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**Electronic Fund Transfer (EFT)
Compliance Assessment**
The Corporation of the City of London

February 2020

Agile Internal Audit Report

Executive Summary

Background

The City of London (the "City") Finance department is responsible for the Electronic Fund Transfer (EFT) process, including wire transfers. EFTs are used by the City to facilitate payments for goods, services and payroll. In 2019, significant upgrades were made to move wire transfers from fax-based to the ScotiaConnect system. Associated process changes have been made to align with the change in EFT system.

Below are the review's scope, objectives, and noted strengths:

Scope and objectives

The objective of this engagement was to review and assess the City's control framework surrounding outbound EFTs, specifically including:

- Reviewed inbound/outbound activities for adequate documentation, segregation of duties, policy compliance and timely processes;
- Evaluated signing officer activities to review and authorize wire transfers;
- Reviewed user access permissions related to EFTs;
- Reviewed process to reconcile bank account to GL for wire transfers; and
- Assessed management oversight activities over EFT process, including monitoring of financial activity and policy compliance.

Strengths:

- **Outbound transfer processing:** Processes for outbound EFTs and wire transfers ensure adequate segregation of duties, process documentation, compliance with applicable policy requirements, and timely processing.
- **Signing officer activities:** Procedures in place for the review and authorization of EFTs and wire transfers ensure effective prevention and detection of errors.

Highlights

A compliance assessment of the EFT process identified the following areas of continued enhancement:

- Standard operating procedures for the review of the ScotiaConnect system user access has not been established, including the cadence of the user access review. Furthermore, documentation is not maintained to evidence the completion of a user access review which results in no audit trail to validate that follow-up actions have been addressed;
- A standardized method for the completion check sign-off on Accounts Payable Batch Reports has not been established; and
- A leading practice was identified to enhance the procedures for reconciliation write-offs.

Risk priority heat map

This chart maps observations based on priority and anticipated ease of implementation of our recommendations.
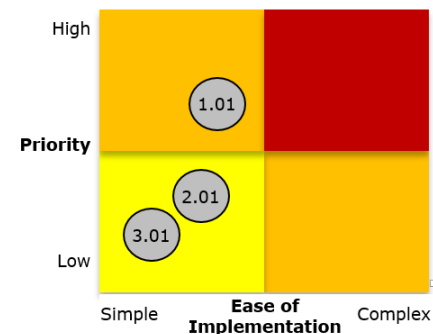
Summary of key results

For the exceptions identified, Management should address the following recommendations:

1. formally document and implement standard operating procedures for the user access review of the ScotiaConnect system;
2. consider revising the "Authorization" sign-off on Accounts Payable Batch Reports to reflect that an invoice and data accuracy check is what has been performed, and implement a standardized sign-off procedure.
3. expand upon the current procedures related to the stale dating and writing off cheques to include dates and an escalation process prioritizing high value outstanding amounts to ensure that these items are monitored and do not remain on the reconciliation for extended periods of time.

Detailed Observations

1. User Access Permission Reviews

Observation	Recommendation	Management response
EFTC 1.01 – User access review of the ScotiaConnect system The ScotiaConnect system is not a part of the City of London IT ecosystem and is not governed by the IT Service Management (ITSM)/Access & Identity Management (AIM) process. Management performs individual reviews of user access for the ScotiaConnect system when users are added or removed, which occurs on an as needed and infrequent basis, with a full monthly review. However, standard operating procedures for the review of the ScotiaConnect system user access have not been established, including the cadence of the user access review. Furthermore, documentation is not maintained to evidence the completion of a user access review which results in no audit trail to validate that follow-up actions have been addressed. **Implication:** Lack of documented standard operating procedures could lead to ineffective, inefficient, or duplicated processes and may restrict new and existing staff from fully understanding relevant processes and controls when undertaking their responsibilities.	**EFTC 1.01 – User access review of the ScotiaConnect system** Management should formally document and implement standard operating procedures for the user access review of the ScotiaConnect system. Included in this document would be the outline of the user access review procedures, the timeline to complete (at least on an annual basis), and how to evidence the results of the review. For example, the evidence maintained could be documented meeting minutes of user access review during quarterly meeting with the bank or email approval of the user population, and completed follow-up of any outstanding actions.	**EFTC 1.01 – User access review of the ScotiaConnect system** **Management agrees.** Management agrees with the recommendation noting that all ScotiaConnect system security has been reviewed and restructured over the past eight months (Jan-July 2019) as banking processes were updated and modernized. Management is currently undertaking the necessary steps to formalize both process and documentation related to maintaining security within the ScotiaConnect system. **Responsible party**: *Melissa McErlain, Manager, Accounts Payable* **Timing**: *May, 2020*

Medium Priority

2. Electronic Fund Transfer Authorizations

Observation	Recommendation	Management response
EFTC 2.01 – Accounts Payable Batch Report sign-off format Through review of documentation and discussions with key personnel, Internal Audit noted that the "Authorization" sign-off on the Accounts Payable Batch Reports represents the performance of invoice batch data validation, post-entry. If the invoice batch is entered centrally, the sign-off for the data check of the invoices is noted in the top right-hand corner, and the "Authorization" sign-off line is left blank. If the invoice batch is entered de-centrally, the sign-off for the performance of the completion and data check of the invoices is on the "Authorization" line. Implementing a standardized use and wording to cover all streams for the Accounts Payable Batch Report is recommended. During the review, no instances were found with an inappropriate authorization on the backup/source documentation. **Implication:** Unclear authorization labeling and non-standardized sign-off methods is misleading to a reviewer, and may cause confusion as to what has been approved for payment.	**EFTC 2.01 – Accounts Payable Batch Report sign-off format** Management should consider revising the "Authorization" sign-off on Accounts Payable Batch Reports to reflect that an invoice and data accuracy check is what has been performed. In addition, implement a standardized sign-off procedure to note that this check has been completed. This will reduce confusion and provide a clear understanding of the purpose of the check.	**EFTC 2.01 – Accounts Payable Batch Report sign-off format** **Management agrees** Management agrees with the recommendation noting that the Accounts Payable Batch Report is used as the cover page for the duly authorized source documents, which follow a standard process. The Accounts Payable Batch Report is used by both internal and external areas processing and assembling accounts payable batches. The difference in use of the report is determined by where the person entering and preparing the batch is physically located. All authorizations must be completed on the backup (invoice, purchase receiver, payment certificate etc.). Management will undertake the necessary steps to update the Accounts Payable Batch Report to include wording that covers all streams. **Responsible party**: *Melissa McErlain, Manager, Accounts Payable* **Timing**: *June, 2020*

*(Left margin label: **Low Priority**)*

3. General Ledger Reconciliation

Observation	Recommendation	Management response
Leading Practice **EFTC 3.01 – Reconciliation write-offs** In review of the two most recently completed reconciliations (May and June 2019), Internal Audit noted that although there were no outstanding items related to EFTs, there were stale dated items that were up to a year overdue. The Accounting Manager will meet with the department responsible for the item. **Implication:** There is risk the City may inefficiently spend limited AP resources to follow-up on low value stale dated items without direction on escalation and prioritization.	**EFTC 3.01 – Reconciliation write-offs** Management should expand upon the current procedures related to the stale dating and writing off cheques to note dates and include an escalation process prioritizing high value outstanding amounts to ensure that these items are monitored and do not remain on the reconciliation for extended periods of time. Increasing the dollar threshold should also be considered.	**EFTC 3.01 – Reconciliation write-offs** **Management agrees** Management agrees with the recommendation noting that there were procedures in place at the time of the audit that included timeframes for review. Due a number of factors including staff turnover, year-end activities and several new ScotiaConnect system processes coming on-line, the reconciliation of stale dated cheques was given a lower priority. As of September 2019 all items are up-to-date and the quarterly schedule for review has resumed. The procedures will be updated to include an escalation process, an order of operation scale for priority which will include higher dollar amounts and other factors as well as a threshold for investigation.

Appendix 1 – Internal Audit rating scale

Internal audit observations and recommendations are prioritized on the following basis.

	Description	Definition
	High	Observation is high priority and should be given immediate attention (e.g. 0-3 months) due to the existence of either significant internal control risk or a potential significant operational improvement opportunity.
	Medium	Observation is a moderate priority risk or operational improvement opportunity and should be addressed in the near term (e.g. 3-6 months).
	Low	Observation does not present a significant or medium control risk but should be addressed (e.g. within a 6-12 month timeframe) to either improve internal controls or process efficiency.
	Leading Practice	Consideration should be given to implementing recommendations in order to improve the maturity of the process and align with leading practices.

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