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| TO: | CHAIR AND MEMBERS AUDIT COMMITTEE MEETING ON November 29, 2012 |
| FROM: | PwC INTERNAL AUDITORS |
| SUBJECT: | Quarterly Report on Internal Audit Results a) Corporate Services/Finance - Expenditure Approval and Payment |

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| RECOMMENDATION |
|-----------------------|

That on the recommendation of PwC, this report **BE RECEIVED** for information and the action plans identified in Appendices A and B **BE RECOMMENDED** for approval.

That on the recommendation of the Audit Committee, the remaining two 2012 internal audit projects, Succession Planning and Payroll Administration **BE RECOMMENDED** for presentation at the Audit Committee meeting to be scheduled for January or February 2013.

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| PREVIOUS REPORTS PERTINENT TO THIS MATTER |
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Risk Assessment and 3-Year Risk-Based Audit Plan from PricewaterhouseCoopers – Audit Committee March 31, 2011.

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| BACKGROUND |
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This report has been prepared in line with the reporting process defined within the Risk Assessment and 3-Year Risk-Based Audit Plan provided to the Audit Committee on March 31, 2011.

The purpose of this report is to communicate the results of internal audit projects completed to date, which include the following project:

- Corporate Services/Finance - Expenditure Approval and Payment

PwC requests Audit Committee approval of the action plans developed in collaboration between PwC and City management. Please also refer to the formal presentation document attached in Appendix B.

| | |
|------------------------|----------------------------------|
| RECOMMENDED BY: | |
| | PwC INTERNAL AUDITORS |

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APPENDIX A – Corporate Services/Finance - Expenditure Approval & Payment

Summary of Risks & Scope

Corporate Services/Finance - Expenditure Approval & Payment

Scope

- Accurate set-up and approval of new vendors
- Approval of fund disbursements in line with the 'Procurement of Goods and Services Policy' (the Policy) including cheques, EFTs and petty cash
- Timely payment of invoices in order to take advantage of available discounts and avoid late penalties or interest
- Appropriate segregation of duties
- Appropriate handling of petty cash

This project incorporates fund disbursements throughout all service areas in the City. However, the purchasing card process was not included as it has been covered in a previous project. Petty cash testing was also limited to those areas not already covered in previous projects or not scheduled for a future project.

Risks

- New vendors may be set up inappropriately or inaccurately
- Funds may be disbursed without approval
- Available discounts may be missed or charges incurred if payments are not made in a timely manner
- Funds may be disbursed inappropriately if duties are not effectively segregated
- Cash may be disbursed inappropriately if petty cash is not safeguarded or reconciled

Controls Operating Effectively

- New vendors were approved and accurately set up
- Funds were disbursed with appropriate approval and in line with the Policy
- Processes exist to ensure that discounts are obtained where applicable, and late charges are avoided
- Appropriate segregation of duties exists

Value-for-Money Considerations

An opportunity exists for the Accounts Payable division to continue to strive for timely payment to obtain all discounts available. The division has minimized the amount of discounts lost in a one year period to a very immaterial amount.

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Observations & Action Plans

#1: Monitoring of duplicate vendors

Observation:

The duplicate vendor report is quite lengthy and may not be useful in detecting duplicate vendors or vendors who should be inactivated.

Business Impact:

A potential risk exists that vendors may be added to the JD Edwards system more than once, making it difficult to manage the active vendor listing. A potential risk exists that this could lead to disbursements being made to inappropriate parties.

Action Plan:

- 1) It is recommended that the City explore the opportunity to archive vendor records which are no longer used in order to reduce the volume of vendors requiring ongoing monitoring, while still making this data available if needed. This investigation should be performed in conjunction with the archiving of old general ledger records during future upgrades to the JD Edwards system.
- 2) It is also recommended that the City explore the opportunity to develop an aged vendor report which would assist in detecting invalid vendors. This report should be reviewed and the active vendor list updated as required on an annual basis.

Action Plan Lead:

Manager, Accounts Payable & Financial Systems Supervisor and Systems Coordinator

Timing:

- 1) Archiving – December 31, 2013
- 2) Aged Vendor Report – June 30, 2013

#2: Annual petty cash confirmations

Observation:

Financial Services performs an annual confirmation process with those individuals responsible for holding petty cash throughout the year. An opportunity exists to improve the petty cash confirmation process by:

- Requesting positive confirmation of balances;
- Requesting individuals to confirm which cash balances they hold; and
- Sending confirmations to individuals not responsible for holding the petty cash.

Business Impact:

A potential risk exists that:

- By providing the dollar value expected from the confirmation process, the amount confirmed may not be accurate;
- Financial Services may not be aware of movements of petty cash among responsible parties; and
- Appropriate segregation of duties may not exist if the individual confirming the balance is also responsible for holding the petty cash.

Action Plan:

It is recommended that annual petty cash confirmation process be amended such that positive confirmation requests are sent to individuals not responsible for holding the petty cash, and details of which petty cash balances are held by each individual are also reported. The petty cash listing maintained by Financial Services should then be updated based upon the information provided.

Action Plan Lead:

Managers of Accounting

Timing:

February 28, 2013

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#3: Petty cash usage

Observation:

An opportunity exists to reduce the use of petty cash by instead using purchasing cards where possible. A potential opportunity also exists to reduce some petty cash balances which may be higher than necessary.

Business Impact:

A potential risk exists that a higher than necessary amount of cash is being held throughout the City and is at a higher risk of misappropriation.

Action Plan:

It is recommended that Financial Services, in conjunction with the annual confirmation process, assess whether petty cash balances should be reduced in some locations. Financial Services should communicate that purchasing cards are to be used where possible. It is also recommended that the Policy is reviewed for disbursement limits for petty cash.

Action Plan Lead:

Managers of Accounting

Timing:

September 30, 2013

#4: Compliance with petty cash policy

Observation:

Several instances of non-compliance with the petty cash policy were noted including multiple individuals having access to petty cash in some locations, petty cash being maintained in physically unsecured locations and approval of petty cash disbursements performed by an individual who also incurred petty cash expenditures. There were no material breaches in compliance detected in the sample reviewed.

Business Impact:

A potential risk exists that petty cash may be inappropriately disbursed.

Action Plan:

It is recommended that Financial Services provide a petty cash policy reminder on an annual basis to all service areas where petty cash is utilized. The annual confirmation form should be updated with a checklist to require individuals to confirm that they have followed petty cash policies. Finally, Financial Services should perform periodic checks on a sample of petty cash reconciliations to ensure they are appropriately performed, limits are adhered to, appropriate support exists for each expenditure and the nature of expenditures is reasonable, and on a sample of petty cash locations to ensure the cash is physically secured and access is appropriately restricted.

Action Plan Lead:

Managers of Accounting

Timing:

September 30, 2013

Appendix B

The Corporation of the City of London

Quarterly Report on Internal Audit Results

-Expenditure Approval and Payment

November 29, 2012

Agenda

| | Page |
|---|------|
| Rating Scale – Opportunities for Improvement | 3 |
| Summary of Risks & Scope – Corporate Services/Finance – Expenditure Approval and Payment | 5 |
| Action Plan Summary – Corporate Services/Finance – Expenditure Approval and Payment | 6 |
| Observations & Actions Plans – Corporate Services/Finance – Expenditure Approval and Payment | 7 |
| Cumulative Value-For-Money Summary – 2011 & 2012 | 11 |
| 2012 Internal Audit Projects in Progress | 13 |
| Internal Audit Scorecard – November 2012 | 14 |
| Rating Scale - Status of Past Project Action Plans | 15 |
| Status of Past Project Action Plans | 16 |
| Summary of Past Due Action Plans | 17 |

Rating Scale – Opportunities for Improvement

- **Satisfactory**

Controls are present to mitigate process/business risk, however an opportunity exists for improvement.

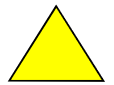
Satisfactory



- **Needs Improvement**

Existing controls may not mitigate process/business risk and management should consider implementing a stronger control structure.

Needs
Improvement



- **Unsatisfactory**

Control weaknesses are significant and the overall exposure to risk is unacceptable. Immediate attention and oversight from management is required.

Unsatisfactory



Corporate Services/Finance – Expenditure Approval & Payment

Summary of Risks & Scope

Corporate Services /Finance – Expenditure Approval & Payment

Scope

- Accurate set-up and approval of new vendors
- Approval of fund disbursements in line with the ‘Procurement of Goods and Services Policy’ (the Policy) including cheques, EFTs and petty cash
- Timely payment of invoices in order to take advantage of available discounts and avoid late penalties or interest
- Appropriate segregation of duties
- Appropriate handling of petty cash

Risks

- New vendors may be set up inappropriately or inaccurately
- Funds may be disbursed without approval
- Available discounts may be missed or charges incurred if payments are not made in a timely manner
- Funds may be disbursed inappropriately if duties are not effectively segregated
- Cash may be disbursed inappropriately if petty cash is not safeguarded or reconciled

This project incorporates fund disbursements throughout all service areas in the City. However, the purchasing card process was not included as it has been covered in a previous project. Petty cash testing was also limited to those areas not already covered in previous projects or not scheduled for a future project.

Controls Operating Effectively

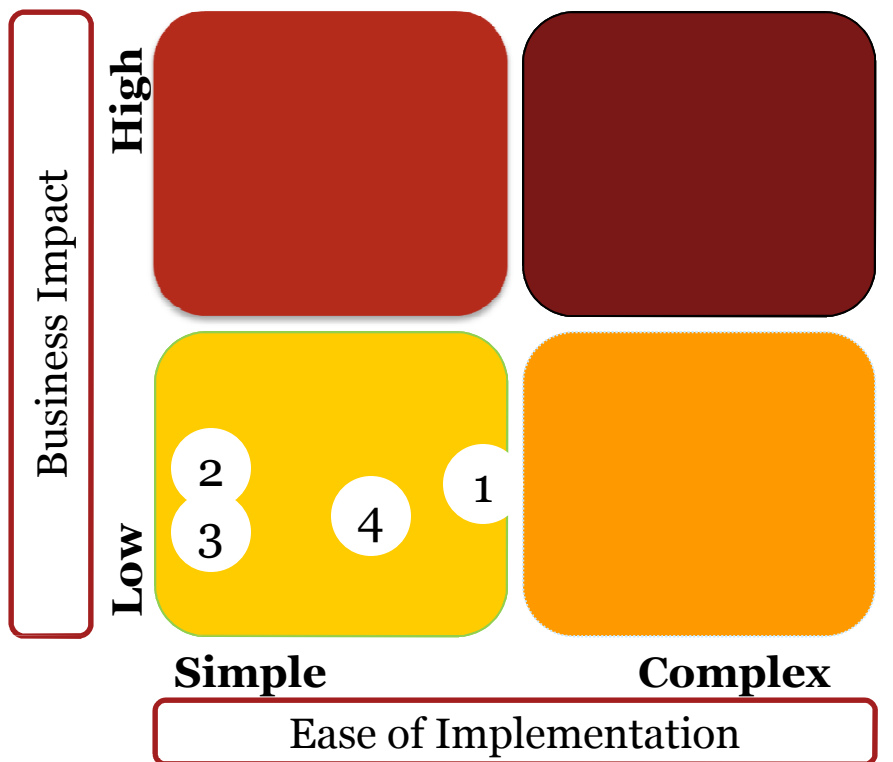
- New vendors were approved and accurately set up
- Funds were disbursed with appropriate approval and in line with the Policy
- Processes exist to ensure that discounts are obtained where applicable, and late charges are avoided
- Appropriate segregation of duties exists

Value-for-Money Considerations

An opportunity exists for the Accounts Payable division to continue to strive for timely payment to obtain all discounts available. The division has minimized the amount of discounts lost in a one year period to a very immaterial amount.

Action Plan Summary

Corporate Services /Finance – Expenditure Approval & Payment



- High Business Impact, Easy to Implement
- High Business Impact, Difficult to Implement
- Low Business Impact, Easy to Implement
- Low Business Impact, Difficult to Implement

| Observation | Timing | Action Plan Lead |
|---------------------------------------|--|---------------------------------------|
| #1: Monitoring of duplicate vendors | 1) December 31, 2013 2) June 30, 2013 | Mngr. of AP & Fin. Systems Supervisor |
| #2: Annual petty cash confirmations | February 28, 2013 | Managers of Accounting |
| #3: Petty cash usage | September 30, 2013 | Managers of Accounting |
| #4: Compliance with petty cash policy | September 30, 2013 | Managers of Accounting |

Observations & Action Plans - #1

Satisfactory



Corporate Services/Finance – Expenditure Approval & Payment

Observation

Monitoring of duplicate vendors

The duplicate vendor report is quite lengthy and may not be useful in detecting duplicate vendors or vendors who should be inactivated.

Business Impact

A potential risk exists that vendors may be added to the JD Edwards system more than once, making it difficult to manage the active vendor listing. A potential risk exists that this could lead to disbursements being made to inappropriate parties.

Action Plan

- 1) It is recommended that the City explore the opportunity to archive vendor records which are no longer used in order to reduce the volume of vendors requiring ongoing monitoring, while still making this data available if needed. This investigation should be performed in conjunction with the archiving of old general ledger records during future upgrades to the JD Edwards system.
- 2) It is also recommended that the City explore the opportunity to develop an aged vendor report which would assist in detecting invalid vendors. This report should be reviewed and the active vendor list updated as required on an annual basis

Action Plan Lead

Manager, Accounts Payable &
Financial Systems Supervisor and
Systems Coordinator

Timing

- 1) Archiving – December 31, 2013
- 2) Aged Vendor Report – June 30, 2013

Observations & Action Plans - #2

Satisfactory



Corporate Services /Finance – Expenditure Approval & Payment

Observation

Annual petty cash confirmations

Financial Services performs an annual confirmation process with those individuals responsible for holding petty cash throughout the year. An opportunity exists to improve the petty cash confirmation process by:

- Requesting positive confirmation of balances;
- Requesting individuals to confirm which cash balances they hold; and
- Sending confirmations to individuals not responsible for holding the petty cash.

Business Impact

A potential risk exists that:

- By providing the dollar value expected from the confirmation process, the amount confirmed may not be accurate;
- Financial Services may not be aware of movements of petty cash among responsible parties; and
- Appropriate segregation of duties may not exist if the individual confirming the balance is also responsible for holding the petty cash.

Action Plan

It is recommended that annual petty cash confirmation process be amended such that positive confirmation requests are sent to individuals not responsible for holding the petty cash, and details of which petty cash balances are held by each individual are also reported. The petty cash listing maintained by Financial Services should then be updated based upon the information provided.

Action Plan Lead

Managers of Accounting

Timing

February 28, 2013

Observations & Action Plans -#3

Satisfactory



Corporate Services /Finance – Expenditure Approval & Payment

Observation

Petty cash usage

An opportunity exists to reduce the use of petty cash by instead using purchasing cards where possible. A potential opportunity also exists to reduce some petty cash balances which may be higher than necessary.

Business Impact

A potential risk exists that a higher than necessary amount of cash is being held throughout the City and is at a higher risk of misappropriation.

Action Plan

It is recommended that Financial Services, in conjunction with the annual confirmation process, assess whether petty cash balances should be reduced in some locations. Financial Services should communicate that purchasing cards are to be used where possible. It is also recommended that the Policy is reviewed for disbursement limits for petty cash.

Action Plan Lead

Managers of Accounting

Timing

September 30, 2013

Observations & Action Plans -#4

Satisfactory



Corporate Services/Finance – Expenditure Approval & Payment

Observation

Compliance with petty cash policy

Several instances of non-compliance with the petty cash policy were noted including multiple individuals having access to petty cash in some locations, petty cash being maintained in physically unsecured locations and approval of petty cash disbursements performed by an individual who also incurred petty cash expenditures. There were no material breaches in compliance detected in the sample reviewed.

Business Impact

A potential risk exists that petty cash may be inappropriately disbursed.

Action Plan

It is recommended that Financial Services provide a petty cash policy reminder on an annual basis to all service areas where petty cash is utilized. The annual confirmation form should be updated with a checklist to require individuals to confirm that they have followed petty cash policies. Finally, Financial Services should perform periodic checks on a sample of petty cash reconciliations to ensure they are appropriately performed, limits are adhered to, appropriate support exists for each expenditure and the nature of expenditures is reasonable, and on a sample of petty cash locations to ensure the cash is physically secured and access is appropriately restricted.

Action Plan Lead

Managers of Accounting

Timing

September 30, 2013

Cumulative Value-for-Money Summary – 2011 & 2012*

| Recommendation | Estimated 1 Year Potential Impact | Estimated 5 Year Potential Cumulative Impact |
|--|--|--|
| 2011 Recommendations: | | |
| <i>Water and Sewage Revenue – Environmental & Engineering Services</i> | | |
| - Implementation of fire protection water charges | \$2,500,000 | |
| - Increase in construction water charges | To be quantified | |
| - Negotiation of London Hydro administration fees for late payments | \$300,000 | \$14,000,000 |
| <i>Fleet Asset Management – Environmental & Engineering Services</i> | | |
| - Reduction of 17 units with low utilization - one-time capital savings | \$250,000 | |
| - ongoing operating cost savings | \$90,000 | \$700,000 |
| <i>Housing Division – Housing and Social Services</i> | | |
| - Project to identify housing providers not meeting occupancy targets | \$250,000 | \$250,000 |
| Subtotal – 2011 Recommendations | \$3,390,000 | \$14,950,000 |

**This is a summary of the estimated cost savings or additional revenue available to the City that are estimable and could result from the implementation of internal audit recommendations. Quantifications have been estimated based on information provided by City management and actual cost savings/revenues could differ from these estimates.*

This excludes other potential efficiencies which may exist through the implementation of other recommendations, and savings that could not be quantified or relate to recommendations presented in-camera.



Cumulative Value-for-Money Summary, Continued – 2011 & 2012*

| Recommendation | Estimated 1 Year Potential Impact | Estimated 5 Year Potential Cumulative Impact |
|--|--|--|
| 2012 Recommendations: | | |
| <i>Health and Safety – Parks and Recreation</i> | | |
| - Reduction of duplicate training for temporary and casual staff | \$10,000 | \$50,000 |
| <i>Contract and Tendering Administration – Environmental & Engineering Services</i> | | |
| - Utilization of available staffing capacity (reducing consultant costs) | \$400,000 | |
| - Development of construction bonding criteria | \$25,000 | \$2,125,000 |
| <i>Building Control Compliance – Development and Compliance Services</i> | | |
| - Increase in division service fees, which also provides opportunity to contribute operation surpluses to the Building Permit Reserve Fund | \$500,000 | \$2,500,000 |
| Subtotal – 2012 Recommendations | \$935,000 | \$4,675,000 |
| TOTAL | \$4,325,000 | \$19,625,000 |

*This is a summary of the estimated cost savings or additional revenue available to the City that are estimable and could result from the implementation of internal audit recommendations. Quantifications have been estimated based on information provided by City management and actual cost savings/revenues could differ from these estimates.

This excludes other potential efficiencies which may exist through the implementation of other recommendations, and savings that could not be quantified or relate to recommendations presented in-camera.

2012 Internal Audit Projects in Progress

| Service Area | Project | Stage |
|------------------------------------|------------------------|---|
| Corporate Services/Human Resources | Succession Planning | Completion  |
| Corporate Services/Finance | Payroll Administration | Completion  |



Higher risk



Moderate Risk



Lower Risk

Internal Audit Scorecard – November 2012

| | | Key Measures | TARGET | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | |
|-------------------------|--------------------------|--|--------|-----|-----|-----|-----|-----|--------|--------|--------|--------|--------|--------|---|
| CORPORATE STRATEGY | Audit Committee | Approval of annual risk-based audit plan | Y | Y | Y | Y | Y | Y | Y | Y | Y | Y | Y | Y | |
| | | Number of reports presented to the Audit Committee | 4 | 0 | 1 | 1 | 1 | 1 | 2 | 2 | 2 | 3 | 3 | 4 | |
| | | Timely reporting of recommendations | Y | Y | Y | Y | Y | Y | Y | Y | Y | Y | Y | Y | Y |
| | | Estimated quantification of Value-for-Money for current year projects (2012) | | \$0 | \$0 | \$0 | \$0 | \$0 | \$425K | \$425K | \$425K | \$435K | \$435K | \$935K | |
| | Management/Auditees | Number of closing meetings held with management | 8 | 0 | 0 | 0 | 1 | 2 | 2 | 3 | 5 | 5 | 5 | 7 | |
| | | Number of concise, value-added recommendations | | 0 | 0 | 0 | 0 | 0 | 16 | 16 | 16 | 37 | 37 | 41 | |
| INTERNAL AUDIT STRATEGY | Innovation/Capabilities | Number of best practices identified by internal audit | | 0 | 0 | 0 | 0 | 0 | 16 | 16 | 16 | 37 | 37 | 41 | |
| | | Use of internal audit resources and processes | Y | Y | Y | Y | Y | Y | Y | Y | Y | Y | Y | Y | |
| | Internal Audit Processes | Percentage of projects completed | 98% | 0% | 0% | 11% | 12% | 23% | 43% | 62% | 63% | 63% | 88% | 98% | |
| | | Completion of annual risk assessment and updates to audit plan | Y | Y | Y | Y | Y | Y | Y | Y | Y | Y | Y | Y | Y |

Rating Scale – Status of Past Project Action Plans

Closed

All action plans have been addressed by the appointed Action Plan Lead.

On Track

All action plans targeted for completion have been addressed. Action Plan Leads are progressing well towards future action plan targets.

Some Delays

Some action plans targeted for completion have not been addressed. Action Plan Leads have revised some targets.

Not Addressed

Action plans targeted for completion have not been addressed by the appointed Action Plan Lead.

Status of Past Project Action Plans

| Project | Status |
|--|--------------------|
| Technology Services - Information Security Governance Assessment – <i>Corporate Services/Information Technology</i> (2011) | Some Delays |
| Time Off Provisions - <i>Corporate Services /Human Resources</i> (2011) | On Track |
| Water & Sewage Revenue – <i>Environmental & Engineering Services</i> (2011) | On Track |
| Fleet Asset Management – <i>Environmental & Engineering Services</i> (2011) | Some Delays |
| Development Approvals – <i>Development & Compliance Services</i> (2011) | Some Delays |
| Municipal Housing Finance and Monitoring – <i>Housing and Social Services</i> (2011) | On Track |
| Bid Process and Approved Consultants – <i>Corporate Services/Finance</i> (2011) | On Track |
| Financial Management – <i>Housing and Social Services</i> (2012) | On Track |
| Health and Safety – <i>Parks and Recreation</i> (2012) | On Track |
| Contract and Tendering Administration – <i>Environmental & Engineering Services</i> (2012) | Closed |
| Building Control Compliance – <i>Development and Compliance Services</i> (2012) | On Track |
| Purchasing Cards – <i>Corporate Services/Finance</i> (2012) | On Track |

Summary of Past Due Action Plans

Project

Status

Technology Services

Some of the IT governance action plans that were planned to be completed by December 31, 2012 have been delayed due to the reduction of IT management staff. Management is currently evaluating the impact of the changes and the impact on action plan resolution timelines. However, progress has been made, including the creation of a Corporate IT Steering Committee in the near future. Recommendations relating to IT General Controls in JD Edwards continue to be addressed through the ongoing upgrade and are on track for implementation.

Fleet Asset Management

Management has deferred the timing of two recommendations relating to outsourced maintenance and work order process controls to a future improvement stage including system developments from the new JD Edwards release. All recommendations have been at least partially addressed and management continues to focus on implementing recommendations, including those requiring assistance from Stores, Financial Planning & Policy and support from TSD. The status of the action plans is considered reasonable given recent staffing changes in the division, financial challenges and the complexity of the issues.

Development Approvals

The performance of many of these action plans will be resolved subsequent to the Development Charge study to be finalized in 2014. Progress towards completing the recommendations has been made by re-assigning the Development Finance division to report to the City Treasurer in April of 2012. Efforts have been made towards improving succession planning.

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