Ottawa

Office of the Auditor General / Bureau du vérificateur général

FOLLOW-UP TO THE 2006 AUDIT OF THE FINANCIAL CONTROL ENVIRONMENT

2009

SUIVI DE LA VÉRIFICATION DE L'ENVIRONNEMENT DE CONTRÔLE FINANCIER DE 2006

Table of Contents

EXECUTIVE SUMMARY

Introduction

The follow up to the 2006 Audit of the Financial Control Environment was included in the Auditor General's 2009 Audit Plan.

The key findings of the original 2006 audit included:

- The City has no clear and consistent control procedures and no clear ownership or accountability for overall financial control. Roles, practices and procedures are currently inconsistent and lacking.

- Despite a large investment in a City-wide financial system, the City is not taking full advantage of it. There is still extensive use of other systems and many of the corporate controls have not been activated. Significant deficiencies were also identified in system access, including incompatible duties and a lack of segregation of duties.

- The lack of effective financial controls has resulted in:

  - Over $291,000 annually in foregone interest revenue from paying invoices too soon;
  - $1.1 million, in 2006, in uncertified sick leave over allowable limits without medical certificates;
  - $6.8 million in banked vacation leave beyond allowable entitlements; and,
  - $23.6 million in payments made prior to the authorization for the purchase.

Summary of the Level of Completion

The table below outlines our assessment of the level of completion of each recommendation as of Fall 2009.

CATEGORY	% COMPLETE	RECOMMENDATIONS	NUMBER OF RECOMMENDATIONS	PERCENTAGE OF TOTAL RECOMMENDATIONS
LITTLE OR NO ACTION	0 – 24	2, 3, 4a, 11, 16b, 16c, 21, 27, 30, 32a, 35b, 36, 38	13	27%
ACTION INITIATED	25 – 49	19	1	2%
PARTIALLY COMPLETE	50 – 74	1, 4b, 6, 7, 20, 32b, 33, 35a, 40	9	18%
SUBSTANTIALLY COMPLETE	75 – 99	5, 8, 9, 10, 12, 14, 15, 16a, 17, 23b, 28, 29, 34a, 34b	14	29%
COMPLETE	100	13, 18, 22, 23a, 24, 25, 26, 31a, 31b, 37a, 37b, 39	12	24%
TOTAL			49	100%

Conclusion

As detailed in the 2006 Audit of the Financial Control Environment, the City's amalgamation was challenging in that it needed to integrate the various systems of 12 municipalities into one integrated financial control environment. At the time, the City decided to implement a Centre of expertise model including the Financial Support Units. The 2006 audit found that, although the concept appeared sound, the financial control framework had several weaknesses and inconsistencies. Further, the audit found that, even though the City had implemented a state of the art financial system, there was a general lack of utilization by employees and confidence on the part of external auditors.

In our opinion, the City has made improvements in strengthening the financial control environment. We noted that there are many positions within Finance that could expand their responsibilities to improve efficiencies within the department. A full business process review would reveal the areas where resources could be better utilized.

The City has engaged consultants to assist them in developing a financial control framework at a cost of over $100,000 to date. Both reports are quite useful at the framework level and management has begun to implement the recommended framework.

Of particular concern is the limited progress with respect to the development of financial policies and procedures, given the amount of resources committed to this project. A comprehensive, corporate approach needs to be undertaken with a detailed assessment of each financial process and controls required based upon best practice. To date, the City has simply developed a repository of existing written policies and procedures without a review of the procedures that are required.

With respect to changes within the Corporate Financial System (SAP), very few advances have been made. Many of the recommended system controls contained in the 2006 audit were not explored nor implemented. However, management did undertake some changes within Payroll to address some significant liabilities (i.e., uncertified sick leave). Reporting within SAP has not improved. Only recently has Finance completed its recruitment of the Financial Management Information Systems group which has the mandate to improve controls and reporting.

In contrast, the Financial Support Unit (FSU) assigned to Parks, Recreation and Cultural Services Department appears to have implemented changes. Although some changes are still required, the FSU and Parks, Recreation and Cultural Services staff have worked diligently to address the concerns raised in the 2006 audit. Given the challenges faced by the Parks, Recreation and Cultural Services with respect to segregation of duties, the two entities appear to be exploring various mechanisms to improve controls.

With respect to controls for purchasing and disbursements, there is a lack of management oversight for a significant amount of transactions. In many parts of the organization, responsibilities have been delegated to staff without formal delegation instruments.

The City's Public Sector Accounting Board (PSAB) implementation plan, although relatively late in the year, appears to be on track in order to meet the audit requirements for 2009. Diligent project management and oversight will be required to ensure the City meets the deadline.

Financial controls have always been a major area in the governance of an organization. The City's internal controls should be both robust and rigorously overseen.

Effective financial controls ensure that the City of Ottawa operates as efficiently as possible and assists it in meeting its objectives.

Management Response to the Conclusion

The 2006 Audit of the Financial Control Environment identified a number of recommendations intended to create a structure of financial accountability supported by documented procedures and systems. Since that time management within the Finance Department have established a number of changes to address those recommendations including:

- The establishment of the Controller position at a Deputy Treasurer level, with accountability for consistency in financial controls.

- The establishment of a Financial Policy, Compliance and Systems Unit within the Controller's Branch with responsibility for compliance testing, policy & procedure documentation, audit response & coordination, and systems development within Finance.

- The establishment of a Financial Management Information System team with the mandate of reviewing and enhancing systems support of financial business processes and reporting needs.

The staffing of these new units and positions was completed in mid-2009, and since that time significant progress has been made in response to the audit recommendations.

In the follow-up audit, the OAG has found implementation to be more than 50% complete in 71% of the 49 recommendations. Management believes they have completed 38 of the recommendations (78%), with significant work on 10 additional recommendations that are substantially completed (20%) representing 98% of all original recommendations. The remaining recommendation is 50% completed. Management believes that the difference in communication of results is due to two factors: time delay between completion of audit work and communication of results

(Summer 2009 vs. Spring 2010) and differing interpretation of recommendations, with the follow-up audit expanding on the scope of the original recommendations.

In addition to strengthening the financial control environment, Finance has been monitoring the implementation, tracking the status and dealing with follow-up audits for approximately 320 Finance-related recommendations made by the OAG in various audits since 2005. The volume of work associated with these audit recommendations has represented a significant workload for many Finance management and staff positions. The OAG states that there are many positions within Finance that could expand their responsibilities to improve efficiencies within the department, however, has not provided any evidence supporting this statement.

The City engagement with Ernst & Young provided the foundation for a financial control framework. Many of the observations identified in the report have been incorporated into project or action items included in many workplans within Finance, ODP, Legal, IT, HR, etc., including the following initiatives:

- Risk management – there is an Enterprise Risk Management (ERM) committee of departmental representatives. The mandate and guiding principles for this group have been identified in a report that has been reviewed and approved by Executive Committee and Council. Aspects of risk management from a financial and operating perspective are key components of a coordinated approach promoted in this working committee.

- Code of Conduct – The new Code of Conduct and action plan was received by Corporate Services and Economic Development Committee (CSEDC) on April 6, 2010. The Code of Conduct will become part of the annual performance appraisal for every staff in the corporation.

The 2006 audit of the Financial Control Environment recommended the establishment and documentation of financial processes for FSU and other Finance staff. The initial objective has been completed through the compilation of 352 processes, the consolidation and standardization of similar processes where practical, and the consistent documentation of those documents with the assistance of the business process owners. Staff in the Policy and Compliance Unit (PCU) are working with Corporate resources to explore common "viewing" solutions for access and retrieval of these documents on Ozone and Business Information Management System (BIMS) by Q4 2010.

In addition to the original recommendations addressed above, PCU staff are involved in the following initiatives that will continue throughout 2010 with updates on an ongoing basis thereafter:

- Indexing of the documents into business process groupings to allow a "workflow" relationship view of traditional streams of related processes.

- Gap analysis and benchmarking to identify additional processes to be developed to provide a more comprehensive coverage of business documents.

- Consideration of inclusion of business process mapping to aid understanding in more complex business processes.

The FMIS group was staffed in mid-2009. Since that time these resources have been involved in many Finance systems projects. Current projects include:

- Financial reporting – a project has been established to examine the financial reporting requirements of the organization, and the alternative approaches to generating these reports. The initial phase to compile existing reports and identify reporting improvements has been completed through interview of Finance staff.

- Training – a project has been initiated to review existing materials for SAP training and identify gaps and opportunities for re-using, updating and enhancing awareness of the SAP and its functionality and the implications on Finance business processes. A project has been initiated to identify training requirements for Finance staff. A training plan will be created using existing training materials, webinars along with classroom style training where required.

A project to create an Authorized Signature Database has been completed and is 80% populated with the authority levels and signatures for all approvers in the organization in compliance with the Purchasing By-law and as directed by senior management. This tool is currently available to Finance staff as the sole repository of information and represents a control for confirming appropriate approvals in Finance business processes.

In addition to day-to-day operations, Finance is involved in Finance-initiated projects (e.g., Accounts Payable ("AP") automation), client-initiated projects (e.g., SmartCard), Council-directed initiatives, regulatory compliance (e.g., introduction of HST) and over 320 recommendations made by the OAG since 2005. With limited resources, Finance must prioritize their activities based on risk and materiality.

The OAG has stated that effective financial controls ensure that the City of Ottawa operates as efficiently as possible and assists it in meeting its objectives. Management is committed to implementing a strong internal control framework. The City is working with its external auditor to transition to a control based audit approach over the next few years. Work on this initiative has commenced in fiscal 2009 on specific processes, and will continue to be refined and developed each year thereafter.

Management considers that significant progress has been made in implementing the recommendations of the original audit.

Acknowledgement

We wish to express our appreciation for the cooperation and assistance afforded the audit team by management.

RÉSUMÉ

Introduction

Le Suivi de la vérification de l'environnement de contrôle financier de 2006 était prévu dans le Plan de vérification du Bureau du vérificateur général de 2009.

Les constatations principales de la vérification initiale de 2007 sont les suivantes :

- La Ville n'a pas de procédures de surveillance claires et uniformes. Les responsabilités et l'obligation redditionnelle à l'égard du contrôle financier ne sont pas établies avec précision, tandis que les rôles, les pratiques et les procédures sont absents ou mal définis.

- Après avoir consacré des sommes considérables à la mise en place d'un système financier à l'échelle de la Ville, celle-ci ne tire pas pleinement profit de son investissement. D'autres systèmes continuent d'être abondamment utilisés et bon nombre des contrôles municipaux ne sont toujours pas en vigueur. Des déficiences importantes sont aussi observées sur le plan de l'accès au système, dont l'incompatibilité des tâches et le fait que celles-ci ne sont pas partagées.

- L'absence de contrôles financiers efficaces a eu de nombreuses incidences, dont les suivantes :

    - Plus de 291 000 $ en revenus d'intérêts sont perdus chaque année du fait que les factures sont réglées trop tôt;

    - En 2006, le coût des congés de maladie non attestés par un certificat médical, au-delà des limites prévues, s'élève à 1,1 million de dollars;

    - Les crédits de jours de vacances accumulés au-delà des limites prévues s'élèvent à 6,8 millions de dollars;

    - Des paiements de 23,6 millions de dollars ont été effectués avant que les achats n'aient été approuvés.

Sommaire du degré d'achèvement

Le tableau ci-dessous présente notre évaluation du degré d'achèvement de chaque recommandation à l'automne 2009 :

CATÉGORIE	POURCENTAGE COMPLÉTÉ	RECOMMANDATIONS	NOMBRE DE RECOMMANDATIONS	POURCENTAGE DU TOTAL DES RECOMMANDATIONS
PEU OU PAS DE MESURES PRISES	0 - 24	2, 3, 4a, 11, 16b, 16c, 21, 27, 30, 32a, 35b, 36, 38	13	27 %
ACTION AMORCÉE	25 - 49	19	1	2 %
COMPLÉTÉE EN PARTIE	50 - 74	1, 4b, 6, 7, 20, 32b, 33, 35a, 40	9	18 %
PRATIQUEMENT COMPLÉTÉE	75 - 99	5, 8, 9, 10, 12, 14, 15, 16a, 17, 23b, 28, 29, 34a, 34b	14	29 %
COMPLÉTÉE	100	13, 18, 22, 23a, 24, 25, 26, 31a, 31b, 37a, 37b, 39	12	24 %
TOTAL			49	100 %

Conclusion

Comme le précise la vérification de l'environnement de contrôle financier réalisée en 2006, la fusion de la Ville a relevé du défi puisque les différents systèmes des 12 anciennes municipalités devaient être regroupés en un seul environnement de contrôle financier intégré. La Ville a décidé alors de mettre en place un modèle de centre d'expertise, notamment des Unités du soutien financier. La vérification de 2006 a révélé que, bien que le concept semble rationnel, le cadre de contrôle financier présentait plusieurs lacunes et disparités. De plus, la vérification a montré que, bien que la Ville ait mis en œuvre un système de gestion financière de pointe, de façon générale les employés ne l'utilisent pas et les vérificateurs externes ne s'y fient pas.

À notre avis, la Ville a apporté des améliorations visant à consolider l'environnement de contrôle financier. Nous avons noté que de nombreux postes au sein des Services financiers pourraient étendre leurs responsabilités afin d'améliorer l'efficience du service. Un examen complet des processus d'affaires indiquerait les secteurs où l'utilisation des ressources pourrait être optimisée.

La Ville a retenu les services de conseillers afin de l'aider à élaborer un cadre de contrôle financier, à un coût de plus de 100 000 $ jusqu'ici. Les deux rapports obtenus sont d'une grande utilité pour ce qui est de l'élaboration d'un cadre, et la direction a entrepris la mise en place du cadre recommandé.

Nous jugeons particulièrement préoccupants les progrès limités accomplis à l'égard de l'élaboration des politiques financières et des procédures, compte tenu de la quantité de ressources engagées dans ce projet. Une approche complète et à l'échelle de la municipalité doit être adoptée et s'accompagner d'une évaluation détaillée de chaque processus financier et des contrôles nécessaires fondés sur les pratiques exemplaires. Jusqu'ici, la Ville s'est bornée à créer un recueil des politiques et procédures écrites existantes sans procéder à l'examen des procédures qui sont requises.

En ce qui concerne les changements au Système de gestion financière de la Ville (SAP), très peu de progrès ont été réalisés. Plusieurs des contrôles de système recommandés contenus dans la vérification de 2006 n'ont pas été explorés ni mis en place. Toutefois, la direction a entrepris quelques changements dans l'Administration de la paie afin de pallier certains éléments de passif importants (c.-à-d., congés de maladie non attestés). La production de rapports dans le SAP ne s'est pas améliorée. Ce n'est que récemment que les Services financiers ont achevé le recrutement du Groupe des systèmes d'information de gestion financière, qui a pour mandat d'améliorer les contrôles et la production de rapports.

En revanche, l'Unité du soutien financier (USF) assignée au Service des parcs, des loisirs et de la culture semble avoir mis des changements en place. Bien que quelques changements soient encore nécessaires, le personnel de l'USF et du Service

des parcs, des loisirs et de la culture a œuvré diligemment pour aborder les préoccupations soulevées dans la vérification de 2006. Étant donné les défis relevés par le Service des parcs, des loisirs et de la culture en ce qui concerne la séparation des tâches, les deux entités semblent explorer divers mécanismes en vue d'améliorer les contrôles.

En ce qui concerne les contrôles des achats et des décaissements, nous avons constaté un manque de surveillance de la part de la direction pour un volume important de transactions. Dans de nombreux secteurs de l'organisation, des responsabilités ont été déléguées au personnel sans mécanisme officiel de délégation.

Le plan d'exécution du CCSP de la Ville, bien que relativement tardif cette année, semble être en voie de satisfaire aux exigences de la vérification pour 2009. La gestion et la surveillance diligentes des projets seront requises pour s'assurer que la Ville respecte la date limite.

Les contrôles financiers ont toujours été un aspect important de la gouvernance de tout organisme. Au sein de l'administration municipale, les contrôles internes devraient être à la fois rigoureux et faire l'objet d'une surveillance attentive.

Des mécanismes de contrôle financier efficaces permettront de s'assurer que la Ville d'Ottawa mène ses activités le plus efficacement possible et l'aideront à atteindre ses objectifs.

Réponse de la direction à la Conclusion

La vérification de l'environnement de contrôle financier de 2006 a formulé un certain nombre de recommandations visant à créer une structure de responsabilisation financière étayée par des procédures et des systèmes documentés. Depuis, la direction du Service des finances a instauré un certain nombre de changements afin de répondre à ces recommandations, y compris :

- L'instauration du poste de contrôleur à l'échelon de trésorier municipal adjoint, chargé d'assurer la cohérence des contrôles financiers.

- L'établissement d'une Unité de la politique financière, de la conformité et des systèmes sous la Direction du contrôleur financier. Cette unité est responsable des tests de conformité, de la documentation des politiques et procédures, de la réponse aux vérifications et de leur coordination, et du développement de systèmes dans le Service des finances.

- L'établissement d'une Équipe des systèmes d'information de gestion financière dont le mandat est de passer en revue et d'améliorer l'appui aux systèmes des processus opérationnels et des besoins en préparation de rapports financiers.

La dotation en personnel de ces nouvelles unités et de ces nouveaux postes a été complétée à la mi-2009, et depuis, des progrès notables ont été accomplis en

réponse aux recommandations de la vérification.

Dans la vérification de suivi, le VG a constaté que la mise en œuvre était réalisée à plus de 50 % dans 71 % des 49 recommandations. La direction estime qu'elle a complété 38 des recommandations (78 %), avec des progrès notables en ce qui concerne 10 autres recommandations (20 %) qui sont pratiquement complétées, ce qui couvre 98 % de toutes les recommandations originales. La recommandation restante est complétée à 50 %. La direction croit que la différence dans la communication des résultats est attribuable à deux facteurs : le délai entre la fin des travaux de vérification et la communication des résultats (été 2009 par rapport au printemps 2010) et l'interprétation différente des recommandations, la vérification de suivi élargissant la portée des recommandations originales.

En plus de consolider l'environnement du contrôle financier, le Service des finances a surveillé la mise en œuvre, suivi les progrès et traité les vérifications de suivis de quelque 320 recommandations liées à Finances formulées par le VG dans divers rapports de vérification depuis 2005. Le volume de travail qui a découlé des recommandations de la vérification a représenté une charge substantielle pour de nombreux postes de la direction et du personnel du Service des finances. Le VG affirme que de nombreux postes dans le Service des finances pourraient étendre leurs responsabilités afin d'améliorer l'efficience du service, cependant, il n'a fourni aucune donnée probante à l'appui de cette affirmation.

L'engagement de la Ville avec Ernst & Young a établi la base d'un cadre de contrôle financier. Plusieurs des observations citées dans le rapport ont été intégrées au projet ou aux mesures à prendre incluses dans bon nombre de plans de travail du Service des finances, des Services du développement et du rendement organisationnels, des Services juridiques, des TI, des RH, etc., y compris les initiatives suivantes :

- Gestion des risques — Il y a un comité de gestion des risques d'entreprise (GRE) composé de représentants des services. Le mandat et les principes directeurs de ce groupe ont été établis dans un rapport qui a été passé en revue et approuvé par le Comité exécutif et le Conseil municipal. Les aspects de la gestion des risques dans une perspective financière et opérationnelle sont les composantes clés de l'approche coordonnée privilégiée par ce comité de travail.

- Code de conduite — Le nouveau code de conduite et le plan d'action ont été reçus par le CSODE (Comité des services organisationnels et du développement économique) le 6 avril 2010. Le code de conduite fera partie de l'évaluation du rendement annuel de chaque membre du personnel de la Ville.

La vérification de l'environnement de contrôle financier de 2006 recommandait l'établissement et la documentation des processus financiers de l'Unité du soutien financier (USF) et d'autres membres du personnel du Service des finances. L'objectif initial a été accompli par la compilation de 352 processus, la consolidation et

l'uniformisation des processus similaires lorsqu'il est pratique de le faire, et la documentation uniformisée de ces documents avec l'aide des propriétaires des processus opérationnels. Le personnel de l'Unité de la politique et de la conformité (UPC) collabore avec les ressources municipales afin d'explorer des solutions communes de « visualisation » pour l'accès et la récupération de ces documents dans Ozone et BIMS (systèmes intégrés de gestion et des affaires commerciales) au plus tard durant le quatrième trimestre de 2010.

En plus des recommandations originales abordées ci-dessus, le personnel de l'UPC participera aux initiatives suivantes qui se poursuivront tout au long de 2010 et qui feront l'objet de mises à jour continues par la suite :

- Indexation des documents regroupés par processus opérationnels pour permettre de visualiser sous forme de « cheminement du travail » les flux traditionnels des processus connexes.

- Analyse des écarts et étalonnage dans le but de cerner les processus additionnels à élaborer pour fournir une couverture plus complète des documents opérationnels.

- Considération de l'intégration de la cartographie des processus opérationnels afin de faciliter la compréhension de processus opérationnels plus complexes.

L'Équipe des systèmes d'information de gestion financière a été dotée en personnel à la mi-2009. Depuis lors, ces ressources ont participé à de nombreux projets de systèmes de Finances. Les projets en cours incluent :

- Informations financières — Un projet a été établi afin d'étudier les exigences en matière d'information financière de l'organisation et les approches alternatives à la production de ces rapports. La phase initiale de compilation des rapports existants et de détermination des améliorations aux rapports s'est conclue par l'entrevue du personnel du Service des finances.

- Formation — Un projet a été lancé afin de passer en revue le matériel de formation existant sur le SAP et de cerner les lacunes et les possibilités de réutiliser, de mettre à jour et de faire connaître le SAP, ses fonctionnalités et ses répercussions pour les processus opérationnels du Service des finances. Un projet a été lancé dans le but de déterminer les besoins en formation du personnel du Service des finances. Un plan de formation sera créé dans une volonté de mettre à contribution le matériel de formation existant, les séminaires en ligne et les cours magistraux, le cas échéant.

Un projet pour créer une base de données des signatures autorisées a été complété, et 80 % des niveaux d'autorité et des signatures des approbateurs de l'ensemble de l'organisation y sont entrés, conformément au Règlement municipal sur les achats, et comme l'a ordonné la haute direction. Cet outil, actuellement à la disposition du personnel du Service des finances, constitue une base de données unique ainsi

qu'un contrôle de confirmation des approbations requises par les processus opérationnels du Service des finances.

En plus des opérations quotidiennes, le Service des finances est engagé dans des projets lancés par le Service des finances (p. ex. l'automatisation des comptes créditeurs), des projets lancés par les clients (p. ex. la carte à puce), des initiatives exigées par le Conseil municipal, des exigences de conformité (p. ex. l'introduction de la TVH) et plus de 320 recommandations émises par le VG depuis 2005. Avec des ressources restreintes, le Service des finances doit prioriser ses activités en fonction du risque et de leur importance.

Le VG a déclaré que des contrôles financiers efficaces font en sorte que la Ville d'Ottawa fonctionne aussi efficacement que possible et l'aide à satisfaire à ses objectifs. La direction s'est engagée à mettre en œuvre un cadre de contrôle interne solide. La Ville collabore avec son vérificateur externe afin de faciliter la transition vers une approche à la vérification axée sur le contrôle durant les prochaines années. Le travail sur cette initiative a commencé au cours de l'exercice 2009 sur des processus précis, et continuera de faire l'objet d'améliorations tous les ans par la suite.

La direction estime que des progrès notables ont été faits dans la mise en œuvre des recommandations de la vérification originale.

Remerciements

Nous tenons à remercier la direction pour la coopération et l'assistance accordées à l'équipe de vérification.

1 INTRODUCTION

The follow up to the 2006 Audit of the Financial Control Environment was included in the Auditor General's 2009 Audit Plan.

The key findings of the original 2006 audit included:

- The City has no clear and consistent control procedures and no clear ownership or accountability for overall financial control. Roles, practices and procedures are currently inconsistent and lacking.

- Despite a large investment in a City-wide financial system, the City is not taking full advantage of it. There is still extensive use of other systems and many of the corporate controls have not been activated. Significant deficiencies were also identified in system access, including incompatible duties and a lack of segregation of duties.

- The lack of effective financial controls has resulted in:

  - Over $291,000 annually in foregone interest revenue from paying invoices too soon;

  - $1.1 million, in 2006, in uncertified sick leave over allowable limits without medical certificates;

  - $6.8 million in banked vacation leave beyond allowable entitlements; and,

  - $23.6 million in payments made prior to the authorization for the purchase.

2 KEY FINDINGS OF THE ORIGINAL 2006 AUDIT OF THE FINANCIAL CONTROL ENVIRONMENT

1. **Financial Control Effectiveness:** Our review of the City's Corporate Financial Management System (SAP) found that there were significant deficiencies related to system access capabilities. It is our opinion that there are significant deficiencies in the City of Ottawa's system of financial controls.

   The external auditors have also been unable to rely on many of the City's financial controls and have therefore followed a substantive audit approach for their statutory audit. A controls-reliance audit would likely be more efficient and provide for a more timely completion of statutory audit procedures.

2. **Process Documentation:** We found that there is generally a lack of established processes, whether formal or informal, documentation or guidance on procedures to be followed in the processing of financial transactions. Obtaining up-to-date policies and procedures from certain FSUs was often challenging. For example, one FSU was unable to provide adequate and updated support regarding delegation of authorities. The support provided was a 2003 email on which the related director had been copied.

We noted that the City has achieved a reasonable consistency and documentation with regards to the Purchasing Card process. We found that a clear and formal procedure exists for this process and is followed fairly consistently across all FSUs and related departments. Detective controls are also in place since the Policy and Compliance Unit frequently completes reviews over this process. Such clear policies and consistent compliance should exist for all other processes.

3. **Evidence of Review or Control Procedures**: We found numerous instances where there was no evidence that required control procedures had been carried out. In many cases, this would require only a signature to attest that an approval or oversight review had been completed. In other cases the report or worksheet on which an analysis or reconciliation was performed should be retained. Without such evidence there is little basis to conclude that internal control procedures are effective.

4. **Job or Task Descriptions**: We noted that many employees, either because they were recent hires or replacing other staff, did not adequately understand the requirements of their position. We often did not find task or detailed job descriptions to which new or temporary employees could refer. This situation resulted in a high reliance on professional expertise (see section 1.4) and a risk of inconsistent and/or inappropriate procedures.

5. **Staff Qualifications and Training**: Only 22 employees out of 345 employees (excluding Supply Management Division) within the Financial Services Branch currently hold an accounting designation. In the absence of formal and informal processes, a greater number of professional designations would instill reliance as to the effectiveness and adequacy of the financial environment and would provide staff with guidelines in instances where procedures are lacking.

6. **Data Analysis of Disbursement and Revenue Streams:** We conducted detailed data analyses and trend reports, which permitted us to investigate unusual business transactions within the disbursement and revenue streams. From these reports we were able to identify that:

- From a sample of 279 entries, 19 were duplicates payments totalling $9,064;

- We identified 5,606 invoices totalling $23.6 million, which were potentially dated prior to the purchase order date. On a test basis, a sample of 50 invoices was reviewed to determine if the invoice date was entered correctly. Our review identified that 98% of the invoices sampled were dated prior to the purchase order date. This practice is not in conformance with standard purchasing practices, which requires a purchase order to be in place prior to the ordering, receipt or payment of any purchase; and

- We identified 186,476 disbursements totalling $499 million, which may have been paid prior to the generally accepted practice of paying 30 days from the

invoice date. We estimated foregone interest revenues of approximately $291,000. The Office of the Auditor General is considering conducting an audit of the City's Treasury function.

7. **Roles and Effectiveness of the Financial Support Units:** We found that the Financial Support Units strive to meet their client departments' needs. However, their practices and procedures are inconsistent and not adequately documented. No division or branch appears to exercise oversight of all FSUs. Without such oversight, it is unlikely that the effectiveness and consistency of FSUs can be adequately monitored.

8. **Consistency of FSU Control Procedures:** In our review of the various FSU Portfolio Units, we noted that the execution of control procedures was often completed but inconsistent.

9. **Consistency in Range and Level of Services and of FSU Roles and Responsibilities:** During the course of our work in 2005 and 2006, the Office of the Auditor General identified several instances where Financial Support Units' performance did not meet expected service delivery level, in areas such as practice consistency; rule enforcement and level of involvement in controls and/or processes. While service level agreements between centres of expertise and client departments have been prepared, they are out-of-date and not being applied. In practice, the level of service provided by FSU varies significantly.

10. **Role and Effectiveness of the Accounting and Reporting Division:** We found that the Accounting and Reporting Division of Financial Services Branch has a very limited role in monitoring compliance with the City's financial controls. Further, no division or unit within Financial Services Branch has been assigned the oversight responsibility for the maintenance of adequate systems of internal controls. This is inconsistent with acceptable practice in organizations of a size and financial activities comparable to the City of Ottawa.

11. **Accounting and Reporting Division:** We found that the FSUs did not have a clear understanding of the role of the Accounting and Reporting Division. More significantly, no division within Financial Services Branch has been assigned the overall responsibility for monitoring the effectiveness and compliance with an adequate system of internal controls. This is contrary to acceptable (i.e., minimum) standards in organizations of a size and financial activities comparable to the City of Ottawa. We would expect that assigning the responsibility of the financial control framework to a specific division would strengthen and streamline procedures. This situation exposes the City to unacceptable risks of financial losses due to potential fraud or accounting errors.

12. **Utilization of Financial Systems (reporting and management tools):** We found that the City of Ottawa's Financial Management System (SAP) and related sub-systems (e.g., CLASS recreation program registration and facility booking) are not sufficiently used for financial control purposes.   This results from

inadequate monitoring of system access and instances where programmed controls are bypassed or overridden. We also found instances where the system functionalities were not fully utilized and information was downloaded to spreadsheets to manually perform functions that could likely be completed within the Corporate Financial Management System (SAP). The City of Ottawa is therefore not obtaining the full benefits from the significant investment it has made in its financial systems.

13. **Incompatible Duties and Segregation of Duties:** Our review of the Corporate Financial Management System (SAP) user access data allowed us to determine which City of Ottawa staff had the ability to execute sensitive actions or to execute incompatible transactions. With this information, we found numerous potential segregation of duties issues. Examples include:

- At least 24 users currently have the capability of creating a purchase order (PO), releasing that same PO, entering an invoice against the PO, posting a goods receipt against the PO, creating cheque information and posting an outgoing payment;

- At least 25 users are capable of creating a vendor, entering invoices, creating cheque information and posting outgoing payments;

- At least 11 users have the capability of creating a customer, creating a sales order, cancelling a billing document, posting payments and entering a customer credit memo; and,

- At least 52 users have the capability of creating a PO, posting a goods receipt and altering the inventory listings.

We noted that 25 users have the ability to create a vendor, enter an invoice, create cheque information and post outgoing payments. Of these 25 users, 3 are operational staff and 22 are ITS staff. Management is aware of the assignment of these duties to operational staff. In this case, the Manager of Accounting and Reporting has provided written authorization approving operational staff's access to meet operational requirements. ITS staff use their access to provide user support to Helpline calls and to research reported problems. ITS will take steps to review the number of staff who have access and will apply the same standard of care with respect to incompatible duties, although these staff do not update data and transactions within the production environment. This review will commence in Q2 2007.

14. **Corporate Financial Management System (SAP) Application Control Overrides:** During our walkthrough of transactions within the Corporate Financial Management System (SAP), we found that significant overrides were allowed, and SAP's automated internal control functionalities were not fully utilized. We observed the following:

- The Corporate Financial Management System (SAP) permitted the overriding of prices originating from the CLASS recreation program registration and facility booking system;

- Invoices could be processed twice for payment;

- The Corporate Financial Management System (SAP) cheque runs could be printed more than once;

- Sick days taken can exceed allowable amount (e.g., From January 1 to December 31, 2006, 724 employees (42 CIPP and 682 CUPE 503 Inside/Outside) had taken a total of 5,587 days of uncertified sick leave over the allowable limit of their respective collective agreements. Based on the employees December 2006 pay rate, this represents an estimated cost of approximately $1,094,000);

- Annual leave (vacation) banks could be accumulated in excess of the allowable carry-over entitlement. We found a total of 1,713 employees carried over annual leave, in excess of their maximum allowable entitlement, totalling $6.8 million; and,

- Pay rate increments could be overridden.

We also identified instances where an employee, without the proper authority, could navigate to certain screens within the Corporate Financial Management System (SAP) and potentially bypass its imposed limitations.

In July 2004, at the time Council was presented with the City of Ottawa's audited 2003 consolidated financial statements, Council inquired into issues relating to segregation of duties as well as to the robustness of access controls of the City's Corporate Financial Management System (SAP). At that time, management had indicated that a thorough review of the controls would be undertaken. We did not come across the results from this review during our work.

15. **Corporate Financial Management System (SAP) Utilization:** We found that many FSUs used software, in addition to Corporate Financial Management System (SAP), for their reporting requirements. This was observed in instances where the FSU completed various reconciliations and/or had specific reporting requirements.

This situation either results from inadequate system design or insufficient (or deficiency in) user training, which ultimately negates the Corporate Financial Management System's (SAP) functionalities. Using Corporate Financial Management System's (SAP) full functionalities to generate reporting requirements would instill greater reliance on the accuracy of the data and limit human error during downloads and would likely be more efficient and less costly.

3 STATUS OF IMPLEMENTATION OF 2006 AUDIT RECOMMENDATIONS

3.1 Financial Control Effectiveness

2006 Recommendation 1

That Financial Services Branch establish and continually document, and review financial processes with staff of the various FSUs and other finance groups. This would reinforce the requirement to follow expected control procedures and provide clear references for testing that the controls are effective.

2006 Management Response

Included in the overall management response.

Consolidated management response to recommendations 1, 2, 4(a), 5, 6, 7, 8, 11, 20, 23(b), 27, 38 and 40:

Management agrees with these recommendations.

This is to be considered a consolidated management response, to address audit recommendations 1, 2, 4 (a), 5, 6, 7, 8, 11, 20, 23 (b), 27, 38 and 40. It deals with the recommendations focusing on internal controls and the Financial Management Information System (FMIS).

At amalgamation, the Financial Services branch created a new policy and compliance unit responsible for: conducting regular compliance reviews; developing, documenting and maintaining policies and procedures; creating business processes and operating guidelines; and dealing with all commodity tax issues.

The organizational structure for the policy and compliance unit has 11 FTEs, with 2 FTEs dedicated to developing and maintaining the 53 policies and procedures for which the branch is responsible. However, the 2 staff assigned to the policy area, were redeployed due to the increased workload of this unit, stemming from the credit card audit, the Universal Program Review and changes in legislative requirements. As a result, Financial Services has focused insufficient attention on policy and procedure documentation of internal controls.

Management has re-staffed the policy and compliance unit to its original complement. This unit will continue to document and review financial processes, with the staff of the Financial Support units and other finance groups ensuring that consistent control procedures are applied. The policy and compliance unit will also develop new policies and guidelines to support the City's financial control framework.

The compliance unit was initially focused on conducting compliance reviews in the area of credit card transactions, but has been expanded to cover key financial processes such as payments without reference to a purchase order, travel claims, petty cash, departmental purchase orders, hospitality, gifts and entertainment, and other such activities as determined by senior management. Compliance reports are circulated to management and financial services staff on a quarterly basis. In response to the recommendations in this audit, the scope of the compliance unit will expand to include periodic reviews of disbursements and invoices to ensure they are in compliance with the City's policies and business practices.

As part of the compliance review, Financial Services will continue to ensure that staff is establishing purchase orders prior to the commencement of work or the receipt of goods, when the purchase order is the basis of the contract. There are some rare occasions where exceptions to this principle are warranted in order to ensure there is no interruption of essential City services such as in the purchase of salt and gas. Furthermore, Financial Services will also continue to ensure that the employee authorizing expenditures has the appropriate level of delegated authority.

The training budget for Financial Services was established at amalgamation in 2001 at approximately $67 per employee. Due to on-going budget constraints, the training budget has not been increased since that time. Subsequently, Financial Services staff training has lagged behind optimal levels. In response to the audit recommendation, specific finance and accounting training will be offered to staff. Training will be provided, through a combination of in-house and external providers, on City-specific policies and procedures, including the use of the Corporate Financial Management System (SAP).

Section 286 (1) of the Municipal Act assigns responsibility for financial internal controls of the City to the Treasurer. City Council, through its approval of the City's organizational and management structure and the Centre of Expertise model, has directed the Treasurer to discharge these responsibilities within this organizational framework. To ensure sufficient financial controls are in place, the City Treasurer delegates relevant responsibilities for financial internal controls to specific divisions within Financial Services, including the accounting and reporting division.

Management recognizes that the Corporate Financial Management System (SAP) requires on-going modifications to increase the utility of the system. In 2006, the Financial Services and Information Technology Services branches implemented an on-going process for the identification, prioritization and implementation of SAP enhancements in order to actively control this process within Finance. When these improvements are made, it will be easier for Financial Services staff to use the technology to track activities and create reports. In addition, a number of SAP "real-time" financial reports are available for managers to access on the City's

intranet. This allows managers to keep up-to-date on financial management issues within their areas of responsibility.

Financial Services will also continue to work with ITS to review the ability to disallow changes to the status of transactions in order to ensure that only essential, authorized persons, as approved by management, will have this access. Financial Services continues to work with ITS to ensure proper training and supervision of staff. Ernst & Young identified the issue of segregation of duties in the inventory management area in their 2005 management letter. As a result, Council approved additional resources in the 2007 budget that permits appropriate segregation of duties and system access.

Management has also committed to creating a Financial Management Information System (FMIS) unit within the accounting section. This unit will be modeled after the Employee Services Human Resources Information System (HRIS) unit. Creating a specific unit allows the Financial Services branch to develop in-house system experts within the branch capable of ensuring that SAP will be modified to meet the diverse needs of the branch. Modification will ensure increased operational efficiency and will allow the branch to maximize the return on the City's investment in the technology.

Financial Services will develop a Payment Terms Policy as part of its planned review of the accounts payable process. This review will start in Q2 2007 and will be completed by Q3 2007. It should be noted that the process controls for invoice payment terms are already in place.

This audit has allowed management to implement many improvements that will strengthen existing internal financial controls. Management agrees with the Auditor's recommendations and will ensure they are implemented. In order to fully comply with the Auditor's recommendations, the Financial Services branch has examined existing resource levels with a view to redeploying resources wherever possible. As a result of this analysis, it has determined that some reallocation is possible, however, the branch will require additional resources.

Resources will be required to provide adequate staffing, implement system modifications and provide training identified by the Auditor General. To fully comply, it is estimated that the cost will be approximately $725,000 to $900,000. Prior to requesting additional resources, management has made a commitment to advance the review of the Financial Services branch, as part of the Branch Process Review Program. Any savings identified through this process will be used to fund activities related to implementing the Auditor General's recommendations. The BPRP review will take place by Q4 2007.

Management Representation of the Status of Implementation of Recommendation 1 at December 31, 2008

Implementation of this recommendation is 50% complete. The process of collecting and validating policies and procedures within Financial Services is substantially completed. The project entered a new phase in November 2008 aimed at streamlining the development process, and to date, 57 procedures have been revised or consolidated using industry best practices. A review of the remaining procedures will continue throughout 2009.

Management: % complete   *50%*

OAG's Follow-up Audit Findings regarding Recommendation 1

In our opinion, this recommendation is 50% complete. A new "Finance Policy Procedures Development Guide" was created in August 2008 containing templates and requirements for developing policies, procedures and task descriptions. Although this guidance is a step in the right direction, it is not rigorously adhered to. Further, the procedures and task description templates lacked the requirement for detailed process maps and/or responsibilities by position. Although some policies contain responsibilities, most are very high level. Without position-based responsibilities, staff are left with the discretion to determine who is responsible for each task.

To date, the primary focus with respect to process documentation has been to gather existing policies and procedures and transforming those into the new format. There has been no overall assessment undertaken to determine key financial processes nor has there been an assessment of the existing policies for control weaknesses. One would expect to see an outline (or table of contents) by financial process, a workplan to assess each process based upon best practice and an analysis of the policy and process gaps based upon current practice.

Despite the significant number of resources assigned to this project, as of the time of the audit, only 84 existing procedures were approved in July 2009. Of these approved procedures, the majority referred to irregular types of transactions rather than the typical financial processes. Consequently, the City still has a significant amount of work to complete in order to ensure that control procedures are in place and followed.

OAG: % complete   *50%*

Management Representation of Status of Implementation of Recommendation 1 *as of Winter 2010*

Management disagrees with the OAG's follow-up audit finding that implementation of this recommendation is only partially complete.

The original audit recommended the establishment and documentation of financial processes for Financial Support Unit ("FSU") and other Finance staff. This has been completed through the compilation of 352 processes, the consolidation and standardization of similar processes where practical, and the consistent documentation of those documents with the assistance of the business process owners. Staff in the PCU are working with corporate resources to explore common viewing solutions for access and retrieval of these documents on Ozone and BIMS by Q4 2010.

- In addition to the original recommendations addressed above, PCU staff are involved in the following initiatives that will continue throughout 2010 with updates on an ongoing basis thereafter: Indexing of the documents into business process groupings to allow a "workflow" relationship view of traditional streams of related processes.

- Gap analysis and benchmarking to identify additional processes to be developed to provide a more comprehensive coverage of business documents.

- Consideration of inclusion of business process mapping to aid understanding in more complex business processes.

Management expects implementation of this recommendation to be ongoing. The development, documentation and establishment of control procedures is an ongoing process due to changes in legislation, automation and other business changes.

Management: % complete   *90%*

2006 Recommendation 2

That Financial Services Branch ensure that the review, approval and other control procedures are clearly evidenced by signatures or retention of documents.

2006 Management Response
Included in the overall management response.

Management Representation of Status of Implementation of Recommendation 2 as at December 31, 2008

Implementation of this recommendation is 20% complete. Finance has been working with IT to develop an automated process for capturing, communicating, and maintaining evidence of delegation of signing authority and specimen signatures. The project business case was approved by IT in November 2008 and project kick-off is scheduled for January 14, 2009.

Management: % complete   *20%*

OAG's Follow-up Audit Findings regarding Recommendation 2

We agree with management's assessment that 20% of the recommendation has been implemented. The project as outlined in the business case is intended to capture specimen signatures in a database that is separate from SAP, the City's financial system. There is currently no intention on the part of Finance to ensure that this database is referred to for verification of signatures for every transaction but rather to serve as a resource in instances where the signature is not recognizable and/or the level of delegated authority. This project to capture all signatures and delegations of authorities was delayed and was not operational at the time of the audit. Therefore, FSUs and finance staff must continue to rely on paper versions of delegated authorities which are inconsistently captured and are not necessarily available to all staff.

At the time of the audit, there were still many types of accounts payable transactions where signatures are not required such as inventory purchases and billings for utilities. Supporting documentation is generally housed in the accounts payable area but there are instances such as inventory purchases, where this is not the case. As such, Finance cannot be certain that necessary approvals and associated controls are effective.

As a result, there continues to be weaknesses in the control procedures, particularly at the input stage. Without clear, repeatable, sustainable practices evidenced by signatures or retention of documents, control weaknesses will continue.

OAG: % complete   *20%*

Management Representation of Status of Implementation of Recommendation 2 as of Winter 2010

Management disagrees with the OAG's follow-up audit finding that there has been little or no action taken to implement this recommendation.

A project to create an Authorized Signature Database has been completed and is 80% populated with the authority levels and signatures for all approvers in the organization in compliance with the Purchasing By-law and as directed by senior management. This tool is currently available to Finance staff as the sole repository of information and represents a control for confirming appropriate approvals in Finance business processes. Management expects the database to be fully populated by end of Q2 2010.

The OAG notes in particular that there are still many types of accounts payable transactions where supporting documentation is not housed in the accounts payable area such as inventory purchases. For inventory goods, a goods receipt entry is processed at the inventory location on the basis of a packing slip. The packing slip is retained at the receiving site. Compensating controls include an automated inventory management system and physical inventory counts.

The above processes leverage the best practices embedded in SAP, including the three-way match between the purchase order, goods receipts, and vendor invoice. Management's preference is to have all goods receipts issued on the basis of packing slips and to continue routing all vendor invoices to Central Accounts Payable. This will minimize the number of lost or misplaced invoices and reduce the likelihood of late payment fees.

Management expects implementation of this recommendation to be complete by the end of Q2 2010.

Management: % complete   *80%*

2006 Recommendation 3

That Financial Services Branch in conjunction with Employee Services Branch ensure that detailed task and job descriptions are developed as part of process documentation in order to provide a basis for training and reference for finance employees.

2006 Management Response

Management disagrees with this recommendation.

The City's current practise is to develop job descriptions that reflect the skills, knowledge, professional qualifications and experience requirements of the positions, and to list the major duties of the position. This is of value to the City with respect to multi-incumbent positions where only one generic job description is needed. Financial Services will instead improve the detailed process descriptions.

Management Representation of the Status of Implementation of Recommendation 3 at December 31, 2008

Implementation of this recommendation is 20% complete. Further to discussion at a meeting between the City Manager and the Auditor General on November 21, 2007, management agreed that job descriptions will have more specificity in them. Also, job descriptions will refer to procedural documents, which will document specific duties that finance employees are responsible for.

A Business Process Development Project was undertaken. Process owners reviewed and developed policies, procedures and task descriptions for Financial Services (FS). Job descriptions were reviewed and will refer to procedural documents that will document specific duties. FS will reference the defining documents in the job descriptions under which a position operates once the project to document procedures is completed. Working groups met over the summer and fall to undertake the streamlining of financial business processes to ensure consistency across the branch. The review of FS job descriptions will be initiated in 2009, with the FSU positions to be completed by the end of Q2 2009.

Management: % complete   *20%*

OAG's Follow-up Audit Findings regarding Recommendation 3

We agree with management that 20% of the recommendation has been implemented. Although some work has been undertaken to redesign the job descriptions and develop task descriptions, many gaps remain. Many key job descriptions within the Finance Department did not exist and the format and contents were inconsistent. For example, the Deputy City Treasurer of Revenue job description was not available. This position reports directly to the City Treasurer and is a relatively high level position with significant responsibility and accountabilities. We were referred to a "Manager of Revenue" job description as evidence of detailed job description. Other positions were also not available including Program Managers of Accounts Payable. In these cases we were referred to dissimilar job descriptions in Accounts Receivable staff. The job description project was underway at the time of the audit (end of Q2 2009) within the FSUs. However, this was not complete.

With respect to format and content, job descriptions were inconsistent with respect to the requirement for criminal reference checks and professional designations.

Consequently, we are of the opinion that, in the absence of complete policies, procedures and task descriptions, that job descriptions need to contain more detail and need to be reflective of the roles, responsibilities and accountabilities. Further, there is a continued need to complete job descriptions for all positions in the Finance Department in order to ensure that these accountabilities are known and practiced by the incumbents. New positions should be developed and evaluated by Human Resources before appointment to the positions.

OAG: % complete   *20%*

Management Representation of Status of Implementation of Recommendation 3 *as of Winter 2010*

Management disagrees with the OAG's follow-up audit finding that there has been little or no action taken to implement this recommendation.

FSU - Job descriptions have been updated and are ready for review by Job Evaluation. The Coordinator job description was distributed to staff March 5, 2010. Most have been signed and are on file. The job evaluation process is ongoing. The Finance Officer, Senior Clerk and Clerk positions have been updated but have not been distributed pending the implementation of AP automation, which will impact the roles, and responsibilities of the aforementioned positions.

Supply - Job descriptions have been updated/written and are currently with Human Resources to be evaluated. The Chief Procurement Officer job description has been written, evaluated and is currently posted.

Corporate Finance - Accounts Payable: Specific tasks for individuals are being identified in ICAs and PDPs. Updates to accounts payable job descriptions will be performed in conjunction with the implementation of the AP automation solution by the end of Q3 2010.

Corporate Finance - Accounting, Budgets and Treasury: Job descriptions are being updated as positions are vacated and filled. Task descriptions are being included in performance agreements where possible.

The OAG makes specific reference to the Deputy Treasurer Revenue job description not being available. Management's opinion is that job descriptions for clerical and junior level positions are much more important than that of management staff. The Treasurer is highly confident that the Deputy Treasurer of Revenue is well aware of all his responsibilities.

Management considers implementation of this recommendation to be ongoing. Job descriptions are continuously reviewed and updated to reflect changes such as the AP automation.

Management: % complete   *80%*

2006 Recommendation 4

a) **That Financial Services Branch develop finance and accounting specific training and that finance staff be encouraged to pursue such training.**

b) **That Financial Services Branch identify an appropriate number of positions that require an accounting designation.**

2006 Management Response

(a) Included in overall management response.

(b) Management disagrees with this recommendation.

Management believes that Financial Services already has an appropriate number of staff with accounting designations in the Financial Support Units and the Accounting and Reporting division. Within these divisions, there are currently 18 professional accountants out of a total of 62 positions, almost a 1:3 ratio. All positions in Financial Services were reviewed with respect to the requirement for a professional designation following amalgamation. The branch will continue to determine the skills and abilities required of its staff, including the requirement for an accounting designation, as new positions are created and job requirements change to meet emerging needs. Management feels that it is more appropriate to look at the number of professional accountants within CIPP and the management groups within the FSU and Accounting and Reporting divisions of Financial Services.

Management Representation of the Status of Implementation of Recommendation 4 at December 31, 2008

Implementation of recommendation 4a) is 100% complete.

Implementation of recommendation 4b) is 100% complete. Further to discussion at CAWG on February 25, 2008 and Council approval on August 28, 2008 accounting designation requirements were amended. Financial Services is actively pursuing approval to pay for all relevant professional designations for its CIPP staff to encourage additional professional designations within its workforce and ensure that there is a qualified pool of candidates for MPE positions. In addition, Financial Services has initiated a project to review and revise all policies, procedures, guidelines and task descriptions within the branch to provide consistent and well-understood direction.

Management: % complete   *100%*

OAG's Follow-up Audit Findings regarding Recommendation 4

a) We are of the opinion that this recommendation has not been implemented and is 10% complete. Currently, there is no training plan for finance and accounting staff. Most training, with the exception of that provided by the Policy and Compliance Unit, is provided on the job. Some divisions provide training sessions to address significant issues and/or legislative changes. However, there is no comprehensive training program for new employees nor is there an assessment of ongoing requirements. With a lack of documented, consistent policies, procedures and task descriptions or job descriptions, training needs to be more formal. This has not occurred. The Policy and Compliance Unit has provided annual training based upon some new policies for Financial Coordinators and Account Managers within the FSUs. This is attended on a voluntary basis only and is not mandatory at this time.

b) We are of the opinion that this recommendation is 50% complete. The positions requiring professional designations as well as the current staff holding designations was presented to the Council Audit Working Group (CAWG) in February 2008. This approach appeared to be accepted. However, there is no plan in place to meet these requirements. We noted that, in reviewing the job descriptions, the mandatory designations have not been reflected within the descriptions.

OAG: % complete (a)   *10%*

OAG: % complete (b)   *50%*

Management Representation of Status of Implementation of Recommendation 4a and 4b as of Winter 2010

a) Management disagrees with the OAG's follow-up audit finding that there has been little or no action taken to implement this recommendation.

There are many different components to training efforts in the Finance department. Unique job and unit-specific training has been provided within work units. As part of the review of FSU business processes, policies and procedures, standardized documents were developed outlining business process procedures and training simulations. These documents are available to all staff on the corporate intranet site.

FSU roles and responsibilities are clearly delineated in the corporate and departmental Policy & Procedure Development Guides. This information was disseminated to FSU staff at the PCU annual training session in 2009 and forms part of the new employee orientation training materials, including job roles and functions, delegation of authority, and branch/unit specific policies and procedures.

Training in the use of the SAP application for financial business processes was developed and delivered immediately following amalgamation. That training was delivered using the concept of "train-the-trainer" to extend the awareness of the application throughout the organization. Hands-on exchange of information has continued under this approach since that time.

A project has been initiated to identify new and re-fresh SAP training requirements for Finance staff, to review existing materials for SAP training, to identify gaps and opportunities for re-using, updating and enhancing awareness of SAP and its functionality and the implications on Finance business processes. This project includes the development of a training delivery plan to identify re-use of existing training materials, and creation of webinars along with classroom style training where required. The development of the plan including the training materials and communication to staff will be completed by the end of Q4 2010. Management expects implementation of this recommendation to be complete by the end of Q4 2010.

b) Management disagrees with the OAG's follow-up audit finding that implementation of this recommendation is only partially complete.

The recommendation was that management identify a certain number of positions requiring a professional designation. This was done and presented to CAWG in February 2008. Job descriptions have been updated to reflect this requirement as new recruitment occurs.

Management considers implementation of this recommendation to be complete.

Management: % complete (a)   *70%*

Management: % complete (b)   *100%*

2006 Recommendation 5

That Financial Services Branch conduct periodic reviews of disbursements with a particular focus on those that appear to be inconsistent with the City's policies and general business practices.

2006 Management Response

Included in the overall management response.

Management Representation of the Status of Implementation of Recommendation 5 at December 31, 2008

Implementation of this recommendation is 100% complete.

Management: % complete 　　　　　　　　　　　　　　　　　　　　　*100%*

OAG's Follow-up Audit Findings regarding Recommendation 5

We are of the opinion that the implementation of this recommendation is 75% complete. The Policy and Compliance Unit (PCU) has developed a draft strategic plan and workplan for its compliance activities including the types of tests it will undertake. PCU has consistently completed quarterly reports with respect to purchasing cards and payments without reference transactions. In 2008, it completed analyses with respect to duplicate payments, aging of disbursements and payments issued prior to purchase order dates. The results showed the issues raised in the 2006 audit remain and many processes have not changed to address these issues. For example, duplicate payments still remain and no system or procedural changes have been made to reduce the risk.

There has not been consistent testing in 2009 and there is a risk that detective controls such as compliance testing are in jeopardy as the unit currently has one staff responsible for this testing.

OAG: % complete 　　　　　　　　　　　　　　　　　　　　　　　*75%*

Management Representation of Status of Implementation of Recommendation 5 *as of Winter 2010*

Management disagrees with the OAG's follow-up audit finding that implementation of this recommendation is only substantially complete.

The compliance testing approach of the PCU includes the follow-up of all observations with Finance staff involved in the business processes and their clients. Any inconsistencies or violations are brought to the attention of management for their awareness and action. The annual workplan for the PCU includes the balance of assignments including compliance testing, responses to audit requests and other projects. Resources are assigned based on a priority assessment including risk and regulatory demands. During the past few years, there has been an increasing

demand for staff attention to respond to audit and regulatory assignments. In 2009 and 2010, resources have temporarily been re-assigned to complete a major regulatory project for the implementation of HST. During this period, the impact of reduced testing has been assessed and addressed in the workplan of the section for Q3 2010.

Management considers implementation of this recommendation to be complete.

Management: % complete   *100%*

3.2 Roles and Effectiveness of the Financial Support Units

2006 Recommendation 6

That Financial Services Branch ensure that guidelines be developed within the City's financial control framework to ensure that FSUs implement consistent control procedures.

That Financial Services Branch ensure that in those rare instances where internal control practices need to differ between FSUs, these are based on risk assessment, and are clearly communicated and documented. Units or divisions that rely on controls within FSUs should have a clear understanding of the internal control processes.

2006 Management Response

Included in the overall management response.

Management Representation of the Status of Implementation of Recommendation 6 at December 31, 2008

Implementation of this recommendation is 50% complete. The engagement of Ernst & Young to assess the City's entity level controls will be completed in Q1 2009. Additional phases will be prioritized for future periods. The process of collecting and validating policies and procedures within Financial Services is substantially completed.   The project entered a new phase in November 2008 aimed at streamlining the development process, and to date, 57 procedures have been revised or consolidated using industry best practices. This phase is dependent on active participation of all divisions and will continue indefinitely as part of the continuous improvement process within Financial Services or as resources permit.

Management: % complete   *50%*

OAG's Follow-up Audit Findings regarding Recommendation 6

We are of the opinion that implementation of this recommendations is 50% complete. Ernst and Young's entity level control assessment highlighted similar control environment issues identified in the 2006 audit by the OAG. Policies, procedures and task descriptions have been gathered and reformatted. However,

there has not been an assessment of the control points within each policy to determine risk, nor has there been an analysis of policies and procedures that should be in place that are not. To date, there has not been a gap analysis or risk assessment with respect to the overall financial organization. As individual process owners in the various departments have been delegated the responsibility to identify the need for a financial policy, procedure or task description, there is no corporate approach to ensure that all processes are captured and/or controls documented.

With respect to the FSUs, there is currently no corporate repository of consistent policies and procedures in which all FSUs can follow. Each FSU continues to operate relatively independently due to the nature of their client base. That being said, some movement has been made in that the FSUs have undertaken a joint job description review project to mitigate differences. Inconsistency of forms and procedures for delegation of authority were noted. Some FSUs were significantly more organized to ensure that delegations were up-to-date and complete. Inconsistencies between FSUs continue to exist and there are no documented procedures nor risk assessments to support these inconsistencies.

OAG: % complete   *50%*

Management Representation of Status of Implementation of Recommendation 6 *as of Winter 2010*

Management disagrees with the OAG's follow-up audit finding that implementation of this recommendation is only partially complete.

The original audit recommended the establishment and documentation of financial processes for FSU and other Finance staff. This has been completed through the compilation of 352 processes, the consolidation and standardization of similar processes where practical, and the consistent documentation of those documents with the assistance of the business process owners. Staff in the PCU are working with corporate resources to explore common viewing solutions for access and retrieval of these documents on Ozone and BIMS by Q4 2010.

In addition to the original recommendations addressed above, PCU staff are involved in the following initiatives that will continue throughout 2010 with updates on an ongoing basis thereafter:

- Indexing of the documents into business process groupings to allow a "workflow" relationship view of traditional streams of related processes.

- Gap analysis and benchmarking to identify additional processes to be developed to provide a more comprehensive coverage of business documents.

- Consideration of inclusion of business process mapping to aid understanding in more complex business processes.

A project to create an Authorized Signature Database has been completed and is 80% populated with the authority levels and signatures for all approvers in the organization in compliance with the Purchasing By-law and as directed by senior management. This tool is currently available to Finance staff as the sole repository of information and represents a control for confirming appropriate approvals in Finance business processes. Management expects the database to be fully populated by end of Q2 2010.

Management expects this recommendation to be complete by the end of Q4 2010.

Management: % complete   *90%*

2006 Recommendation 7

That Financial Services Branch review all practices used by FSUs so as to develop one stringent set of guidelines and procedures for all FSUs to adhere to.

That, as part of its Financial Management Control Framework, Financial Services Branch clearly delineate, document and communicate the role and responsibilities of FSUs.

2006 Management Response

Included in the overall management response.

Management Representation of the Status of Implementation of Recommendation 7 at December 31, 2008

Implementation of this recommendation is 50% complete. The engagement of Ernst & Young to assess the City's entity level controls will be completed in Q1 2009. Additional phases will be prioritized for future periods. The process of collecting and validating policies and procedures within Financial Services is substantially completed.   The project entered a new phase in November 2008 aimed at streamlining the development process, and to date, 57 procedures have been revised or consolidated using industry best practices. This phase is dependent on active participation of all divisions and will continue indefinitely as part of the continuous improvement process within Financial Services or as resources permit.

Management: % complete   *50%*

OAG's Follow-up Audit Findings regarding Recommendation 7

We are of the opinion that 50% of this recommendation has been implemented. As mentioned above, policies, procedures and task descriptions within Finance and the FSUs have been gathered and reformatted. Some general meetings have been held in order to communicate common issues and control procedures between FSUs. However, there has not been a formal assessment and/or documentation of all procedures and tasks across FSUs.   Different forms and approaches were observed

and control procedures are inconsistent. Ernst and Young's Entity Level Control Assessment was received in Q2 2009. No detailed workplan has been developed to address the control weaknesses from this report or the previous audit.

Inconsistencies were also noticed between Finance and FSU policies and procedures, particularly in the area of fees and refunds. For instance, the NSF charge by the Accounts Receivable section of the Finance Department is not the same as that applied in the Parks, Recreation and Cultural Services Department and related FSU. As well, the decision to waive such fees differs between the departments.

To add to the control concerns, the recent reorganization within the City will further delay progress in improving policies and procedures, particularly within the FSUs. At the time of the audit, some FSUs were uncertain of the composition of their client base. Inconsistent FSU procedures, training and services continue to be a control concern.

OAG: % complete   50%

Management Representation of Status of Implementation of Recommendation 7 *as of Winter 2010*

Management disagrees with the OAG's follow-up audit finding that implementation of this recommendation is only partially complete.

The original audit recommended the establishment and documentation of financial processes for FSU and other Finance staff. This has been completed through the compilation of 352 processes, the consolidation and standardization of similar processes where practical, and the consistent documentation of those documents with the assistance of the business process owners.

Policies, procedures and guidelines are developed using corporate and departmental guides and templates, in accordance with a formal instructional course that applies a standardized approach to process documentation. The course provides participants with skills to validate and document their work processes more effectively.

Further, the majority of processes performed by the FSUs are performed within the corporate SAP finance system, and are documented in a series of business process procedures and training simulations. These documents are available to all staff on the corporate intranet site. In view of their diversified portfolios, FSUs perform certain unique tasks or steps to support the activities of their respective client groups. All such deviations from the standard guidelines have been adequately identified and documented.

FSU roles and responsibilities are clearly delineated in the corporate and departmental Policy & Procedure Development Guides. This information was disseminated to FSU staff at the PCU annual training session in 2009 and forms part

of the new employee orientation training materials, including job roles and functions, delegation of authority, and branch/unit specific policies and procedures.

The Revenue Branch applies the fee for a returned cheque and it is the same across the City. The Revenue Branch has confirmed with the FSU and the Parks and Recreation department, that they follow the Revenue Fee Schedule as outlined in the Budget confirmation By-Law each year. The Parks and Recreation written policy includes a statement "Fees are subject to change yearly when the budget is reviewed at City Council." The policy referenced a $35 fee and has since been updated. There is no discrepancy in the fee charged. Management is unaware of any request from the OAG to clarify or provide any explanation as to the accuracy of the findings or to correct factual errors in this finding. Staff in the PCU are working with corporate resources to explore common viewing solutions for access and retrieval of these documents on Ozone and BIMS by Q4 2010.

- In addition to the original recommendations addressed above, PCU staff are involved in the following initiatives that will continue throughout 2010 with updates on an ongoing basis thereafter:

- Indexing of the documents into business process groupings to allow a "workflow" relationship view of traditional streams of related processes.

- Gap analysis and benchmarking to identify additional processes to be developed to provide a more comprehensive coverage of business documents.

- Consideration of inclusion of business process mapping to aid understanding in more complex business processes.

Management expects implementation of this recommendation to be complete by the end of Q4 2010.

Management: % complete   *90%*

3.3 Roles and Effectiveness of the Accounting and Reporting Division

2006 Recommendation 8

That Financial Services Branch assign the overall responsibility for oversight of the City's financial controls to Accounting and Reporting Division or another division within the Branch.

That Accounting and Reporting Division develop and implement financial procedures, which would include the practice of reviewing a predetermined percentage of invoices and other financial instruments on a continual basis.

2006 Management Response

Included in the overall management response.

Management Representation of the Status of Implementation of Recommendation 8 at December 31, 2008

Implementation of this recommendation is 100% complete.

Management: % complete   *100%*

OAG's Follow-up Audit Findings regarding Recommendation 8

We are of the opinion that this recommendation is 90% implemented. The City assigned the overall responsibility of financial controls to the newly created position of Deputy City Treasurer/Controller. It has taken some time to fill the controllership functions which has lead to the delay in implementing other recommendations contained in the 2006 audit. In order to ensure that the City has an effective financial control framework, the Deputy City Treasurer/Controller needs to take a City-wide view of controls in order to be satisfied that controls are effective within each FSU and department. At this point, this does not appear to be the case.

The Policy and Compliance Unit was reassigned to the Deputy City Treasurer/Controller Branch. The mandate of this unit includes compliance reviews and detective controls with respect to disbursements and other financial instruments. However, to date, the PCU has concentrated on purchasing cards, payments without reference and commodity taxes. There are many planned reviews within the workplan that have yet to be initiated, primarily due to lack of dedicated resources.

OAG: % complete   *90%*

Management Representation of Status of Implementation of Recommendation 8 *as of Winter 2010*

Management disagrees with the OAG's follow-up audit finding that implementation of this recommendation is only substantially complete.

Under the direction of the Deputy City Treasurer Controller, there is a coordinated approach to the development and application of consistent business processes across the FSUs and the PCU. The development of the Financial Control Framework has progressed with a corporate focus in cooperation with departmental participation from Legal Services, Human Resources, Information Technology Services and Organizational Development and Performance.

The workplans of the PCU are continually re-visited to assess the expectation of continuing historic areas of risk while considering emerging areas of attention. Along with the need to respond to an ever-increasing volume of work associated

with audit recommendations, the workload balance with limited resources remains a challenge.

Management considers implementation of this recommendation to be complete.

Management: % complete   *100%*

2006 Recommendation 9

That Financial Services Branch review current Corporate Financial Management System (SAP) user authorization in relation to incompatible duties and modify access as required and that such reviews be conducted periodically.

2006 Management Response

Management agrees with this recommendation.

The Auditor General noted that 25 users have the ability to create a vendor, enter an invoice, create cheque information and post outgoing payments. Of these 25 users, 3 are operational staff and 22 are ITS staff. Management is aware of the assignment of these duties to operational staff. In this case, the Manager of Accounting and Reporting has provided written authorization approving operational staffs access to meet operational requirements. ITS staff use their access to provide user support to Helpline calls and to research reported problems. ITS will take steps to review the number of staff who have access and will apply the same standard of care with respect to incompatible duties, although these staff do not update data and transactions within the production environment. This review will commence in Q2 2007.

Management Representation of the Status of Implementation of Recommendation 9 at December 31, 2008

Implementation of this recommendation is 100% complete.

Management: % complete   *100%*

OAG's Follow-up Audit Findings regarding Recommendation 9

The Policy and Compliance Unit in conjunction with IT provides a detailed listing of incompatible roles within SAP. These are provided to management for review in order to determine the risk of each element. Of particular concern is the increase in supply management incompatible roles. Primarily, these incompatible duties are typically seen in stores where there are a limited number of staff. The concerns over controls with respect to inventory management have not been addressed and control procedures have not been strengthened. This lack of inventory control coupled with these incompatible duties renders these situations high risk. Therefore, these incompatible duties need to be continually monitored and compensating controls enforced.

Where, due to limited resources, management have not implemented segregation of duties, it is important that they institute compensating controls.

Incompatible duties of IT staff have been addressed since the 2006 audit.

OAG: % complete   *90%*

Management Representation of Status of Implementation of Recommendation 9 *as of Winter 2010*

Management disagrees with the OAG's follow-up audit finding that implementation of this recommendation is only substantially complete.

The Financial Management Information Systems ("FMIS") section in conjunction with Information Technology Services ("ITS") is now providing a detailed listing of incompatible roles within SAP. These are provided to management for review in order to determine the risk of each element. The segregation of duties issues within the stores area have been managed by the following compensating controls which have been implemented:

- There is always an SAP audit trail in the system and SAP report MB51 provides a list of the material movements executed by user name.

- There is a paper trail of approvals for any item issued.

- There are annual inventory counts, which over time have identified very minimal stock shrinkage.

- Accounts Payable also performs final three-way matching before paying invoices; discrepancies would be caught at this stage.

- Inventory analysts would also note unusual activity in Material Resource Planning ("MRP") reports.

Management considers implementation of this recommendation to be complete.

Management: % complete   *100%*

2006 Recommendation 10

That Financial Services Branch in conjunction with Information Technology Services Branch review systems design to implement controls to disallow overriding prices, processing of duplicates, drawing and taking greater than set sick leave allowance, etc., and that reviews be conducted on a regular basis to confirm that any override capabilities deemed necessary are appropriate and approved.

2006 Management Response

Management disagrees with this recommendation.

There are operational requirements that require overrides of the standard processes. Management understands there are additional risks associated with such overrides, but there are compensating controls to mitigate such risks. For example, in order to release contract holdbacks, the system requires that the authorizing document be amended. There is no way to release holdbacks without this override ability. The compensating controls are that the ability to amend the document is limited to the supervisor of Accounts Payable and that every override has to be documented. The system generates a report for review by management of all overrides so that they can be checked against the list maintained by the A/P supervisor. These types of compensating controls exist for all system overrides. Specific management comments regarding the audit findings are as follows:

a.   SAP override - No such functionality exists in SAP. CLASS is a stand-alone program that is linked to SAP via an interface file. Pricing information does not exist within SAP and thus price overrides are not possible.

b.   Duplicate invoice payments - See management response in Section 5.3.1

c.   Cheque printing – See management response in Section 5.3.5

d.   Sick days – See management response in Section 5.4.5

e.   Annual leave - See management response in Section 5.4.8

f.   Pay rates - See management response in Section 5.4.5

Management Representation of the Status of Implementation of Recommendation 10 at December 31, 2008

Implementation of this recommendation is considered 100% complete. This item was discussed at the June 16, 2008 CAWG meeting and was approved at Council on August 28, 2008. The Deputy Treasurer brought forward a briefing note which outlined the rationale for management's disagreement and provided an update on some actions taken to date, for items a) to f) above.

a) SAP Override

Previously, staff could change rates for program registration, etc. This has now been eliminated with one exception being that facility booking rates can be overridden due to contract pricing, however, this can only be performed by a supervisor. This item was also considered in the Parks and Recreation Audit.

b) Duplicate Invoice Payments

Additional training of staff has occurred and will be ongoing. Audit Command Language ("ACL") is being installed as a detective tool to identify any duplicated payments.

c) Cheque Printing

Management did not action this recommendation. Low-cost internal controls exist to detect and prevent the inadvertent mailing of duplicated cheques.

d) Sick Days

The SAP system can be enhanced to restrict the processing of uncertified sick leave days in excess of allowable limits. The implementation of this new process requires system redesign of existing sick leave functionality and reports. This initiative has been incorporated into the 2008 work plan and will be completed by Q4 2008. The cost to implement this initiative will be approx. $142,750.

e) Annual Leave

The City has developed an approach to reduce the vacation carryover balance. Senior management were provided with details of employees in their respective areas that have carried over vacation in excess of their annual allotment. Managers were asked to work with affected staff to develop a plan to liquidate any excess vacation leave. A management bulletin was also distributed reminding managers of their responsibility to monitor their staff's vacation leave usage.

Financial Services developed and initiated a plan to limit the impact of paying out the unfunded employee liabilities over time. This was presented to the Long Range Financial Planning Committee. The plan places priority on the order in which the various benefits should be addressed and provides strategies to limit the growth of these liabilities. The unfunded vacation leave liability was identified as the first priority and a strategy to be fully funded within the next 6 to 10 years was identified. Although, the excess leave banks could be paid out, it would produce a deficit for the City. EMC made the decision to bring all vacation leave balances within guidelines by December 31, 2009.

f) Pay Rates

This item is being dealt with as part of the Payroll Audit.

__Management: % complete__   *__100%__*

OAG's Follow-up Audit Findings regarding Recommendation 10

We are of the opinion that the recommendation is 75% complete.

a) Finance did not explore with ITS possible changes to disallow override of prices from CLASS, duplicate payments, or pay rates. With respect to the SAP override of CLASS prices, we found that pricing could not be changed in SAP. However, since no integration exists between SAP and CLASS, a journal entry is produced based upon CLASS prices and revenue. The potential for incorrect posting in SAP still exists and discrepancies between the two systems are possible.b) Duplicate payments can still occur in SAP and control procedures are not in place to address these issues.

c)   The City outsourced the printing of daily and weekly cheques to Doculink. Although the cheque file can be reprinted, an approval process is in place for the rare cases where this is required.

d) Enhancements are being introduced in September 2009 to disallow sick leave beyond the uncertified leave allotment of individual collective agreements. The process will result in pay interruption where doctor certificates have not been received.

e) Management planned to restrict carry-forward of vacation leave balances greater than an employee's yearly allowance and payouts any excess vacation leave yearly starting in May 2010.   Management has been working with staff to reduce the vacation liabilities by encouraging staff to take their excess time before this change is invoked.

f)   Payroll Analysts can still override pay rates. No attempt has been made to change these overrides. However, internal reviews have been undertaken in cases where overrides have been made.

OAG: % complete   75%

Management Representation of Status of Implementation of Recommendation 10 *as of Winter 2010*

Management disagrees with the OAG's follow-up audit finding that implementation of this recommendation is only substantially complete.

10 (a) No pricing exists in SAP. Posting of revenues are uploaded weekly to SAP. The potential for posting errors is eliminated as a result of this integration.

10 (b) Management continues to hold the opinion that existing controls to prevent the processing of duplicate invoices are appropriate to manage the risk. The error rate is low as illustrated in our response to Recommendation 19. Compliance reports are currently produced to detect duplicates and Accounts Payable staff follow-up on the transactions noted in those reports.

10 (e) Ongoing payments of excess vacation leave have occurred since Q3 2009 with the final amounts being paid in May 2010.

Management considers implementation of this recommendation to be complete.

Management: % complete   100%

2006 Recommendation 11

That Financial Services Branch in conjunction with Information Technology Services Branch analyze and modify the Corporate Financial Management System (SAP) design and reporting functions to better meet the needs of FSUs and other users.

That Financial Services Branch in conjunction with Information Technology Services Branch develop and offer "advanced" Corporate Financial Management System (SAP) training to increase staff capabilities.

2006 Management Response

Included in the overall management response.

Management Representation of the Status of Implementation of Recommendation 11 at December 31, 2008

Implementation of this recommendation is 20% complete. The FMIS Business Analyst positions will be staffed in Q1 2009. Assessment of Finance needs from SAP will be prioritized in Q2 2009 and subsequent periods.

Management: % complete   *20%*

OAG's Follow-up Audit Findings regarding Recommendation 11

In our opinion, this recommendation is 20% complete. At the time of the audit, Finance had just completed staffing of the Financial Management Information Systems group. There had been little to no work completed with respect to development of reporting needs of SAP users. Some training development in the form of online tutorials was made available to staff on OZONE to improve SAP knowledge. The utilization of SAP reporting continues to be challenging for users and much occurs outside of the system in the form of MS Excel spreadsheets.

OAG: % complete   *20%*

Management Representation of Status of Implementation of Recommendation 11 *as of Winter 2010*

Management disagrees with the OAG's follow-up finding that there has been little or no action taken to implement this recommendation.

The FMIS group was staffed in mid-2009. Since that time these resources have been involved in many Finance systems projects. Current projects include:

- Financial reporting – a project has been established to examine the financial reporting requirements of the organization and the alternative approaches to generating these reports. The initial phase to compile existing reports and identify reporting improvements has been completed through interviews of Finance staff.

- Training in the use of the SAP application for financial business processes was developed and delivered immediately following amalgamation. That training was delivered using the concept of "train-the-trainer" to extend the awareness of the application throughout the organization. Hands-on exchange of information has continued under this approach since that time.

- A project has been initiated to identify new and re-fresh SAP training requirements for Finance staff, to review existing materials for SAP training, to identify gaps and opportunities for re-using, updating and enhancing awareness of SAP and its functionality and the implications on Finance business processes. This project includes the development of a training delivery plan to identify re-use of existing training materials, and creation of webinars along with classroom style training where required.

- The development of the plan including the training materials and communication to staff will be completed in Q3 2010.

Management expects implementation of this recommendation to be complete by the end of Q3 2010.

Management: % complete   *50%*

3.4 Revenue Stream – Parks and Recreation Branch – Sportsfield and Arena Rentals

2006 Recommendation 12

That Financial Services Branch in conjunction with Information Technology Services Branch limit the level of access to the CLASS system to those persons who require access for the performance of their duties and have proper authorization level and provide "read only" access to those who do not necessitate and are not authorized to make changes to the arena and sportfields modules of CLASS.

2006 Management Response

Management agrees with this recommendation and it has already been implemented.

Financial Services and ITS will continue to work in partnership with Parks and Recreation, as the business process owners of the CLASS application, to ensure the adequacy of the internal controls.

The process of ensuring the adequacy of internal controls will be ongoing, whereby facility supervisors/managers will sign off on the appropriate security profile for their staff.

Management Representation of the Status of Implementation of Recommendation 12 at December 31, 2008

Implementation of this recommendation is 100% complete.

Management: % complete   *100%*

OAG's Follow-up Audit Findings regarding Recommendation 12

We are of the opinion that this recommendation is 80% complete.

There are different levels of permission which are now determined and authorized by the supervisor. Security profiles have been reviewed for every staff. However, there continue to be some areas of risk. Improved documentation has been developed to support those areas where segregation of duties is challenging. Security profiles and procedural documentation need to be reviewed in tandem in order to ensure compensating controls are adequate in areas where system security is not possible.

As noted earlier where, due to limited resources, management have not implemented segregation of duties, it is important that they institute compensating controls.

OAG: % complete   *80%*

Management Representation of Status of Implementation of Recommendation 12 _as of Winter 2010_

Management disagrees with the OAG's follow-up audit finding that implementation of this recommendation is only substantially complete.

As a result of the initial audit, management developed and implemented new controls and procedures to address the issues identified with regard to limiting the level of access to the CLASS system. Parks and Recreation has implemented adequate controls where annually the CLASS Support Unit verifies all staff security profiles in CLASS. Managers and supervisors are required to annually review their staff security profiles and to verify employment status of staff (i.e., part-time or full-time), verify staff's existing security levels, identify the need, if any, for existing security levels to be modified, and identify staff who no longer work at the facility so that their access to CLASS can be terminated. Forms are required to be completed and tracked by CLASS Support. The first review was completed in February 2010.

Management considers implementation of this recommendation to be complete.

Management: % complete   *100%*

2006 Recommendation 13

That Financial Services Branch in conjunction with Parks and Recreation Branch require the review of open contracts become a formal process requiring reports to be printed and signed off by the area managers. Follow-up should be documented on the reports supporting the analysis and work performed. This will ensure that appropriate revenues are recorded in a timely manner.

2006 Management Response

Management agrees with the recommendation.

Financial Services in consultation with Parks and Recreation will develop a formal process for the sign off of the Rental Control Report by Q3 2007.

Management Representation of the Status of Implementation of Recommendation 13 at December 31, 2008

Implementation of this recommendation is 100% complete.

Management: % complete   *100%*

OAG's Follow-up Audit Findings regarding Recommendation 13

We are of the opinion that this recommendation is 100% complete. Policies and procedures were revised in 2008 and have been communicated and enforced by the FSU. All open contracts are reviewed monthly and follow-up is documented. Completion of rentals contracts is reviewed semi-annually to determine if contracts have been paid and are completed. Revenue recognition procedures are in place and depend upon the type of contract.

OAG: % complete   *100%*

3.5 Revenue Stream - Parks and Recreation Branch – Sportfields, Registrations and Summer Camp

2006 Recommendation 14

That Financial Services Branch in conjunction with Information Technology Services Branch review CLASS system design to prohibit price overrides and that price changes only be allowed by supervisory approval and completed separately in order to differentiate the sales at regular prices and the discounts or other changes made.

2006 Management Response

Management agrees with the recommendation.

Financial Services and ITS will continue to work in partnership with Parks and Recreation, as business process owners of the CLASS application, to ensure the adequacy of the internal controls.

In 2006, management reviewed and restricted price override capabilities through the security group control in the program registration module of CLASS. An additional review of other CLASS modules will be completed by Q3 2007 to determine other areas where these controls can be further restricted.

Management Representation of the Status of Implementation of Recommendation 14 at December 31, 2008

Implementation of this recommendation is 100% complete.

Management: % complete   *100%*

OAG's Follow-up Audit Findings regarding Recommendation 14

We are of the opinion that the recommendation is 90% complete.

The overrides explicitly including the term "price" have been removed from the front-line staff security profiles within CLASS. However, there are still a number of fee overrides available in the CLASS system such as the rental fee override, equipment fee deposit override, rental extra fee override and unpaid items override. These functions exist at the facilities level and allow for changes in prices charged to clients. In light of these risks, these overrides and associated controls should be reviewed to ensure adequate controls.

The CLASS system has not been changed nor was ITS consulted regarding these changes. Price overrides are still an option within CLASS. However, compensating controls were put in place that limits the timeframe in which pricing can change. For example, upon issuance of the Recreation Programs calendar, there are many changes to be made in the system and the overrides are allowed during this time.

Currently, CLASS does not have the functionality to track changes within the system.   However, in today's IT environment, these types of controls should be embedded into systems and are typically not difficult to develop.

OAG: % complete   *90%*

Management Representation of Status of Implementation of Recommendation 14 *as of Winter 2010*

Management disagrees with the OAG's follow-up audit finding that implementation of this recommendation is only substantially complete.

Since the review in 2008, the Parks, Recreation and Cultural Services Department ("PRCS") has removed all of the overrides in the system with the exception of those listed below that are still required for business processes. The vendor was contacted with regard to tracking overrides in the system and they indicated that this was not part of the system's functionality.

- Rental fee override (booking fee override): Access has been removed. Access is only granted on an as needed basis. Permissions are granted for a specified amount of time as per the new permissions tracking process.

- Equipment fee deposit override: Functionality is not used. We do not accept fee deposits for equipment.

- Unpaid items override: This functionality allows staff to leave a balance on account in the event that the client is only making a partial payment or they cannot make a payment at the time of registration. The balance owing appears on the client's account and shows up on the Accounts Receivable report. It does not allow staff to override fees.

- Rental extra fee override: This functionality is used by facility booking staff as there is a business requirement for changing the fee for the Liability Insurance Program. These are audited quarterly by the Program Delivery Risk Specialist. The security permissions for this override are limited to staff who are responsible for facility bookings.

We hold the opinion that existing controls for price overrides are appropriate to manage the risk.

Management considers implementation of this recommendation to be complete.

Management: % complete   100%

2006 Recommendation 15
That Financial Services Branch in conjunction with Parks and Recreation Branch implement a procedure requiring cash deposits to be prepared by at least two individuals to the extent possible. Although this will not eliminate the risk of collusion, it will reduce the risk of fraud and theft.

2006 Management Response
Management agrees with this recommendation and it is already in place.

The comprehensive Cash Management Policy and Procedures manual requires that more than one person prepare the cash deposits, to the extent possible. Financial Services will continue to work with Parks and Recreation to enforce this requirement except in facilities where there is only one employee working, in accordance with the existing manual. Financial Services will also expand the scope of compliance reviews to include cash collection and management processes.

Management Representation of the Status of Implementation of Recommendation 15 at December 31, 2008
Implementation of this recommendation is considered 100% complete.

Management: % complete   100%

OAG's Follow-up Audit Findings regarding Recommendation 15
We are of the opinion that this recommendation is 90% complete. The new policies and procedures are in place and documentation is reviewed and maintained by Finance staff. However, compliance reviews have yet to be expanded to include

cash collection and management processes. As there continues to be situations where only one person works in a facility and prepares cash deposits, preventative controls are weak. Therefore, detective controls should be in place in order to reduce the risk of fraud and theft. The Policy and Compliance Unit workplan does not identify these reviews as priorities.

OAG: % complete   *90%*

Management Representation of Status of Implementation of Recommendation 15 *as of Winter 2010*

Management disagrees with the OAG's follow-up audit finding that implementation of this recommendation is only substantially complete.

The revised policy is now in place and is being followed at all locations whose staff structure allows for two individuals to prepare the deposits. Increased supervisory review and sign-off have been implemented to address any exceptions.

Management considers implementation of this recommendation to be complete.

Management: % complete   *100%*

2006 Recommendation 16

a) **That Financial Services Branch in conjunction with Parks and Recreation Branch establish a refund policy and procedure, setting out clear cut-off dates for refunds and part refunds and that these do not extend past a program's end date.**

b) **That Financial Services Branch in conjunction with Parks and Recreation Branch and Information Technology Services Branch review the CLASS system design to disallow refunds past the program end date.**

c) **That Financial Services Branch establish a procedure requiring the appropriate FSU to review a predetermined percentage of CLASS refunds.**

2006 Management Response

(a) Management agrees with this recommendation and it is already in place.

The Parks and Recreation branch already has an established refund policy that states that refunds are not permitted after 50% of the program has elapsed.

(b) Management disagrees with this recommendation.

The technology is not available in the CLASS system to customize the program registration module in this way. There is a system limitation that does not allow the automated prevention of refunds after 50% of the program has elapsed. In the registration module, each registration session (spring, summer, fall, winter) must be marked "completed" before refunds can no longer be processed. With thousands of programs each session with different start and end dates, this is a back-end function

completed by the CLASS Support team and is set at 30 days after the end of each session. This window of opportunity is necessary for staff to perform a final clean-up of accounts as a result of cancelled classes, etc.

(c) Management agrees with this recommendation.

Financial Services will expand the scope of the compliance review program to include CLASS refunds if it determines that the value of such refunds exceed the cost of the additional resources required to carry out the reviews. Such a review will also assess the compensating controls that are in place, or have recently been put in place, to mitigate the financial risk inherent with issuing refunds. Management has agreed to implement this recommendation, however, feels that additional or reallocated resources are required. Prior to requesting additional funds during the 2008 budget process, management has made a commitment to advance the review of Financial Services, as part of the Branch Process Review Program, to identify efficiency savings for reallocation towards the required resources. The total estimated resource requirements is $60,000-$75,000.

Management Representation of the Status of Implementation of Recommendation 16a at December 31, 2008
Implementation of these recommendations is 100% complete.

Management: % complete   *100%*

OAG's Follow-up Audit Findings regarding Recommendation 16a
In our opinion, implementation is 80% complete. Parks, Recreation and Cultural Services Department in conjunction with the FSU developed new policies and procedures that required most refunds to be undertaken by the FSU through a request from the client. Further, the policy clearly indicates that there are no refunds once 50% of the program has elapsed. However, the CLASS system still allows refunds past this period. This is communicated to clients through policy as well as the new refund request form. However, there are still gaps in procedure with respect to point of sale refunds and subsequent approval, reconciliation or compliance reviews.

OAG: % complete   *80%*

Management Representation of Status of Implementation of Recommendation 16a *as of Winter 2010*
Management disagrees with the OAG's follow-up audit finding that implementation of this recommendation is only substantially complete.

As a result of the initial audit of the Financial Control Environment, management developed and implemented new controls and procedures to address the issues identified with regard to processing CLASS refunds including point of sale refunds.

The PCU were given the opportunity to review the new policies and procedures and provided their comments on completeness and effectiveness of the financial controls.

At the time of the follow-up audit, the PCU had not commenced the compliance review. However, a compliance review of CLASS refunds for the period Q1 to Q3 2009 has since been completed. The review was started in November 2009 and a report was issued to management in February 2010. The newly developed CLASS Refund procedures and controls were used as the criteria in testing a sample of refund transactions for compliance. Minor processing issues regarding completion of a new refund form for point of sale refunds and missing documentation related to supervisory review were addressed in the PCU compliance review.

Management considers implementation of this recommendation to be complete.

Management: % complete   *100%*

Management Representation of the Status of Implementation of Recommendation 16b at December 31, 2008

Implementation of this recommendation is considered 100% complete. Further to discussion at a meeting between the City Manager and the Auditor General on November 21, 2007, this recommendation will be dealt with in the 2007 Parks and Recreation Financial Processes Audit.

Management: % complete   *100%*

OAG's Follow-up Audit Findings regarding Recommendation 16b

With respect to system changes to CLASS to eliminate the possibility of issuing refunds beyond the specified date, the implementation is 0% complete. Management disagreed with this recommendation and did not explore options with respect to changes to the CLASS system. Consequently, from a system perspective, refunds can be issued up to 30 days following the program end date.

OAG: % complete   *0%*

Management Representation of Status of Implementation of Recommendation 16b *as of Winter 2010*

Management disagrees with the OAG's follow-up audit finding that there has been little or no action taken to implement this recommendation. This recommendation is not actionable.

The technology is not available in the CLASS system to customize the program registration module in this way. There is a system limitation that does not allow the automated prevention of refunds after 50% of the program has elapsed. In the registration module, each registration session (spring, summer, fall, winter) must be marked "completed" before refunds can no longer be processed. With thousands of programs each session with different start and end dates, this is a back-end function

completed by the CLASS Support team and is set at 30 days after the end of each session. This window of opportunity is necessary for staff to perform a final clean-up of accounts as a result of cancelled classes, etc.

Management considers implementation of this recommendation to be complete.

Management: % complete   *100%*

Management Representation of the Status of Implementation of Recommendation 16c at December 31, 2008

Implementation of these recommendations is 100% complete.

Management: % complete   *100%*

OAG's Follow-up Audit Findings regarding Recommendation 16c

In our opinion, the implementation of this recommendation is 0% complete. In the FSU's opinion, the FSU should not be undertaking compliance reviews as they are now issuing most of the refunds and it would be inappropriate to audit their own work. However, the Policy and Compliance Unit have also indicated that it did not intend to undertake such reviews, primarily due to resources. No plans exist to perform compliance reviews with respect to point of sale refunds which continue to be issued at the facilities.

OAG: % complete   *0%*

Management Representation of Status of Implementation of Recommendation 16c *as of Winter 2010*

Management disagrees with the OAG's follow-up audit finding that there has been little or no action to implement this recommendation.

At the time of the follow-up audit, the PCU had not commenced the compliance review. However, a compliance review of CLASS refunds for the period Q1 to Q3 2009 has since been completed. The review was started in November 2009, and a report was issued to management in February 2010. The newly developed CLASS Refund procedures and controls were used as the criteria in testing a sample of refund transactions for compliance. Minor processing issues regarding completion of a new refund form for point of sale refunds and missing documentation related to supervisory review were addressed in the PCU compliance review. Compliance reviews are performed on a prioritized cyclical basis, depending on available resources.

Management considers implementation of this recommendation to be complete.

Management: % complete   *100%*

2006 Recommendation 17

That Financial Services Branch in conjunction with Parks and Recreation Branch analyze and review account receivable balances on a timely basis and retain documentation for follow-up and actions being taken by the City.

2006 Management Response

Management agrees with this recommendation.

In 2006, the Parks and Recreation Branch implemented quarterly reviews of outstanding receivable balances from reports provided from CLASS. In addition, clear direction has been given to staff regarding the timely collection of account receivables and training on the running of reports has commenced for facility supervisors.

The Parks and Recreation Branch has an established practise of transferring overdue accounts receivable to the Accounts Receivable unit who has the expertise for collecting on overdue accounts. This is in accordance with the COE model adopted and implemented by the City at amalgamation.

Management Representation of the Status of Implementation of Recommendation 17 at December 31, 2008

Implementation of this recommendation is 100% complete.

Management: % complete   *100%*

OAG's Follow-up Audit Findings regarding Recommendation 17

We are of the opinion that this recommendation is 90% complete. Procedures are in place and quarterly reconciliation of accounts receivable are undertaken by the FSUs. Further, the introduction of the new Pay Before You Play Policy has had a significant impact on the number of aged accounts receivable and level of materiality.

However, as noted in the Follow-up to the 2007 Audit of Parks and Recreation Financial Management and Revenue Processes, some accounts receivable (e.g., current to over 120 days) continue to exist. In addition, as some clients have both a current account receivable and others outstanding account receivables (e.g., greater than 30 days, 90 days, etc.) we conclude that that staff are not always enforcing the collection of outstanding accounts before taking additional bookings (e.g., should not have a current A/R if there is an outstanding greater than 60 day A/R).

In addition, the Interim Procedure for Review and Collection of Class Receivable, approved October 15, 2007 and reviewed February 2008 states "10. Area/Division Managers <u>must ensure</u> that all outstanding balances in Class are followed up and cleared by the <u>next quarter</u>". This in itself should remove any receivable greater than 92-93 days.

It was observed that both the December 2008 A/R for membership and for program registration had decreased from December 2007 levels.

OAG: % complete   *90%*

Management Representation of Status of Implementation of Recommendation 17 *as of Winter 2010*

Management disagrees with the OAG's follow-up audit finding that implementation of this recommendation is only substantially complete.

At the time of the follow-up audit, the FSU was working closely with facility supervisors to address old outstanding accounts as time permitted. As a result, old outstanding balances in CLASS have diminished significantly. In discussion with PRCS management, the FSU will be taking a lead role in reviewing all outstanding accounts receivable balances. The quarterly financial review meetings will address any outstanding aged accounts receivables in the current year and a process has been established to ensure those balances are cleared timely and by the next quarterly review.

Management considers implementation of this recommendation to be complete.

Management: % complete   *100%*

2006 Recommendation 18

That Financial Services Branch in conjunction with Parks and Recreation Branch retain documentation on the pricing review. Support staff should retain support of their findings in order to ensure that the pricing is accurate throughout the year and correctly entered by the programmers.

2006 Management Response

Management agrees with this recommendation.

The current practice by Parks and Recreation is to retain records of the pricing review process. The Guide Review process requires that programmers sign in/out and authorize all editing and pricing accuracy by signing off on guide reports. These reports are held until the next guide is released.

Management Representation of the Status of Implementation of Recommendation 18 at December 31, 2008

Implementation of this recommendation is 100% complete.

Management: % complete   *100%*

OAG's Follow-up Audit Findings regarding Recommendation 18

We are of the opinion that this recommendation is 100% complete.

In order to minimize pricing overrides, fees are passed at budget time by Council and programs are entered in CLASS by the Parks and Recreation head office staff. Prices are reviewed by staff based upon the annual published Parks and Recreation Program Guide, documented and then no further pricing changes are authorized. Price override capabilities have been removed from frontline staff CLASS security profiles. For instances where overrides are necessary in the field, security permissions are granted for a limited period and revoked.

OAG: % complete *100%*

3.6 Procurement and Disbursement Process

2006 Recommendation 19

That Financial Services Branch in conjunction with Information Technology Services Branch review the system design to include controls that do not permit entry of duplicates, as well as, reports that identify possible duplicate entry.

That Financial Services Branch establish more stringent review by FSUs, and greater follow-up by Accounts Payable to prevent duplicate payments. In addition, a program of on-going review designed to identify duplicate invoice processing would also reduce the risk of duplicate payments or serve as a mechanism for cash recovery. A comprehensive approach would serve to prevent duplicate entries, reduce duplicate payments, and increase the prospect for cash recovery in the event of a duplicate payment.

That Financial Services Branch recover duplicate payment totalling $9,064 and the overpayment of $750 (see 5.6.2), identified in this audit.

2006 Management Response

Management disagrees with this recommendation.

Management is of the opinion that internal controls to prevent the processing of duplicate supplier invoices are already appropriate to manage the risk of such errors in a cost effective manner. The error rate of this review was a small fraction of 1%.

However, as a precautionary measure, Financial Services is assessing the value of using Audit Control Language as a detective tool to identify any duplicated payments and will be completing a review of the accounts payable process by the end of Q4 2007.

Financial Services has recovered all the duplicate payments identified in the recommendation.

Management Representation of the Status of Implementation of Recommendation 19 at December 31, 2008

Implementation of this recommendation is 100% complete. Further to discussion at a meeting between the City Manager and the Auditor General on November 21, 2007, this was to be addressed in the Financial Management Information System (FMIS) project. Audit Control Language software has been implemented and training has been provided in order to optimize the full capacity of the tool.

Management: % complete   *100%*

OAG's Follow-up Audit Findings regarding Recommendation 19

We are of the opinion that this recommendation is 25% complete. There were no discussions between ITS and Finance with respect to system changes to eliminate the ability to enter duplicate payments and/or report on possible duplicates. As such, this risk remains in the system. Accounts payable staff have been instructed to follow up on these possible duplicates if and when the flag occurs. However, there are no written policies or procedures for staff to follow when the "possible duplicate" flag occurs. Further, it was noted that the "flag" is easily bypassed during data entry. With respect to compliance monitoring and testing of duplicate payments, reviews were undertaken regularly utilizing ACL software until 2008. Compliance reports from the Policy and Compliance Unit showed that duplicate payments continue to occur and that practice has not changed to prevent it.

OAG: % complete   *25%*

Management Representation of Status of Implementation of Recommendation 19 *as of Winter 2010*

Management disagrees with the OAG's follow-up audit finding that action has been initiated to implement this recommendation but that it is not yet considered partially complete.

We continue to hold the opinion that existing controls to prevent the processing of duplicate invoices are appropriate to manage the risk. The error rate is low as illustrated in the table below.

We do not agree that these controls should be changed to eliminate staff's ability to approve the processing of these invoices when the possible duplicate flag appears. The notification flag allows staff the ability to review the situation prior to processing to determine if a duplicate exists. Disallowing this entirely could lead to staff inputting a different reference number simply to get around the payment block. This would cause a larger control issue.

Compliance reports are currently produced to detect duplicates and Accounts Payable staff follow-up on the transactions noted in those reports.

The PCU has performed Audit Command Language ("ACL") data analyses of all SAP payments on a quarterly basis throughout 2008 to detect duplicate payments, and has forwarded summary reports on the possible duplicates to Accounts Payable and the appropriate parties in the FSUs for follow-up and resolution. The Accounts Payable Unit has been working with the PCU since mid-2007 in following up on all ACL duplicate payment "hits" and capturing true duplicate payments for recovery or resolution. The Accounts Payable Unit has implemented an ongoing tracking and recovery process and maintains a master list of all duplicate payment "hits" provided to them by the PCU for follow-up. To illustrate the dollar amounts involved, the current status of all duplicate payment detection/recovery activity since the initial audit and throughout 2008 is summarized below:

Duplicate Payment Detection and Recovery Activity

Possible duplicates detected Jul/07 – Mar/09 (payment transactions with similar data)	$194,447	
Found not to be a duplicate on follow-up by PCU and Accounts Payable	-47,829	
Sub-total: Actual duplicates	**$146,618**	**100%**
Amounts already detected and recovered by FSU	-55,361	38%
Netted on next City cheque (recovered)	-53,284	36%
Sub-total: Outstanding amount for recovery	**$ 37,973**	**26%**
Current Status:		
Billed back to vendor on AR invoice	$ 9,769	
Credit memo received from vendor	27,054	
Currently under review	654	**<1%**
Deemed not recoverable & misc. adjustments	496	

Note: Total SAP payments for 2008 alone are over $1.6 billion. Duplicate payments represent an extremely low percentage of payment activity.

In addition to the control procedures that are currently in place, the Finance department is in the process of implementing an AP automation project to be installed in Q3 2010. Once implemented, this new system will offer additional functionality for detecting and tracking payment characteristics including detecting the potential for duplicate payments early in the review process. These features will further enhance the control procedures already in place in the business process.

Management considers implementation of this recommendation to be complete.

Management: % complete   100%

2006 Recommendation 20

That Financial Services Branch review all practices used by FSUs so as to develop one stringent set of guidelines and procedures for all FSUs, which include the consistent occurrence of three way matching.

2006 Management Response

Included in the overall management response.

Management Representation of the Status of Implementation of Recommendation 20 at December 31, 2008

Implementation of this recommendation is 50% complete. The process of collecting and validating policies and procedures within Financial Services is substantially completed. The project entered a new phase in November 2008 aimed at streamlining the development process, and to date, 57 procedures have been revised or consolidated using industry best practices. A review of the remaining procedures will continue throughout 2009. Financial Services performed a review of the logistical process in 2008, which includes three-way matching, with the objective of standardizing the process where appropriate. Documentation of this process will be complete by Q3 2009.

Management: % complete   *50%*

OAG's Follow-up Audit Findings regarding Recommendation 20

We are of the opinion that this recommendation is 50% complete. Policies and procedures have been gathered and formatted into a standard format. However, task descriptions, process maps are incomplete or non-existent. Further, policies and procedures developed to date lack assigned responsibilities by position leaving staff to decide the position responsible.

As mentioned above, no gap assessments with respect to policies and procedures have been undertaken to date nor has there been an assessment of the control risks of each process. Ernst and Young's Entity Level Controls Report provides a high level assessment and a framework for controls only. In order to ensure that policies and procedures are in place and controls are integrated into each process, we would expect to see financial procedures manual that identifies each financial process, maps those processes, assessment of current written procedures and a gap analysis between current processes and best practice (desired process). This has not yet occurred.

OAG: % complete   *50%*

Management Representation of Status of Implementation of Recommendation 20 *as of Winter 2010*

Management disagrees with the OAG's follow-up audit finding that implementation of this recommendation is only partially complete.

Policies, procedures and guidelines are developed using corporate and departmental guides and templates, in accordance with a formal instructional course that applies a standardized approach to process documentation. The course provides participants with skills to validate and document their work processes more effectively.

Further, the majority of processes performed by FSUs are performed within the corporate SAP finance system, and are documented in a series of business process procedures and training simulations. These documents are available to all staff on the corporate intranet site. In view of their diversified portfolios, FSUs perform certain unique tasks or steps to support the activities of their respective client groups. All such deviations from the standard guidelines have been adequately identified and documented.

A procedure regarding the Three-Way-Match functionality was developed as part of the logistical invoice process in 2009 and approved by the City Treasurer in February 2010.

Staff in the PCU are working with corporate resources to explore common viewing solutions for access and retrieval of these documents on Ozone and BIMS by Q4 2010.

Management expects this recommendation to be complete by Q4 2010.

Management: % complete   *90%*

2006 Recommendation 21

That Financial Services Branch establish a practice requiring all goods based invoices be signed off by the client department as evidence of receipt of goods. If the invoice is not signed, that the Accounts Payable staff return the invoice to the FSU for approval on a timely basis.

2006 Management Response

Management disagrees with this recommendation.

The current process requires that vendor invoices be routed directly to Central Accounts Payable, where staff relies on the controls embedded in SAP to process the payments for goods-based invoices. Service-based invoices are re-routed to the FSU for the client's approval and sign-off.

It is also important to distinguish between inventory goods and non-inventory goods receipts. For inventory goods, a goods receipt entry is processed at the

inventory location on the basis of a packing slip. The packing slip is retained at the receiving site. Compensating controls include an automated inventory management system and physical inventory counts. For non-inventory goods, the goods receipt is entered by the client or the FSU on the basis of a packing slip, if one is available, otherwise, an invoice is used for that purpose. The packing slip is retained at the receiving site.

The above processes leverage the best practices embedded in SAP, including the three way match between the purchase order, goods receipts, and vendor invoice. Management's preference is to have all goods receipts issued on the basis of packing slips and to continue routing all vendor invoices to Central Accounts Payable. This will minimize the number of lost or misplaced invoices and reduce the likelihood of late payment fees.

Management Representation of the Status of Implementation of Recommendation 21 at December 31, 2008

Implementation of this recommendation is 100% complete. Further to discussion at a meeting between the City Manager and the Auditor General on November 21, 2007, this was to be addressed in the FMIS project. Financial Services will continue to pursue opportunities to make the procurement-to-payment process more efficient. Business processes supporting these improvements will take into account internal control needs and will leverage best practices embedded in SAP.

Management: % complete   *100%*

OAG's Follow-up Audit Findings regarding Recommendation 21

We are of the opinion that this recommendation is 20% complete.

There have been no changes made to ensure that invoices are always signed by the departments and inconsistencies continue to exist. In the case where services are procured, generally invoices are signed by the departments and the FSU verifies these signatures. In the case of goods purchases, the receiving document is entered into SAP either by the receiving location or the FSU. The invoice is generally directed to Centralize Accounts Payable, the invoice is processed based upon the goods receipt in SAP and the invoice is not signed by the department. These processes, however, are not consistent across all FSUs which create confusion and inconsistent application of control procedures. In the absence of strong inventory controls, these processes represent a continued serious weakness in controls.

There are many invoices to which no one authorizes payment and are simply entered and processed by the Accounts Payable Clerks such as utilities. The rationale provided by the City staff was that management has little or no control over these costs and they are recurring transactions. However, in order to ensure full accountability for budgets, these costs should be reviewed and approved by the appropriate delegated authority. This allows for the understanding of these costs

and possible efficiencies. Without any accountability, there is no incentive for managers to implement energy efficient practices or operations. Further, the fact these invoices are not reviewed or approved by management at any point in the process represents a significant weakness in controls.

OAG: % complete   *20%*

Management Representation of Status of Implementation of Recommendation 21 *as of Winter 2010*

Management disagrees with the OAG's follow-up audit finding that there has been little or no action taken to implement this recommendation.

Goods Based Invoicing:
We continue to disagree with the recommendation for the reasons previously documented. We believe that in the case of goods based invoices, it is appropriate to pay the invoice based on evidence of the goods received having been entered in SAP. Returning the invoice itself for further sign-off would not add additional control and it could delay payment beyond the terms available for discount.

Payments of Utility Bills:
Management disagrees with the auditor general's observations in regard to utility bill processing, specifically, that there is little compensating control over routine payments like utility bills. Management has designed a process that balances processing efficiency with appropriate internal control. The OAG's assessment that *"without any accountability, there is no incentive for managers to implement energy efficient practices or operations"* is not a correct assessment of the current situation.

Key benefits and controls of the existing processing are:

- Centralized receipt and processing reduces the incidence of lost bills and enables settlement of amounts owing using pre-authorized payment thereby eliminating late payment of accounts;

- Costs are charged to the collector provided by the area responsible for the energy account. Bill copies are available to a manager on request. In addition, the AP automation solution scheduled for implementation in September 2010 will make images of bills available to the manager;

- Cost centre managers can monitor energy accounts using financial reports which reflect costs that have been recorded in a timely and consistent manner;

- The City's Building & Technical Support Unit actively monitors all energy accounts to detect billing issues and to identify opportunities to further improve energy management. To assist in this activity, Accounts Payable provides the unit with copies of all utility bills processed and augments financial reporting by recording in SAP additional data from the bills. The additional data is used to implement energy efficiency measures; and,

- The Telecommunication Unit performs directed monthly billing reviews of Bell Canada invoices to detect billing issues and actively monitors and reports on land-line long distance services.

Management considers the implementation of this recommendation to be complete.

Management: % complete   *100%*

2006 Recommendation 22

That Financial Services Branch in conjunction with Information Technology Services Branch review the Corporate Financial Management System (SAP) design and configuration to disallow changes to the status of the transaction by anyone that is capable of processing invoices payments.

2006 Management Response

Management disagrees with this recommendation.

There are a number of valid reasons for allowing or requiring changes to the status of accounts payable documents. These include the release of holdback and changes to the method of payment.

Based upon a review of the findings, management has determined that the incident reported by the Auditor was caused by an error of omission. Financial Services staff at one of the City's locations was improperly removing the system-generated payment blocks. Further investigation revealed that this was a gap in process training. Management has corrected this oversight. There are compensating controls to detect the inappropriate removal of payments blocks and this report will now be reviewed on a regular basis.

Management Representation of the Status of Implementation of Recommendation 22 at December 31, 2008

This recommendation is considered 100% complete. Further to discussion at a meeting between the City Manager and the Auditor General on November 21, 2007, this will be addressed in the FMIS project. The PCU is responsible for the review of Finance policies and procedures, including an assessment of systemic and compensating controls in business processes. These reviews are conducted on a rotational basis on an ongoing basis. The Financial Management Information Systems (FMIS) Unit is responsible for the monitoring and assessment of the effectiveness of financial systems and reports. This unit is being staffed in Q1 2009 and will be conducting reviews of the SAP system throughout 2009. The PCU and FMIS staff will work together to ensure that the SAP financial systems provide a controlled environment.

Management: % complete   *100%*

OAG's Follow-up Audit Findings regarding Recommendation 22

We are of the opinion that this recommendation is 100% complete. The ability to override status changes is limited to management. Compensating controls including management approvals are in place to ensure that any status changes over 5% are investigated. In most cases, these involve foreign currency transactions.

OAG: % complete   *100%*

2006 Recommendation 23

(a) That Financial Services Branch in conjunction with Information Technology Services Branch review the Corporate Financial Management System (SAP) design and configuration to permit for a single download of the daily and weekly Corporate Financial Management System (SAP) cheque run to the printer or at a minimum require special approval for the file to be re-printed.

(b) That Financial Services Branch, in accordance with the related City's policy, monitor and document all cases of fraudulent activities, including occurrences where a fraudulent attempt failed and the items were turned back by the bank. In addition, that these cases be reported to Corporate Security.

2006 Management Response

(a) Management agrees with this recommendation.

Management believes that there is already sufficient compensating controls in place in its accounting for the usage of the secure forms used to crease cheques. However, in response to this recommendation, management, in conjunction with ITS, will review SAP design and configuration options to permit for a single download of the daily/weekly SAP cheque run to the printer or at a minimum require special approval for the file to be re-printed. It is estimated that the modification to the system will cost $25,000-$50,000 of professional services effort. This includes conducting an IT security threat and risk assessment and reconfiguring SAP to ensure the proper security measures are in place to permit a single download of the weekly cheque run to the printer. Due to other corporate IT priorities, this work will not commence until late Q4 2007.

(b) Management agrees with this recommendation.

Included in the overall management response.

Management Representation of the Status of Implementation of Recommendation 23 at December 31, 2008

Implementation of this recommendation is 100% complete. Low-cost internal controls exist to detect and prevent the inadvertent mailing of duplicated cheques.

The Financial Policy & Management Systems division will continue to monitor the effectiveness of controls in SAP.

Management: % complete   *100%*

OAG's Follow-up Audit Findings regarding Recommendation 23

c) We are of the opinion that this recommendation is 100% complete.

The daily and weekly cheques have been outsourced to Doculink and hence, the City no longer produces its own cheques. All cheque files are sent to the outsourced provider and cheques are produced by the outsourced company. In the very rare cases where there are issues with the cheque file, Finance staff must obtain approval to reproduce the cheque file.   The entire cheque production processes and procedures are well documented and followed. The City is currently exploring the implementation of Electronic Funds Transfer (EFT) for its vendor payments. This will improve its ability to produce payments in a timely manner as well as reduce costs and reliance on production of cheques. New procedures and controls will be required to ensure that payments are managed and duties are segregated.

d) We are of the opinion that this recommendation is 90% complete. The City implemented a "Fraudulently Cashed Cheques" policy and related procedures which includes a requirement to report any incidents to the bank as well as Corporate Security for investigation.

We noted a significant risk with respect to cheque runs and "cheque holds" that may not have existed prior to outsourcing the cheque process.   As current practice, no manager is required to authorize the daily or weekly cheque runs. This approval has been delegated to staff who have also the responsibility to "pick" the cheques to be produced both in the daily and weekly cheque runs. This same staff also is responsible for forwarding any "cheque holds" whereby cheques are returned to the original requisition requestor. Since accounts payable staff enter transactions and "park these transactions" without batch level approvals by management and can also request cheque holds, there is a significant risk of conversion of payments.

OAG: % complete (a)   *100%*

OAG: % complete (b)   *90%*

Management Representation of Status of Implementation of Recommendation 23b *as of Winter 2010*

23 (b) Management disagrees with the OAG's follow-up audit finding that implementation of this recommendation is only substantially complete.

Management has further strengthened controls by assigning the responsibility for approval for release of the cheque runs to the most senior position in Accounts Payable, the Manager of Accounts Payable.

Management considers implementation of this recommendation to be complete.

Management: % complete   100%

2006 Recommendation 24

That Financial Services Branch maintain a log of all cheque supplies whereabouts and perform periodical inventories and reconciliation of cheques on hand.

2006 Management Response

Management agrees with this recommendation and it was already in place prior to this audit.

The cheque stock log is maintained inside the vault. All movement of cheque stock is duly noted in the presence of a second attendant. The log is maintained by Printing Services who is in custody of the cheque stock. A desk audit of cheque stock usage has been and will continue to be performed by the Financial Services.

Management would also like to provide additional information on the cheque stock. The cheque stock is special bond paper that contains several security features, the City of Ottawa logo and a serial number on the reverse side. It does not contain any banking information or MICR coding, it is essentially a blank piece of paper. The print operation provides the additional text and characters necessary to convert the piece of paper into a cheque.

Management Representation of the Status of Implementation of Recommendation 24 at December 31, 2008

Implementation of this recommendation is 100% complete.

Management: % complete   100%

OAG's Follow-up Audit Findings regarding Recommendation 24

We are of the opinion that this recommendation is 100% complete. The issuance of daily and weekly cheque production was outsourced to Doculink in 2008. This included the maintenance of cheque stock. Reports are provided with each cheque run with respect to the inventory of cheques including any damaged cheques as a result of cheque production. The City is able to review cheque inventories online with the outsourced vendor. Doculink provides detailed inventories of cheques as well as reconciliations after each cheque run including cheques utilized, remaining stock and damaged cheques.

OAG: % complete   *100%*

2006 Recommendation 25

That Financial Services Branch consider separate cheque orders for locations where cheques are printed.

2006 Management Response

Management agrees with this recommendation. This recommendation will be implemented in Q2 2007.

Management Representation of the Status of Implementation of Recommendation 25 at December 31, 2008

Implementation of this recommendation is 100% complete.

Management: % complete   *100%*

OAG's Follow-up Audit Findings regarding Recommendation 25

We are of the opinion that this recommendation is 100% complete. As mentioned above, cheque production and inventories are managed by the outsourced company, Doculink. The City no longer manages the inventory directly but has access to the cheque stock through a secure website with Doculink.

OAG: % complete   *100%*

2006 Recommendation 26

That Financial Services Branch establish a procedure requiring two signatures on all cheque requisitions and that reconciliations be maintained by someone other than the individuals who order and receive the cheques.

2006 Management Response

Management disagrees with this recommendation.

Management believes that there are already sufficient manual controls in place. Part of the control processes include that the City's supplier of cheques verify the person and organization placing the order and ensure continuity and completeness with respect to document number sequence.

As well, incoming cheque stock orders are delivered to shipping and receiving where they are verified against the accompanying packing slip. The packing slip is initialled by the receiver and delivered with the cheques to the print shop coordinator who passes them to the senior supervisor for final verification and safe storage. It should also be noted that the cheque stock, as is the case for any type of secure document, are produced under tight controls by the paper manufacturers.

As part of the continuous improvement process, management will explore the possibility of assigning the ordering function to an individual other than the supervisor.

Corporate Security also reviewed the procedures when the print shop started to print Employment and Financial Assistance cheques.

Management Representation of the Status of Implementation of Recommendation 26 at December 31, 2008

Implementation of this recommendation is considered 100% complete. Further to discussion at a meeting between the City Manager and the Auditor General on November 21, 2007, this was to be addressed in the FMIS project. Financial Services will continue to monitor the controls and risk in this area to ensure the control measures are working as intended. The Financial Policy & Management Systems Division will continue to monitor the effectiveness of controls in SAP.

Management: % complete   *100%*

OAG's Follow-up Audit Findings regarding Recommendation 26

We are of the opinion that this recommendation is 100% complete. As mentioned above, cheque production and inventories are managed by the outsourced company, Doculink. The City no longer manages the inventory directly but has access to the cheque stock through a secure website with Doculink.

OAG: % complete   *100%*

3.7 Supply Management Division Review

2006 Recommendation 27

That Financial Services Branch require that Supply Management Division verifying the authority of staff that are approving budgetary releases. In addition, if such releases are not approved by an FSU staff, that Supply Management Division ensure that the employee has the proper authority.

2006 Management Response

Included in the overall management response.

Management Representation of the Status of Implementation of Recommendation 27 at December 31, 2008

Implementation of this recommendation is 20% complete. Finance has been working with IT to develop an automated process for capturing, communicating, and maintaining evidence of delegation of signing authority and specimen

signatures. The project business case was approved by IT in November 2008 and project kick-off is scheduled for January 14, 2009.

Management: % complete   **20%**

OAG's Follow-up Audit Findings regarding Recommendation 27

We agree with management's assessment that 20% of the recommendation has been implemented. The project as outlined in the business case is intended to capture specimen signatures in a database that is separate from SAP, the City's financial system. There is currently no intention on the part of Finance to ensure that this database is referred to for verification of signatures for every transaction but rather to serve as a resource in instances where the signature is not recognizable and/or the level of delegated authority. This project to capture all signatures and delegations of authorities was delayed and was not operational at the time of the audit. Therefore, FSUs and finance staff must continue to rely on paper versions of delegated authorities, which are inconsistently captured and are not necessarily available to all staff.

At the time of the audit, there are many instances where signatures are not required for purchase order approvals nor has Supply Division initiated any changes in its processes to ensure that the procurer had appropriate delegated authority. The database project may assist in this endeavour provided that Supply Division is provided access to the system and is required to confirm these delegations are in place. Further, SAP access levels need to be updated and in line with the delegated authorities.

As a result, there continues to be weaknesses in the control procedures, particularly at the input stage. Without clear, repeatable, sustainable practices evidenced by signatures or retention of documents, control weaknesses will continue.

OAG: % complete   **20%**

Management Representation of Status of Implementation of Recommendation 27 *as of Winter 2010*

Management disagrees with the OAG's follow-up audit finding that there has been little or no action taken to implement this recommendation.

A project to create an Authorized Signature Database has been completed and is 80% populated with the authority levels and signatures for all approvers in the organization in compliance with the Purchasing By-law and as directed by senior management. This tool is currently available to Finance staff as the sole repository of information and represents a control for confirming appropriate approvals in Finance business processes.

Supply Management is not responsible for verification of who approved the technical and budgetary releases for purchases as the SAP authority level delegations are maintained and reviewed by the FSUs.

Management expects this recommendation to be complete by the end of Q2 2010.

Management: % complete   *80%*

3.8 Payroll

2006 Recommendation 28
That Employee Services Branch require a supervisor sign and approve all Requests for Personnel Action before any action is undertaken.

2006 Management Response
Management agrees with this recommendation and it is already the current practice.

The Request for Personnel Action form is an electronic form that must be sent from the supervisor's/manager's desktop. The electronic release of the form from the supervisor's/manager's desktop is considered the authority to action.

Management Representation of the Status of Implementation of Recommendation 28 at December 31, 2008
Implementation of this recommendation is 100% complete.

Management: % complete   *100%*

OAG's Follow-up Audit Findings regarding Recommendation 28
We are of the opinion that this recommendation is 80% complete. All Requests for Personnel Action forms must now be approved by management, generally electronically.   These approvals are maintained electronically and some RPAs are not maintained in employee files. Policies and procedures clearly indicate that RPAs be approved before any action is undertaken. Payroll Analysts have been instructed not to proceed with the employee set up without authorization.

It is important to note that Payroll has not been included in the policy and procedure project undertaken by the Policy and Compliance Unit. This project should be expanded to include Payroll to ensure appropriate and detailed controls are in place. This is a key area of an effective Financial Control Framework.

OAG: % complete   *80%*

Management Representation of Status of Implementation of Recommendation 28 *as of Winter 2010*

Management disagrees with the OAG's follow-up audit finding that implementation of this recommendation is considered only substantially complete.

As mentioned above, the RPA is an electronic form that must be sent from the supervisor's/manager's desktop. The electronic release of the form from the desktop is considered the authority to action. The authorizing manager's name appears on the final printed version of the RPA that is electronically directed to the Records Office, printed and placed on the employee file.

The comments made by the OAG in the second paragraph of their findings are unrelated to the original recommendation and, therefore, have not been addressed by management in its response.

Management considers implementation of this recommendation to be complete.

Management: % complete   *100%*

2006 Recommendation 29

That Employee Services Branch require that Employment Offer Letters be prepared by the Human Resources Consultant (HRC) for all Requests for Personnel Action and signed by the hiring program manager or supervisor and the employee being hired. The signed copy should also be forwarded to the employee personnel file.

2006 Management Response

Management agrees with this recommendation.

This recommendation reflects the current practice at the City with the exception of part-time and casual hires. For efficiency reasons, Employee Services has provided the client departments with a standard employment letter template for part-time and casual hires, which is signed by the hiring manager/supervisor and acknowledged by the employee. A copy is placed on the employee personnel file.

Management Representation of the Status of Implementation of Recommendation 29 at December 31, 2008

Implementation of this recommendation is 100% complete.

Management: % complete   *100%*

OAG's Follow-up Audit Findings regarding Recommendation 29

We are of the opinion that this recommendation is 80% complete. Employment offer letters are generally produced by Human Resources and sent to the new employee through management. There are some instances where this has not occurred, particularly where there is high volume of recruitment.

OAG: % complete   80%

Management Representation of Status of Implementation of Recommendation 29 *as of Winter 2010*

Management disagrees with the OAG's follow-up audit finding that implementation of this recommendation is only substantially complete.

All employee offer letters are prepared by HR and forwarded to the hiring manager to be signed and presented to the new hire. The hiring manager is accountable for ensuring the signed offer letter is returned to HR to file on both the competition file and the employee file. Prior to closing the competition file, HR follows-up with the manager to ensure all documentation has been returned to file.

Management considers implementation of this recommendation to be complete.

Management: % complete   100%

2006 Recommendation 30

That Employee Services Branch require that supervisors ensure there is an Incumbent Report for the staff directly reporting to them and review these for any errors, incorrect data entered or unauthorized employees or changes to employees pay grade or level.

2006 Management Response

Management does not agree with this recommendation.

The role of Employee Services is to ensure that human resource reports are available to managers and to provide training on the use of these reports. Employee Services does not control whether managers use these reports. Managers are responsible for managing their staff, which includes reviewing human resource reports on a regular basis.

The Position Incumbent Report is available at all times in SAP to managers, their administrative assistants, and to supervisors of 15 or more direct reports as per the SAP licensing model approved during the IBS Project. Managers can also access their Position Incumbent Report via the City's intranet without using SAP.

Management Representation of the Status of Implementation of Recommendation 30 at December 31, 2008

Implementation of this recommendation is 100% complete. Further to discussion at a meeting between the City Manager and the Auditor General on November 21, 2007, it was agreed that Employee Services would send out a management bulletin to all managers/supervisors communicating that as an important aspect of the management control framework, they are responsible to review the Position Incumbent Report on a quarterly basis and report any inaccuracies. This report is

available through the self-service management tools, however, managers can request support from Employee Services if necessary. It should be noted however, that Financial Services has been advised that a report highlighting the frequency of which managers/supervisors have run the report is not currently available and would require development within SAP.

Management: % complete   *100%*

OAG's Follow-up Audit Findings regarding Recommendation 30

We are of the opinion that this recommendation is 20% complete. Management has communicated the availability of the Incumbent Report and the expectation of managers to review this report. However, there currently is no requirement to review this report and address any issues. From an accountability perspective, management needs to impress the importance of managing salaries and wages and their respective responsibilities to ensure that their budgets only reflect those that are under their budgetary control.   Further, the review of the Incumbent Report will reveal any other issues such as persons that may belong in other departments or are no longer employees.

OAG: % complete   *20%*

Management Representation of Status of Implementation of Recommendation 30 *as of Winter 2010*

Management disagrees with the OAG's follow-up audit finding that there has been little or no action taken to implement this recommendation.

As discussed, the Position Incumbent Report is available on the Manager's desktop on Ozone. HR Consultants also use the Position Incumbent Report as a tool to work with managers on their organizational structure and to ensure positions are accurately captured in HRIS (SAP).

Management considers implementation of this recommendation to be complete.

Management: % complete   *100%*

2006 Recommendation 31

That Employee Services Branch require that Display Changes to Employee Pay Information Report can be generated and reviewed by:
a)	**Payroll Analysts; and**
b)	**Supervisors.**

2006 Management Response

(a) Management agrees with this recommendation and was already in place prior to the audit.

Payroll Analysts have always had access to a report to review changes to employee pay information. An enhanced report was built in late 2006 and Payroll Analysts now utilize Report ZRXHR126B to view changes to employee pay information each pay.

(b) Management does not agree with this recommendation.

Regarding the supervisors, presently there are already many controls in place to ensure changes to employees pay are complete and accurate. These include: written authorization by the manager for pay rate changes, payroll audits, management reports such as the Position Incumbent Report and Cost Center Report that identifies charges against the manager's budget.

Management Representation of the Status of Implementation of Recommendation 31 at December 31, 2008

Implementation of recommendation 31a) is 100% complete.

Implementation of recommendation 31b) is 100% complete. Further to discussion at a meeting between the City Manager and the Auditor General on November 21, 2007, the Auditor General indicated that he accepted the management response

Management: % complete *100%*

OAG's Follow-up Audit Findings regarding Recommendation 31

a) We are of the opinion that this recommendation is 100% complete. There is a detailed process that requires Payroll Analysts to review the Pay Rate reports and audits are performed. Payroll Supervisors review these audits each pay period against approved changes.

b) We are of the opinion that this recommendation is 100% complete. Supervisors are not required to review these reports. Although the Incumbent and Cost Centre Reports are available, the City does not have a formalized process requiring managers to review these reports. As indicated in the previous recommendation, supervisors are not required to review the Incumbent Reports nor is there a reconciliation process. Consequently, there are significant risks that unauthorized payroll transactions could occur without management knowledge. A regular payroll review process by both payroll and management would reduce risk of fraud and inappropriate transactions from occurring.

OAG: % complete (a) (b) *100%*

2006 Recommendation 32

a) **That Information Technology Services Branch in conjunction with Employee Services Branch identify all significant system overrides and these be eliminated. That in the rare occasion when overrides are deemed necessary, that they are restricted to a limited number of users. At a minimum, create**

detective controls that would prevent errors from flowing through the financial data.

b) **That Information Technology Services Branch in conjunction with Employee Services Branch review the Corporate Financial Management System (SAP) design and configuration to assess the viability of restricting uncertified sick leave days in excess of allowable limits.**

2006 Management Response

(a) Management does not agree with this recommendation.

Management believes that it is not necessary to eliminate overrides as the Payroll division already has controls in place to ensure that all pay rate changes including pay overrides are in accordance with management's authorization.

For example, the salary scales in the ATU 1760 contract have only a minimum and maximum salary. In some unions, employees have red-circled rates of pay as allowed under collective agreement provisions. In both these situations it is incumbent for the Payroll division to manually update the system with the appropriate pay rate.

With respect to economic increases, where overrides are required, an independent verification of the override is performed by a second Payroll Analyst to ensure compliance with collective agreement provisions. Payroll currently performs many audits to capture system changes including overrides.

(b) Management does not agree with this recommendation.

Currently, all managers have access to an SAP-generated report that provides accumulative sick leave information. Once staff has reached their sick leave limit, based on their collective agreement requirements, it is the responsibility of all managers to ensure that staff are providing a doctor's certificate within the required timelines.

The Payroll division will work with ITS to determine the viability of building the system to meet this requirement based on the rules of the various collective agreements in the 2008 workplan. The delay in exploring this initiative is because Employee Services is concentrating on the overtime initiatives from the 2006 Deloitte Branch-by-Branch Overtime Review. As in interim measure, Employee Services will immediately send out a communiqué to all management reminding them of the sick leave requirements.

Management Representation of the Status of Implementation of Recommendation 32 at December 31, 2008

Implementation of recommendations 32 a) and b) is considered 100% complete. Further to discussion at a meeting between the City Manager and the Auditor General on November 21, 2007, the Auditor General indicated that this would be

reviewed in more detail during the Payroll Audit. In addition, it was agreed that a management bulletin regarding monitoring of sick leave would be developed and sent to supervisors/managers.

Management: % complete   *100%*

OAG's Follow-up Audit Findings regarding Recommendation 32a

We are of the opinion that this recommendation is 0% complete.   ITS and Payroll have confirmed that no changes have been made to SAP with respect to pay rate overrides.   Further, the Policy and Compliance Unit (PCU) have not expanded compliance reviews to include audits of pay rate changes.

OAG: % complete   *0%*

Management Representation of Status of Implementation of Recommendation 32a *as of Winter 2010*

Management disagrees with the OAG's follow-up audit finding that there has been little or no action taken to implement this recommendation.

As stated in the initial management response, pay overrides are necessary and also are limited to only some Payroll staff. With respect to pay overrides, as indicated in the initial management response, detective controls are in place where verification of overrides is performed by a second payroll analyst to ensure compliance with collective agreements or in accordance with management's authorization. Therefore, there is no requirement for the PCU to expand compliance reviews to include audits of pay rate changes.

Management considers implementation of this recommendation to be complete.

Management: % complete   *100%*

OAG's Follow-up Audit Findings regarding Recommendation 32b

We are of the opinion that this recommendation is 50% complete.   Although Management disagreed with this recommendation, changes to SAP are being implemented in 2009 that requires that management ensure that sick leave certification occurs as per the various collective agreements and policies. Without documentation, payment is expected to be suspended until certification is obtained. This will ensure that management follows up on employee absences and uncertified sick leave is reduced. At the time of the audit, this provision was in the test phase and not fully implemented. The outcome or impact was unknown.

The original audit identified that in 2006, 724 employees affiliated with either CUPE 503 Inside/Outside or CIPP incurred 5,587 uncertified sick leave days (totalling approximately $1.094 million) in excess of what is permitted under the respective collective agreements. In comparison, in 2008, 734 employees from the same two union affiliations incurred 5,125 uncertified sick leave days (totalling approximately

$1.064 million). This represents a decrease of 462 days totalling approximately $30,000.

In mid December 2008, management informed managers that "CUPE 503 I/O, CUPE Library, CIPP and SAS would be the initial unions affected in mid February, with other groups being brought into the process at a later date."

Phase I, deferred to mid May 2009, included that managers receive e-mail notification identifying employees who have used more uncertified sick leave than allowed under their collective agreement provisions and therefore are required to produce a medical certificate.

Phase II, scheduled for September 2009 included that any sick leave dated from September 1 onwards that is entered in SAP and identified as "pending certification" will be automatically switched to unpaid sick if a medical certificate is not provided within the timelines outlined in the various collective agreements.

City employees were reminded, through Employee Communications and City Briefs of their responsibility to be aware of medical certificate timelines and that if original medical certificates were not received within the timelines outlined in the collective agreements, sick leave would be reversed to unpaid leave.

OAG: % complete   *50%*

Management Representation of Status of Implementation of Recommendation 32b *as of Winter 2010*

Management does not agree with the OAG's follow-up audit finding that implementation of this recommendation is only partially complete.

Phase II was successfully implemented in September 2009. Any sick leave dated from September 1 onwards that is entered in SAP and identified as "pending certification" is automatically switched to unpaid sick leave if a medical certificate is not provided within the timelines outlined in the various collective agreements. In addition, ATU 1760 has been added to the automated sick leave tracking program. At this time, the system is tracking the requirement for a medical for OPFFA in the system, however no switch to unpaid leave occurs as this requires further discussion with the union. ATU 279 has a very detailed sick leave process where employees are not paid until a certificate is provided; therefore there is no requirement to switch to unpaid. Para Transpo has a sick leave indemnity plan and IATSE with only two full-time employees, do not require an automated solution as there are no sick leave overpayment issues within these groups.

Reminder communications were sent to City managers and employees in late August 2009. Management is unable to provide an estimated timeline for completion, as it is dependent upon negotiations with the unions.

Management: % complete   *90%*

2006 Recommendation 33

That Employee Services Branch in conjunction with Long Term Care facilities review their time report processes.

2006 Management Response

Management agrees with the recommendation.

Long Term Care in conjunction with Employee Services has conducted a review of the time report processes. Effective November 2006, time reports in the four Long Term Care Homes are being prepared and summarized by the program administrative clerk and not the staffing coordinator. Reports are then forwarded to a centralized payroll clerk for inputting.

Management Representation of the Status of Implementation of Recommendation 33 at December 31, 2008

Implementation of this recommendation is 100% complete.

Management: % complete   *100%*

OAG's Follow-up Audit Findings regarding Recommendation 33

We are of the opinion that this recommendation is 50% complete. In 2009, Long Term Care has implemented a scheduling system (used by the paramedic services) which provides integration between scheduling and payroll. There is increased segregation of duties between scheduling and payroll. However, as time entry is decentralized and timesheets are housed at the facility locations, Payroll does not have the ability to analyze and verify the data entry. There are some concerns with respect to adherence with payroll rules and collective agreements in the decentralized organization. Payroll and Long Term Care were working through integration issues and these were expected to be resolved in 2009. Although LTC is unique in that scheduling is a challenge, improved segregation of duties is required and compensating controls within Payroll are needed to ensure only approved payroll transactions are authorized. Payroll training should be provided to the LTC by the Payroll staff.

OAG: % complete   *50%*

Management Representation of Status of Implementation of Recommendation 33 *as of Winter 2010*

Management disagrees with the OAG's follow-up audit finding that implementation of this recommendation is only partially complete.

As indicated in the initial management response, Payroll and Long Term Care did review and streamline the time entry process. Subsequently, in 2009, Long-Term Care replaced the manual time entry process and implemented Telestaff, a

scheduling system, where authorizations occur within that system. As indicated in Recommendation 1 of the Payroll Audit, Payroll does not have the capacity to undertake further work for decentralized groups, which includes the requirement to continually review work to ensure consistency and compliance. To do this, existing resources will have to be identified and reassigned from other departments currently performing decentralized pay processes.

Management considers implementation of this recommendation to be complete.

Management: % complete   *100%*

2006 Recommendation 34

a) **That Employee Services Branch require that Time and Transaction Assistants (TTA) perform a complete review of the Audit "Time" Report of another TTA. This will ensure an independent review of correctness and completeness of time entered in the Corporate Financial Management System (SAP) against the source document.**

b) **That Employee Services Branch ensure appropriate controls are in place for processing of all ELR/TR forms to ensure appropriate authorization is present and ensure incomplete, or ELR/TR forms with errors, are not accepted and returned to the client group for complete information before processing.**

2006 Management Response

(a) Management agrees with the recommendation and it has already been implemented.

Since mid 2006, reviews are conducted where one TTA audits the majority of the work of his/her peer. These reviews are done daily and concentrate on the higher risk areas, such as additional payments for overtime, on-call, mileage, etc. A complete or 100% review would not be cost effective or practical with existing resources.

(b) Management agrees with this recommendation and it has already been implemented.

Management agreed with this recommendation in the 2005 Auditor General's Audit of Overtime Report, which resulted in Employee Services branch implementing changes.

In 2006, time/leave forms were enhanced to include a specific area for the authorizing manager/supervisor to print his/her name, title and extension number. Authorization lists have been developed in conjunction with operations that identify the individuals who are authorized to complete timesheets. All time leave forms are currently being reviewed for proper authorization and completeness and

are returned to the business for follow up when required. In mid 2006, peer audits were introduced where one TTA audits the majority of work of another TTA.

Management Representation of the Status of Implementation of Recommendation 34 at December 31, 2008

Implementation of this recommendation is 100% complete

Management: % complete   *100%*

OAG's Follow-up Audit Findings regarding Recommendation 34

a) We are of the opinion that this recommendation is 90% complete.   Peer reviews are performed with respect to pay rate and banking changes. However, there is no specific process to perform peer reviews of time data entry. Data entry errors continue to be an issue. Further, written procedures should be developed which outlines the expected audit activities in each peer review. These procedures should also include a follow up mechanism whereby common issues are highlighted and shared with other Payroll Analysts and Employee Transaction Assistants.

OAG: % complete   *90%*

b) We are of the opinion that this recommendation is 90% complete. Time and leave forms include authorization and staff have access to the authorization lists. Staff have been instructed to review these lists during data entry in order to ensure that the appropriate delegated authority.   Currently, there is no expectation that the delegation of authority project will extend to payroll which would reduce duplication of effort.   As mentioned above, there are some areas of the City that continue to enter time data and maintain their schedules. Consequently, the practice of reviewing authorizations only applies to situations where the ETAs enter the timesheets.

In addition, as of January 26, 2010, approximately 4,600 City employees (predominantly office personnel) started using the City's Timesheet Solution to electronically enter their absences and attendance. These timesheets are then electronically submitted to their supervisor for authorization. One system hard control, where overtime cannot be entered without a reason, was developed within the Solution.

OAG: % complete   *90%*

Management Representation of Status of Implementation of Recommendation 34a and 34b *as of Winter 2010*

Management disagrees with the OAG's follow–up audit finding that implementation of this recommendation is only substantially complete.

Written procedures for peer reviews, although not outlined in the initial recommendation, do exist in draft format. These will be finalized by end of June 2010.

Diligence with respect to data entry accuracy continues to be highlighted at staff meetings. However, management is not aware of significant data entry problems. The Audit of Payroll did not show evidence of data entry errors. Please note that common issues relating to time entry would be discussed between the Timekeeper Supervisor and Time Transaction Assistants, not Payroll Analysts and Employee Transaction Assistants as identified in the OAG's comments in 34 (a).

With respect to 34 (b), regarding decentralized time entry and the requirement to review authorizations, this was not part of the original recommendation. As indicated in the Payroll audit (Recommendation 1), Payroll does not have resources to undertake further work for decentralized groups which includes the requirement to continually review work to ensure consistency and compliance, provide training and involvement in updating procedures in the decentralized areas. To do this, existing resources will have to be identified and reassigned from other departments currently performing decentralized pay processes.

Management considers implementation of this recommendation to be complete.

Management: % complete   *100%*

2006 Recommendation 35

(a) That Information Technology Services Branch in conjunction with Employee Services Branch review the Corporate Financial Management System (SAP) design and configuration and restrict annual leave carry-over in excess of employees' yearly entitlement.

(b) That Employee Services Branch address the increasing balance of annual leave in excess of employees' entitlement by requiring employees carrying excess leave to identify the period in which they will take the excess leave (in addition to their yearly entitlement) or have the excess leave balance paid out before the end of the 2007 calendar year.

2006 Management Response

(a) Management does not agree with this recommendation.

The various collective agreements allow for carry forward of more than one year's entitlement, therefore it is not recommended that the SAP system be redesigned to restrict this carry over. Management already has access to SAP-generated reports to monitor excess vacation leave.

(b) Management does not agree with this recommendation.

The issue of financial liability regarding vacation leave balances was already brought to the attention of Council in the 2005 management letter from the City's external financial Auditors and was discussed at Corporate Services Economic Development Committee February 6, of 2007.

The audit identified that City staff are carrying forward a significant amount of unused vacation leave, which results in a considerable financial liability for the City. At any time this liability includes:

1.   Accumulated vacation credits for employees in the current year as per the terms and conditions of employment and collective agreements

2.   Carry-forward of vacation credits by employees from prior years in keeping with the terms and conditions of employment and collective agreements

3.   Additional vacation credits from prior years carried forward in excess of the above

The City policy accommodates the first two components of this liability. The third component is addressed in the collective agreements which allows for excess carry forward of unused vacation leave beyond the regular entitlement under exceptional circumstances provided that appropriate approvals are obtained.

Furthermore, the leave balances of some members of the management group include a large amount of excess carry forward of unused vacation leave that were primarily brought forward to the new City at amalgamation from positions held in the former municipalities.

Since the audit, staff have conducted a detailed analysis of outstanding vacation leave banks for all City staff. Staff will be reporting back to Committee and Council by the end of Q2 2007 on a plan to eliminate the outstanding liability associated with the excess carry over of vacation credits.

Management will also be reminded through a communiqué that they are responsible to monitor staff vacation, encourage staff to take vacation, and ensure that a letter of approval is submitted to the employee's file if vacation leave is in excess of entitlement.

Management Representation of the Status of Implementation of Recommendation 35 at December 31, 2008

Implementation of recommendation 35a) is considered 100% complete. Further to discussion at a meeting on November 21, 2007 with the Auditor General, the City Manager agreed with the requirement to restrict annual leave carry over provisions. EMC made a decision that all staff with vacation leave balances in excess of provisions listed in their collective agreements or terms and conditions of employment would be required to use their excess vacation leave by December 31, 2009. Furthermore, the focus will be on educating and clarifying the policy to

managers, making use of the reports available and ensuring that managers address carry-over issues with employees. Any carry-over in excess must be documented and approved and put on the employee's file.

Implementation of recommendation 35b) is considered 100% complete. Further to discussion at a meeting on November 21, 2007, the Auditor General and the City Manager agreed to the following management response: The City has developed an approach to reduce the vacation carry-over balance. Senior management were provided with details of employees in their respective areas that have carried over vacation in excess of their annual allotment. Managers were asked to work with affected staff to develop a plan to liquidate any excess vacation leave. A management bulletin was also distributed reminding managers of their responsibility to monitor their staff's vacation leave usage.

Financial Services developed and initiated a plan to limit the impact of paying out the unfunded employee liabilities over time. This was presented to the Long Range Financial Planning Committee. The plan places priority on the order in which the various benefits should be addressed and provides strategies to limit the growth of these liabilities. The unfunded vacation leave liability was identified as the first priority and a strategy to be fully funded within the next 6 to 10 years was identified. Although, the excess leave banks could be paid out, it would produce a deficit for the City. The Executive Management Committee made a decision to pay out excess vacation leave banks by 2009.

Management: % complete *100%*

OAG's Follow-up Audit Findings regarding Recommendation 35a

We are of the opinion that this recommendation is 50% complete. Even though management disagreed with this recommendation, Finance and ITS have initiated a process in order to limit vacation balances based upon the various collective agreements. We understand that starting in May 2010, excess vacation leave will be paid to employees each year. Further, there is a plan with ITS to restrict these balances and provide for an automatic payout of balances over the allowable balances. However, these technical changes have yet to be made.

OAG: % complete *50%*

Management Representation of Status of Implementation of Recommendation 35a *as of Winter 2010*

Management disagrees with the OAG's follow up audit finding that implementation of this recommendation is only partially complete.

Ongoing payments of excess vacation leave have occurred since Q3 2009, with the final amounts being paid in May 2010 and annually in May thereafter. The manual payment will not be automated in SAP due to the flexibility in the various collective

agreements that allow carry-over in special situations, and the complexity and cost of enhancing SAP to accommodate these situations.

Management considers implementation of this recommendation to be complete.

Management: % complete   100%

OAG's Follow-up Audit Findings regarding Recommendation 35b

We are of the opinion that this recommendation is 20% complete.

According to the 2008 financial statements, the total vacation liability is $35.9 million, down from $42.8 million in 2007. However, the unfunded liability still stands at $11 million. However, in interviews with management, there has been a concerted effort to reduce these liabilities and has been working with employees to take these vacation entitlements throughout 2009.

Although the dollar value of excess carry-over of vacation leave decreased by approximately $410,500, the number of employees found to have excess banks increased by 114. The following table illustrates the changes in terms of number of employees, number of days as well as liability value.

Comparison of Annual Leave In Excess of their Collection Agreement Provisions Carried Forward into 2007 versus Carried Forward into 2009

	Excess Leave Carried into 2009	Excess Leave Carried into 2007 (Prior Audit)	Change	%Change
Number of Employees with Excess	1,827	1,713	114	6.65%
Excess Days	23,297	25,785	-2,488	-9.65%
Dollar Value of Excess Days	$6,376,586	$6,787,085	-$410,499	-6.05%

The original audit identified that as at December 31, 2006, 1,713 employees had 25,785 days of annual leave in excess to their maximum carry forward limit. This represented approximately $6.8 million. Two years later, as at December 31, 2008, 1,827 employees had 23,297 days of annual leave in excess to their maximum carry forward limit, representing approximately $6.4 million.

Number of Employees by Union Affiliation that Carried Forward into 2009 Annual Leave In Excess of their Collection Agreement Provision

Excess Days	CUPE 5500	ATU 279	CUPE 503 Inside/ Outside	CUPE 503 Recreation & Culture	CUPE 503 Library	CIPP	MPE	Non-Union/Non MPE	OPFFA (Fire)	ATU 1760	Total
<25	0	527	646	2	2	204	131	37	8	10	1,567
25-49	0	2	90	0	0	31	32	4	1	3	163
50-74	0	1	37	0	0	6	10	3	1	0	58
75-99	0	0	10	0	0	2	9	0	0	0	21
100-250	0	0	8	0	0	3	7	0	0	0	18
Total	**0**	**530**	**791**	**2**	**2**	**246**	**189**	**44**	**10**	**13**	**1,827**

**Dollar Value by Union Affiliation of the Carried Forward into 2009
of Annual Leave In Excess of their Collection Agreement Provision**

Excess Days	CUPE 5500	ATU 279	CUPE 503 Inside/ Outside	CUPE 503 Recreation & Culture	CUPE 503 Library	CIPP	MPE	Non-Union/Non MPE	OPFFA (Fire)	ATU 1760	Total
<25	$0	$371,040	$1,112,502	$1,183	$747	$454,801	$456,569	$68,987	$23,991	$8,267	$2,498,088
25-49	$0	$12,712	$732,342	$0	$0	$330,401	$426,227	$27,771	$13,710	$21,895	$1,565,058
50-74	$0	$12,211	$501,664	$0	$0	$112,204	$299,443	$34,175	$16,745	$0	$976,441
75-99	$0	$0	$175,719	$0	$0	$58,137	$337,348	$0	$0	$0	$571,204
100-249	$0	$0	$257,342	$0	$0	$89,599	$418,854	$0	$0	$0	$765,795
Total	$0	$395,963	$2,779,569	$1,183	$747	$1,045,141	$1,938,442	$130,933	$54,446	$30,162	$6,376,586

Management were reminded, through memos and Management Bulletins of their responsibility to manage excessive vacation leave of their employees. We understand that on January 14, 2008 EMC approved that any leave balance in excess of provisions listed in employees' collective agreements or terms and conditions of employment will be paid to the employee as at December 31, 2009 providing management and employees two years to decrease this liability.

A review of SAP report at the end of August 2009 indicates that the employees found to have the largest amount of excess vacation carried forward, have not significantly decreased their balance.

However, in December 2009, management advised all network users through a "Employee Communications/Communication aux employés" e-mail that senior management had postponed the payment of excess vacation leave until May 2010. In addition, any annual leave taken would be deducted from the excess carry over therefore decreasing the overall payment and possibly engineering an additional excess carry-over into 2011.

Lastly, at this time, there is no evidence that system's hard controls (within SAP) preventing any future excess carry-over of annual leave have been developed and/or implemented.

OAG: % complete   *20%*

Management Representation of Status of Implementation of Recommendation 35b *as of Winter 2010*

Management disagrees with the OAG's follow up finding that little or no action has been taken to implement this recommendation.

The fact that the excess vacation carried into 2009 decreased from that of 2007 is a very positive result and reflects management's attention to this issue. If this issue had been left unchecked, the balance would have continued to increase year-over-year.

Ongoing payments of excess vacation leave have occurred since Q3 2009, with the final amounts being paid in May 2010 and annually in May thereafter. The manual payment will not be automated in SAP due to the flexibility in the various collective

agreements that allow carry over in special situations, and the complexity and cost of enhancing SAP to accommodate these situations.

Management considers implementation of the recommendation to be complete.

Management: % complete   *100%*

2006 Recommendation 36

That Employee Services Branch require that Supervisors review Payroll Cost Center reports.

2006 Management Response

Management does not agree with this recommendation.

Employee Services has made Payroll Cost Center Reports available to managers, program managers, and supervisors with more than 15 direct reports. Employee Services also provides SAP-HR manager and refresher training sessions to instruct users on the uses of this report, and encourages them to review their reports regularly. The Financial Services branch also works with managers on an ongoing basis to review cost center charges and identify anomalies. The City's accountability framework for managers stipulates that human resource and financial management is the responsibility of the operating manager.

In addition to the Payroll Cost Center Report, managers have access to financial cost center reports that provide a comprehensive picture of the manager's entire budget.

Management Representation of the Status of Implementation of Recommendation 36 at December 31, 2008

Implementation of this recommendation is 100% complete. Further to discussion at a meeting between the City Manager and the Auditor General on November 21, 2007, it was agreed that Employee Services would send out a bulletin to managers and supervisors to remind them to review the Payroll Cost Center report as part of their management accountability to manage resources, and that they need to ensure that staff are being charged to the right cost centres. The FSUs will assist managers to ensure this is occurring.

Management: % complete   *100%*

OAG's Follow-up Audit Findings regarding Recommendation 36

We are of the opinion that this recommendation is 0% complete. As indicated in management's response, there currently is no requirement to review the cost centre reports which provides details of payroll transactions against the individual budgets. However, in the response to Recommendation 31, management indicated that these reports are reviewed to ensure that pay rate changes are reviewed and yet, in this management response, it believes it is not mandatory. Consequently,

these compensating controls are not effective. Further, in order to be held accountable to annual budgets, managers need to review these reports in context of preparing variance analysis reports as well as identifying any areas where errors in transactions may exist. Without a regular mandatory review of transactions, the risk of error and fraud increases.

OAG: % complete   *0%*

Management Representation of Status of Implementation of Recommendation 36 *as of Winter 2010*

Management disagrees with the OAG's follow-up audit finding that there has been little or no action taken to implement this recommendation.

As indicated in the initial management response, there are many opportunities for managers and supervisors to review cost centre reports. Managers are provided training on both HR and financial reports at new manager training sessions. Key HR and Financial reports are accessible on the manager's desktop. These include the Position Incumbent Report, Vacancy Reports, Overtime reports, and Cost Centre reports. When positions are created, the FSU provides input to validate cost centre information provided by management. Throughout the year, the FSU groups provide managers with financial data and work with them as required to ensure they understand their budgets. Managers are also responsible for authorizing cost centre charges when creating and filling positions within their responsibility, which include cost centre approval. Finally to close the loop, managers provide letters to employees when life cycle events occur that provide the pay rate that the employee will receive.

Management considers implementation of this recommendation to be complete.

Management: % complete   *100%*

2006 Recommendation 37

a) **That Employee Services Branch ensure that access to the Corporate Financial Management System (SAP) transaction code for Subsequent Processes Off-Cycle Activities (where cheques are processed and printed) be restricted in all test and Quality Assurance (QA) of the Corporate Financial Management (SAP) environment.**

b) **That Financial Services Branch require that unused cheques be stored in a secure location at all times.**

2006 Management Response

(a) Management agrees with this recommendation and it has already been implemented.

The test environment is restricted to allow only certain payroll staff access to produce a facsimile of a pay cheque to verify test results.

(b) Management agrees with this recommendation and it was implemented prior to this audit.

The audit finding in this section relates to an isolated case. It has been the observation of Financial Services that Employee Services has diligently met these requirements.

Management Representation of the Status of Implementation of Recommendation 37 at December 31, 2008

Implementation of this recommendation is 100% complete.

Management: % complete   *100%*

OAG's Follow-up Audit Findings regarding Recommendation 37

a) We are of the opinion that this recommendation is 100% complete. b)   We   are of the opinion that this recommendation is 100% complete. On demand cheques are secured and managed by the Manager of Payroll only. In order to eliminate this process and risks, this process could be undertaken by accounts payable.

OAG: % complete (a) (b)   *100%*

3.9 Effectiveness of the Financial Support Units

2006 Recommendation 38
That Financial Services Branch require that the FSU verify the levels of employee authority prior to the purchase order being issued to prevent improperly authorized expenses.

2006 Management Response
Included in the overall management response.

Management Representation of the Status of Implementation of Recommendation 38 at December 31, 2008

Implementation of this recommendation is 100% complete.

Management: % complete   *100%*

OAG's Follow-up Audit Findings regarding Recommendation 38

We are of the opinion that this recommendation is 20% complete.   As mentioned in Recommendation 2, Finance has undertaken a delegation of authority project to capture specimen signatures in a database that is separate from SAP, the City's financial system. There is currently no intention on the part of Finance to ensure

that this database is referred to for verification of signatures for every transaction but rather to serve as a resource in instances where the signature is not recognizable and/or the level of delegated authority. This project to capture all signatures and delegations of authorities was delayed and was not operational at the time of the audit. Therefore, FSUs and finance staff must continue to rely on paper versions of delegated authorities which are inconsistently captured and are not necessarily available to all staff. This project was not complete at the time of the audit.

Although this project is an important one, the risk still remains that the SAP delegation of authority profiles are different that those delegated through management. Further, there is need for a workflow process and reconciliation to ensure that the delegated authorities in SAP are equivalent to those reflected on the associated delegation instrument.

OAG: % complete   **20%**

Management Representation of Status of Implementation of Recommendation 38 *as of Winter 2010*

Management disagrees with the OAG's follow-up audit finding that there has been little or no action taken to implement this recommendation.

A project to create an Authorized Signature Database has been completed and is 80% populated with the authority levels and signatures for all approvers in the organization in compliance with the Purchasing By-law and as directed by senior management. This tool is currently available to Finance staff as the sole repository of information and represents a control for confirming appropriate approvals in Finance business processes.

Management expects this recommendation to be complete by the end of Q2 2010.

Management: % complete   **80%**

3.10 Corporate Financial Management System (SAP) Data Analysis

2006 Recommendation 39

That Financial Services Branch in conjunction with Parks and Recreation Branch review the provided reports to ensure that results are within expectations and are in line with the current practices as well as their knowledge of current operations.

2006 Management Response

Management agrees with this recommendation.

Accounts with zero balances are a positive reflection that clients are conforming to the policy and paying for programs and services before they occur. A review to

determine if "aged" accounts with zero balances can be purged from the database could be considered, however it is not recommended that we purge the accounts of customers who are regular users. A definition of "aged" is required, since many clients may only frequent our services on an annual basis, for example each summer for camp registrations only, as reflected in the review under Section 5.6.1 Revenue Stream Analysis. This will be implemented in Q2 2007.

Management Representation of the Status of Implementation of Recommendation 39 at December 31, 2008
Implementation of this recommendation is 100% complete.

Management: % complete *100%*

OAG's Follow-up Audit Findings regarding Recommendation 39
We are of the opinion that this recommendation is 100% complete. Reports from CLASS appear to be easy to read and reflect the areas for management follow up.

OAG: % complete *100%*

2006 Recommendation 40

That Financial Services Branch, as part of their periodic disbursement review, examine the supporting documentation, transaction details, investigate unusual items and take appropriate action.

That Financial Services Branch, direct staff to ensure purchase orders be established prior to the ordering, receipt or payment of any purchase.

That Financial Services Branch, develop and implement a policy relating to invoice payment terms and payment practices.

2006 Management Response
Included in the overall management response.

Management Representation of the Status of Implementation of Recommendation 40 at December 31, 2008
Implementation of this recommendation is 100% complete.

Management: % complete *100%*

OAG's Follow-up Audit Findings regarding Recommendation 40
We are of the opinion that this recommendation is 50% complete. The Policy and Compliance Unit has undertaken regular compliance reviews with respect to payments on purchase orders prior to the invoice date. The results found that,

although there continues to be some invoices dated prior to the purchase order date, the numbers and amounts have declined significantly since the 2006 audit. The Financial Policy Compliance and Systems Unit's reviews over 2008 showed the following results:

Payments on Purchase Orders Prior to the Invoice Date
Source: Financial Policy Compliance and Systems Unit

	1st Qtr 2008	2nd Qtr 2008	3rd Qtr 2008	4th Qtr 2008	TOTAL 2008
Total # of PO payments	45,577	33,992	30856	36,694	**147,119**
Total # of PO Payments with invoice date before PO	1,067	1,509	793	1,438	**4,807**
%age # PO Payments with invoice before PO	2.3%	4.4%	2.6%	3.9%	**3.3%**
Total $ of PO payments	$152,512,645	$142,501,892	$158,338,409	$150,994,543	**$604,347,489**
Total $ of PO Payments with invoice date before PO	$6,585,753	$7,216,487	$5,065,420	$10,218,973	**$29,086,633**
%age $ PO Payments with invoice date before PO	4.3%	5.1%	3.2%	6.8%	**4.8%**
# of Vendors with invoice dates before PO	313	282	238	335	**1168**
# of Employees who created POs after an invoice date	57	60	48	79	**244**

The requirement for a purchase order to be created and issued prior to the goods or services being provided and the payment of the invoice needs to be emphasized with departmental staff and management as well as the FSUs. These results should be shared with the respective managers and the delegator. The delegator should be held accountable for these violations.

Payments of Invoice Prior to Purchase Order Date - First Quarter of 2008
Source: Financial Policy Compliance and Systems Unit

PO Type						
	Total Population		Payments before PO date			
	No.	$ Amount	No.	$ Amount	% No.	% of $
45 series - Supply	13,377	$119,873,624	458	$5,457,224	3.4%	4.6%
46 series - Departmental PO	11,912	$13,528,571	469	$770,086	3.9%	5.7%
47 series - FPO - Delegated Authority	140	$1,173,464	16	$235,137	11.4%	20.0%
49 series - Hired Equipment	20,148	$17,936,986	124	$123,306	0.6%	0.7%
Total	45,577	$152,512,645	1,067	$6,585,753	2.3%	4.3%

With respect to payment terms, in 2008, the City introduced a new Payment Terms Policy which established parameters for payment terms for all types of disbursements, document the terms applicable to other types of payments; and, ensure the City's suppliers are paid in accordance with the established terms and

conditions of the purchase. Vendor discounts have been encouraged by the City in order to realize savings. The policy outlines the standard payment terms of the City, which is 30 days (due date) from the date of the invoice. As well it provides a list of other payments to which the standard 30-day payment policy does not apply. Although this policy became formal in October 2008, changes were made within the accounts payable unit prior to the official policy.

The City's policy also encourages vendor discounts based upon early discounts. Most of these types of discounts apply based upon payment within 15 days. Based upon the information below, it would appear that only 26% of these payments would be made in time for these discounts (as opposed to 28% in 2005). According to ITS and Finance staff, the City's financial system has been configured in order to take any vendor discounts regardless of the payment date. Further, staff and management confirmed that early payment discounts have been taken regardless of the payment date. This has lead to vendor complaints and in several cases, resulted in the requirement of a further payment by the City to refund this discount taken beyond the agreed upon terms. In effect, this results in a duplication of work and poor vendor relations. It is recommended that the City honour these payment terms in line with its Payment Terms Policy.

When comparing 2008 data (full year) to the original full year 2006 audit data, interest revenue forgone has increased by $59,825 or 21%. Based on the data provided, the 2008 interest revenue forgone amounts to approximately $350,800 (using the 2.3% prime rate in effect December 2008) compared to the $291,000 in 2006. However, the number of early payments to relevant suppliers has decreased by 16%. It should be noted that payments such as employee disbursements, payments to social services clients and agencies, payroll, school board and other remittances, grants, rents, etc., were excluded for this analysis.

Aging of 2008 Disbursements [2]

2008 Payment Aging	Number of Invoices	Dollar Value of Invoices	Interest Forgone (Prime rate 2.3%)
Prior to invoice date	79	1,489,353	3,724
On invoice date	605	5,479,605	10,368
1 to 15 days after invoice date	37,279	144,105,873	197,020
16-29 days after invoice date	117,971	432,198,442	139,747
Total	155,934	$583,273,274	$350,859 [1]
2006 Original Audit Finding:	186,476	499,164,119	291,034
Variance	-30,542	$84,109,155	$59,825
Variance (%)	-16%	17%	21%

[1] 2006 estimate calculated using RBC average T-Bill interest rate of 1.7%

[2] From the disbursements, we excluded payments such as employee disbursements, payments to social services clients and agencies, payroll, school board and other remittances, grants, rent, etc.

Implementation of New Public Sector Accounting Board (PSAB) Standards

Although not audited in the 2006 audit of the Financial Control Environment, due to the timing of the follow up audit and the deadline of 2009 to implement the new PSAB standards, we undertook a review of the City's implementation status as part of this audit.

By January 2009, all Canadian municipalities must move to full accrual based accounting in order to comply with the accounting standards set by the Public Sector Accounting Board (PSAB), the standard setter for the public sector in Canada. PSAB has adopted these new standards which require significant changes to the municipal financial statements with the inclusion of all non-financial assets. The most significant change is the requirement to capitalize tangible capital assets (TCAs) and amortize the historical cost over the useful life of the asset. As outlined in Section PS3150, the costs of TCAs are expensed over their useful lives and the historical cost of their utilization is recognized accordingly. Currently, under cash (or modified accrual) basis of accounting that is utilized by municipalities in Canada, the cost of TCAs is expensed when it is paid for. For the City, this is a very large undertaking. It owns and manages a significant number of infrastructure and other assets. Further, business process changes need to be undertaken in order to ensure that Finance has the information required to value, amortize and dispose of assets managed within the departments.

The Deputy City Treasurer, Corporate Finance has the overall responsibility to implement the new PSAB standards. The multi-disciplinary workplan developed to meet these standards show significant resources and commitment to complete the transition by early 2010, in time for the 2009 financial audit. At the time of the

audit, the City's external auditors were scheduled to review the asset inventory opening balances and net book values.

Although we are of the opinion that the City will meet the audit requirements for 2009, there has been little proliferation of the requirements of the new standards throughout the organization beyond those directly involved in the detailed transition. Without a plan to involve all departments and finance staff, the benefits of the move to full accrual accounting may not be realized. The integration between asset management and asset accounting should be understood by all those staff and managers who have been empowered to safeguard the City's assets. Therefore, we recommend that the City, once compliant with the new PSAB standards, undertake a City wide training program to enhance the level of understanding of full accrual accounting and the requirements in order to imbed compliance with these standards in all financial practices.

OAG: % complete   *50%*

Management Representation of Status of Implementation of Recommendation 40 *as of Winter 2010*

Management disagrees with the OAG's follow-up audit finding that implementation of this recommendation is only partially complete.

Payments of Invoice Prior to Purchase Order Date

In late 2008, the City's financial system was configured to take prompt payment discounts offered by suppliers regardless of the payment date; however, invoice processing staff have the ability to override the payment term to prevent a discount from being taken. The override should be performed when the period between invoice date and payment date is unreasonable.

Finance is in the process of implementing an invoice processing solution that will improve the management of supplier invoices. The solution will provide centralized receipt and recording of invoices in SAP and will permit management to monitor and manage invoice processing to ensure payment within terms. The solution is presently being installed and tested and it is expected that it will be fully implemented by Q4 2010.

In 2008, prompt payment discounts of $360,500 were taken and $8,300 was refunded. In 2009, prompt payment discounts of $571,900 were taken and $39,300 was refunded.

In general, refunds result from vendors disallowing the discount due to late payment. Most vendors do not seek repayment as long as the payment is made within one month of the invoice date. In addition, the twice-weekly cheque runs ensure that there is no significant delay once an invoice has been entered for payment.

Repayments for 2009 are greater than what the City would normally expect. Discounts taken include $35,000 deducted from payments made to one vendor for services performed which had a payment term of 15%/15 days. Subsequently, $25,600 was repaid because the discount eligibility period lapsed prior to the goods receipt being processed.

Given the benefit of this program to the City, these refunds are considered insignificant.

Management is aware that there continues to be some invoices prior to the purchase order date, and that there are legitimate circumstances and causes with regard to the timing of invoicing and finalization of purchase orders.

In response to the 2006 audit, the PCU performed detailed analyses of 2008 payments to identify payments dated before the purchase order date. As a test sample, the PCU and Supply Management reviewed the results of the first two quarters of 2008 in detail to determine the circumstances and causes. It was noted that a large percentage of amounts paid were made to vendors with a contract or standing offer already in place, where purchase orders have to be adjusted after the fact to reflect market price fluctuations as per the contract in place, or to adjust for actual goods and services received under a blanket standing offer. This process is considered acceptable as the normal sourcing and procurement controls are being adhered to.

Using the OAG's table for the first quarter of 2008 as a sample, out of the $6.6 million in payments made before the purchase order date, $5.0 million were made to vendors with contracts or standing offers already in place. This included payments of $3.0 million for diesel fuel where prices are market-adjusted under contract terms, and $1.6 million for software licenses and maintenance, which are required to be paid prior to the term of the agreement as per industry standards. Under both business circumstances, the purchase order date would show up after the invoice date in the SAP system.

With reference to the OAG's table, the 45 series Supply Purchase Orders ("PO") included $172K in invoices for road salt sourced and shipped within a four-day period due to an emergency salt requirement, and the PO had to be adjusted to reflect changing market prices. The 46 series of departmental purchase orders in the amount of $455K includes invoices all under the $10K requirement for a Supply Division PO, where a departmental PO would be created by the FSU for the client department as a payment mechanism, sometimes after the invoice is received. This may include goods and services ordered directly by the operating department for call-ups from standing offers such as emergency repairs to buildings or fleet equipment, or rush requirements for materials. The prescribed process of selecting these companies is subject to a competitive procurement process, in that there is the requirement to obtain three competitive quotes by the user department,

and the transactions are subjected to routine reviews by the PCU for evidence of quotes, standing offers, etc.

In the 47 series of Finance Purchase Orders ("FPO") totalling $235K, management is aware that an overriding Council authority or contract would already be in place, and the PO would be created after the fact to reflect the actual invoice. A FPO is defined as a purchase order used for payments with reference to a contract, which has been approved by Council **OR** approved under the Delegated Authority By-law and does not fall under the scope of the Purchasing By-law. An example would be a Council-approved front ending agreement. The policy goes on to say that the intent of the payment with reference to a contract is to provide a payment method that references an approved contract that falls outside the scope of the Purchasing By-law.

FPOs are issued to allow for the tracking of expenditures/payments made against agreements approved by Council versus using the Payment Without Reference ("PWR") as a payment mechanism.

In the 49 series, the $123K for hired equipment refers specifically to equipment rental charges, where the PO would be updated at the end of the rental period to reflect actual rental charges and settlements.

While management agreed that purchase orders should be issued prior to ordering or receiving an invoice, in hindsight, this should have been a partial agree or agree with legitimate exceptions. Management expects approximately $5.5 million of payments to occur annually before purchase order issuance. Supply Management annually reviews purchases each year to ensure compliance with the Purchasing By-Law and the results of such reviews are reported to Council.

Aging of Disbursements

Management disagrees with the approach used to estimate interest forgone. The amount of interest forgone, if any, should be calculated using the difference between the payment due date and the cheque encashment date. Estimated interest forgone using A/P's methodology is $23,500.

The general assumption made by the Auditor General is that all payments are to be released 30 days from the invoice date. This assumption is incorrect because payments are made based on payment terms and payments are released several days in advance of the due date to allow for internal processing and mail delivery. In addition, suppliers of goods and services expect payment by the due date and issuing a cheque on the due date will result in late payment. Furthermore, the City continues to earn interest on funds until the cheque is cashed.

Implementation of New Public Sector Accounting Board (PSAB) Standards

As noted in the follow-up audit, a review was undertaken of the implementation of the new PSAB standards even though this was not part of the original audit. It is

indicated that there has been little proliferation of the new standards throughout the organization and inferred that the City has not embarked on the integration of asset management and asset accounting. As clarification, an extensive exercise has been undertaken to develop end state processes to support these requirements that engaged staff and managers responsible for asset management and asset accounting. These processes will be leveraged as the foundation for an upcoming education exercise across the corporation regarding the PSAB requirements and the end state processes developed in support.

Management considers implementation of this recommendation to be complete.

Management: % complete   *100%*

4 SUMMARY OF THE LEVEL OF COMPLETION

The table below outlines our assessment of the level of completion of each recommendation as of Fall 2009.

CATEGORY	% COMPLETE	RECOMMENDATIONS	NUMBER OF RECOMMENDATIONS	PERCENTAGE OF TOTAL RECOMMENDATIONS
LITTLE OR NO ACTION	0 – 24	2, 3, 4a, 11, 16b, 16c, 21, 27, 30, 32a, 35b, 36, 38	13	27%
ACTION INITIATED	25 – 49	19	1	2%
PARTIALLY COMPLETE	50 – 74	1, 4b, 6, 7, 20, 32b, 33, 35a, 40	9	18%
SUBSTANTIALLY COMPLETE	75 – 99	5, 8, 9, 10, 12, 14, 15, 16a, 17, 23b, 28, 29, 34a, 34b	14	29%
COMPLETE	100	13, 18, 22, 23a, 24, 25, 26, 31a, 31b, 37a, 37b, 39	12	24%
TOTAL			49	100%

5 CONCLUSION

As detailed in the 2006 Audit of the Financial Control Environment, the City's amalgamation was challenging in that it needed to integrate the various systems of 12 municipalities into one integrated financial control environment. At the time, the City decided to implement a Centre of expertise model including the Financial Support Units. The 2006 audit found that, although the concept appeared sound, the financial control framework had several weaknesses and inconsistencies. Further, the audit found that, even though the City had implemented a state of the art financial system, there was a general lack of utilization by employees and confidence on the part of external auditors.

In our opinion, the City has made improvements in strengthening the financial control environment. We noted that there are many positions within Finance that could expand their responsibilities to improve efficiencies within the department.

A business process review would reveal the areas where resources could be better utilized.

The City has engaged consultants to assist them in developing a financial control framework at a cost of over $100,000 to date. Both reports are quite useful at the framework level and management has begun to implement the recommended framework.

Of particular concern is the limited progress with respect to the development of financial policies and procedures, given the amount of resources committed to this project. A comprehensive, corporate approach needs to be undertaken with a detailed assessment of each financial process and controls required based upon best practice. To date, the City has simply developed a repository of existing written policies and procedures without a review of the procedures that are required.

With respect to changes within the Corporate Financial System (SAP), very few advances have been made. Many of the recommended system controls contained in the 2006 audit were not explored nor implemented. However, management did undertake some changes within Payroll to address some significant liabilities (i.e., uncertified sick leave). Reporting within SAP has not improved. Only recently has Finance completed its recruitment of the Financial Management Information Systems group which has the mandate to improve controls and reporting.

In contrast, the Financial Support Unit (FSU) assigned to Parks, Recreation and Cultural Services Department appears to have implemented changes. Although some changes are still required, the FSU and Parks, Recreation and Cultural Services staff have worked diligently to address the concerns raised in the 2006 audit. Given the challenges faced by the Parks, Recreation and Cultural Services with respect to segregation of duties, the two entities appear to be exploring various mechanisms to improve controls.

With respect to controls for purchasing and disbursements, the lack of management oversight for a significant amount of transactions. In many parts of the organization, responsibilities have been delegated to staff without formal delegation instruments. Inventory controls continue to be weak and pose significant control risks. The City's Public Sector Accounting Board (PSAB) implementation plan, although relatively late in the year, appears to be on track in order to meet the audit requirements for 2009. Diligent project management and oversight will be required to ensure the City meets the deadline.

Financial controls have always been a major area in the governance of an organization. The City's internal controls should be both robust and rigorously overseen. Effective financial controls ensure that the City of Ottawa operates as efficiently as possible and assists it in meeting its objectives.

Management Response to the Conclusion

The 2006 Audit of the Financial Control Environment identified a number of recommendations intended to create a structure of financial accountability supported by documented procedures and systems. Since that time management within the Finance Department have established a number of changes to address those recommendations including:

- The establishment of the Controller position at a Deputy Treasurer level, with accountability for consistency in financial controls.

- The establishment of a Financial Policy, Compliance and Systems Unit within the Controller's Branch with responsibility for compliance testing, policy and procedure documentation, audit response and coordination, and systems development within Finance.

- The establishment of a Financial Management Information System team with the mandate of reviewing and enhancing systems support of financial business processes and reporting needs.

The staffing of these new units and positions was completed in mid-2009, and since that time significant progress has been made in response to the audit recommendations.

In the follow-up audit, the OAG has found implementation to be more than 50% complete in 71% of the 49 recommendations. Management believes they have completed of 38 of the recommendations (78%), with significant work on 10 additional recommendations that are substantially completed (20%) representing 98% of all original recommendations. The remaining recommendation is 50% completed. Management believes that the difference in communication of results is due to two factors: time delay between completion of audit work and communication of results (Summer 2009 vs. Spring 2010) and differing interpretation of recommendations, with the follow-up audit expanding on the scope of the original recommendations.

In addition to strengthening the financial control environment, Finance has been monitoring the implementation, tracking the status and dealing with follow-up audits for approximately 320 Finance-related recommendations made by the OAG in various audits since 2005. The volume of work associated with these audit recommendations has represented a significant workload for many Finance management and staff positions. The OAG states that there are many positions within Finance that could expand their responsibilities to improve efficiencies within the department, however, has not provided any evidence supporting this statement.

The City engagement with Ernst & Young provided the foundation for a financial control framework. Many of the observations identified in the report have been

incorporated into project or action items included in many workplans within Finance, ODP, Legal, IT, HR, etc., including the following initiatives:

- Risk management – there is an Enterprise Risk Management (ERM) committee of departmental representatives. The mandate and guiding principles for this group have been identified in a report that has been reviewed and approved by Executive Committee and Council. Aspects of risk management from a financial and operating perspective are key components of a coordinated approach promoted in this working committee.

- Code of Conduct – The new Code of Conduct and action plan was received by Corporate Services and Economic Development Committee (CSEDC) on April 6, 2010. The Code of Conduct will become part of the annual performance appraisal for every staff in the Corporation.

The 2006 audit of the Financial Control Environment recommended the establishment and documentation of financial processes for FSU and other Finance staff. The initial objective has been completed through the compilation of 352 processes, the consolidation and standardization of similar processes where practical, and the consistent documentation of those documents with the assistance of the business process owners. Staff in the Policy and Compliance Unit (PCU) are working with Corporate resources to explore common "viewing" solutions for access and retrieval of these documents on Ozone and Business Information Management System (BIMS) by Q4 2010.

In addition to the original recommendations addressed above, PCU staff are involved in the following initiatives that will continue throughout 2010 with updates on an ongoing basis thereafter:

- Indexing of the documents into business process groupings to allow a "workflow" relationship view of traditional streams of related processes.

- Gap analysis and benchmarking to identify additional processes to be developed to provide a more comprehensive coverage of business documents.

- Consideration of inclusion of business process mapping to aid understanding in more complex business processes.

The FMIS group was staffed in mid-2009. Since that time these resources have been involved in many Finance systems projects. Current projects include:

- Financial reporting – a project has been established to examine the financial reporting requirements of the organization, and the alternative approaches to generating these reports. The initial phase to compile existing reports and identify reporting improvements has been completed through interview of Finance staff.

- Training – a project has been initiated to review existing materials for SAP training and identify gaps and opportunities for re-using, updating and

enhancing awareness of the SAP and its functionality and the implications on Finance business processes. A project has been initiated to identify training requirements for Finance staff. A training plan will be created using existing training materials, webinars along with classroom style training where required.

A project to create an Authorized Signature Database has been completed and is 80% populated with the authority levels and signatures for all approvers in the organization in compliance with the Purchasing By-law and as directed by senior management. This tool is currently available to Finance staff as the sole repository of information and represents a control for confirming appropriate approvals in Finance business processes.

In addition to day-to-day operations, Finance is involved in Finance-initiated projects (e.g., Accounts Payable ("AP") automation), client-initiated projects (e.g., SmartCard), Council-directed initiatives, regulatory compliance (e.g., introduction of HST) and over 320 recommendations made by the OAG since 2005. With limited resources, Finance must prioritize their activities based on risk and materiality.

The OAG has stated that effective financial controls ensure that the City of Ottawa operates as efficiently as possible and assists it in meeting its objectives. Management is committed to implementing a strong internal control framework. The City is working with its external auditor to transition to a control based audit approach over the next few years. Work on this initiative has commenced in fiscal 2009 on specific processes, and will continue to be refined and developed each year thereafter.

Management considers that significant progress has been made in implementing the recommendations of the original audit.

6 ACKNOWLEDGEMENT

We wish to express appreciation to the staff and management for their cooperation and assistance throughout the audit process.