010
- 45000 Travel Expenses 2015
- 46000 Mileage 2015
- 47000 Seminars and Training 2015
- Signing Authority Matrix
- Procedure 075-02, Requisitioning Goods & Services, etc.
- Expense Claim - HST Nov 22 2013
- AP Access
- AP Vouchers Jan 1-2015 - July 31-2015
- P-card spend by staff for 2014
- P-card spend by staff for ytd 2015
- Pcard Policy-Revised
- P-Card Declined Transaction Report
- account_list_merchant_blocking_cardholder
- account_list_merchant_blocking_parent
- account_list_open
- MCC_Group