



*Office of the Auditor General*  
**AUDIT OF THE FINANCIAL  
CONTROL ENVIRONMENT**  
**2006 Report**  
**Chapter 9**



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## EXECUTIVE SUMMARY

### *Introduction*

The Audit of the Financial Control Environment was part of the 2006 Audit Plan brought forward by the City's Auditor General and received by Council on December 15, 2004.

### *Background*

The City of Ottawa is a large organization, with 4 major departments supported by 10 Financial Support Units (FSUs). This organization employs over 12,000 full-time equivalent (FTEs) staff positions of which 345 work under the Director of Financial Services and City Treasurer (excluding 140 Supply Management staff).

In the 2005 operating budget, the City of Ottawa's operating expenses amount to approximately \$2.1 billion.

The 2005 approved capital budget totalled \$612.3 million.

The City's internal financial controls are essential to the effectiveness and accountability of its operations.

The scope of the audit addressed the internal financial controls in place in fiscal 2006. We performed analysis using both 2005 and 2006 data.

### *Audit Objectives*

The objectives of this audit were to:

- Determine whether there are adequate financial controls in place within the processes selected;
- Determine the role and effectiveness of the Financial Support Units;
- Determine the role and effectiveness of the Accounting and Reporting Division with respects to the processes reviewed; and
- Evaluate the utilization of the financial systems (reporting and management tools).

At the beginning of this audit the Chief Corporate Services Officer indicated his agreement with the objectives of the audit. His goal was to use the issues identified by the audit as the basis on which to develop his work plan to improve the financial control framework of the City.

## ***Audit Criteria***

- Determine whether there are adequate financial controls in place in the processes reviewed.
- Determine if opportunities exist to detect and decrease risks due to process and control weaknesses, as identified through data analysis of disbursements and revenues.
- Determine the roles and effectiveness of the Financial Support Units and of the Accounting and Reporting Division with respect to the processes reviewed.
- Evaluate the utilization of the financial systems (reporting and management tools).

## ***Audit Scope***

To assess the financial control environment in place in 2006, a representative sample of FSU processes were reviewed. The FSU selection was based on both a consideration of the transactions dollar value as well as the assortment of transaction types relevant to the individual FSU.

The City's Corporate Financial Management system is composed of SAP (enterprise resource planning for Finance, Supply, Human Resources, Real Property and Asset Management, Field Operations), complemented by various integrated sub-systems such as CLASS, M4, GIS, MAP, etc.

## ***Key Findings***

### **1. Financial Control Effectiveness**

To ensure its adequacy and increase its reliance, ownership and accountability for the internal control process needs to be clearly assigned.

A coordinated financial management control framework helps to mitigate risks, ensure that control procedures are firmly entrenched in the organization, and that the processes are repeatable and sustainable. This is a fundamental requirement in demonstrating mature financial management capabilities. According to the Office of the Auditor General of Canada regarding financial management capabilities:

*The lack of repeatable, sustainable practices of financial management and control means that any data produced may not be complete, accurate or reliable. Similarly, without an adequate control framework, assets may not be adequately protected or resources adequately controlled.<sup>1</sup>*

The effectiveness of financial controls should be supported by established, clear and complete processes that require that control procedures have been consistently carried out. To sustain its effectiveness, a financial control framework should continually be documented, re-assessed and communicated. We found that there were numerous instances where there was insufficient evidence of control procedures having been carried out and there is a lack of documentation of the City's financial processes. Financial controls were also found to be inconsistent across FSUs. 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.

### **1.1 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.

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<sup>1</sup> Financial Management Capability Model published by the Office of the Auditor General of Canada, 1999.

### **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.**

#### **Management Response**

Included in the overall management response.

### **1.2 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.

### **Recommendation 2**

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

#### **Management Response**

Included in the overall management response.

### **1.3 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.

### **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.**

#### **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.

#### **1.4 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.

#### **Recommendation 4**

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

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

#### **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.

#### **1.5 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 duplicate 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.

### **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.**

#### **Management Response**

Included in the overall management response.

## **2. 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.

### **2.1 Consistency of FSUs Control Procedures**

In our review of the various FSUs Portfolio Units, we noted that the execution of control procedures was often completed but inconsistent.

### **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.

### **Management Response**

Included in the overall management response.

## **2.2 Consistency in Range and Level of Services and of FSUs 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.

### **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.**

### **Management Response**

Included in the overall management response.

## **3. 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.

### **3.1 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.

### **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.**

### **Management Response**

Included in the overall management response.

## **4. 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.

### **4.1 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 of potential segregation of duties issues 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.

### **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.**

#### **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.

## **4.2 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<sup>2</sup>;
- Invoices could be processed twice for payment;

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<sup>2</sup> The system in which all registrations for each program is entered, and subsequently uploaded into SAP

- 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.

### **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.**

### **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

### **4.3 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.

#### **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.**

#### **Management Response**

Included in the overall management response.

### **Recommendations Arising from the Detailed Report**

The following provides a summary of the specific recommendations as well as management responses resulting from the detailed audit work. The full discussions

relating to these can be found in the detailed audit report, section 5 - Detailed Findings and Recommendations.

## **5.1 Revenue Stream - Parks and Recreation Branch – Sportfields and Arena Rentals**

### **5.1.1 Control Access**

#### **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.**

#### **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.

### **5.1.2 Contracts Verification**

#### **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.**

#### **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.

## **5.2 Revenue Stream - Parks and Recreation Branch – Sportfields, Registrations and Summer Camp**

### **5.2.1 Pricing**

#### **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.**

#### **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.

### **5.2.2 Cash Deposits**

#### **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.**

#### **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.

### 5.2.3 Refunds

#### **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 predetermine percentage of CLASS refunds.

#### **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.

## 5.2.4 Accounts Receivable Balances

### **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.**

#### **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.

## 5.2.5 Pricing Review

### **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.**

#### **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.

## 5.3 Procurement and Disbursement Process

### 5.3.1 Posting of Duplicate Invoices

#### **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.**

### **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.

## **5.3.2 Three Way Match (Purchase Order – Goods Receipt – Invoice)**

### **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.**

### **Management Response**

Included in the overall management response.

## **5.3.3 Invoice Authorization**

### **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.**

### **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.

### **5.3.4 Three Way Match Exception Reports**

#### **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.**

### **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.

### 5.3.5 Printing of Daily and Weekly Cheques

#### **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.

#### **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 create 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.

### 5.3.6 Physical Cheque Log

#### **Recommendation 24**

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

#### **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.

### **5.3.7 Daily and Weekly Cheques**

#### **Recommendation 25**

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

#### **Management Response**

Management agrees with this recommendation.

This recommendation will be implemented in Q2 2007.

### **5.3.8 Print Shop Segregation of Duties**

#### **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 orders and receives the cheques.**

#### **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 manufactures.

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.

### **5.3.9 Supply Management Division Review**

#### **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.

#### **Management Response**

Included in the overall management response.

## **5.4 Payroll**

### **5.4.1 Request for Personnel Action (RPA) form - Approval Authority**

#### **Recommendation 28**

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

#### **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.

### **5.4.2 Signed Employment Offer Letter**

#### **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.

#### **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.

### **5.4.3 Review of Incumbent Report**

#### **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.**

#### **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.

### **5.4.4 "Maintain" Access to Employee Master Data**

#### **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.

#### **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.

#### **5.4.5 Options to Override**

##### **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.**

##### **Management Response**

(a) Management does not agree with this recommendation.

Management believes that 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.

#### **5.4.6 Time Report Summarization – Segregation of Duties**

##### **Recommendation 33**

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

##### **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.

#### **5.4.7 Time Report Entry**

##### **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.**

##### **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.

#### **5.4.8 Annual (Vacation) Leave Bank**

##### **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.**

##### **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:

- Accumulated vacation credits for employees in the current year as per the terms and conditions of employment and collective agreements
- Carry-forward of vacation credits by employees from prior years in keeping with the terms and conditions of employment and collective agreements
- 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.

#### **5.4.9 Review of Cost Centres**

##### **Recommendation 36**

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

##### **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.

#### **5.4.10 On-Demand Cheques**

##### **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.**

##### **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.

#### **5.5 Effectiveness of the Financial Support Units**

##### **5.5.1 Verification of delegation of authorities - Real Property Asset Management**

##### **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.**

##### **Management Response**

Included in the overall management response.

## 5.6 Corporate Financial Management System (SAP) Data Analysis

### 5.6.1 Revenue Stream Analysis

#### **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.

#### **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.

### 5.6.2 Disbursement Analysis

#### **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.

#### **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.

### ***Conclusion***

At amalgamation, the City was presented with the task of consolidating the former 12 municipalities various systems into one integrated financial control environment. Centres of expertise, such as Financial Support Units were created in recognition of the City's need to centralize its expert knowledge and specializations to ensure consistent levels of support services were being provided and received across the Corporation. Although conceptually a sound idea, we find that further improvement is needed to support management's achievement of this goal.

The City's endeavours also fell short by not clearly developing a financial control framework or assigning the oversight for the financial control environment. In our opinion, we can only benefit from strengthened controls in this key area. "One voice" could communicate and uphold its existing and new controls and ensure that we remain compliant with policies and operating procedures relating to financial management.

FSUs play a pivotal role in the City's financial control environment. Clearly the lack of oversight result in inconsistency of financial practices and procedures throughout the Corporation - hence a fragmented framework. We could find no clear Corporate direction or understanding of their roles and responsibility. While FSUs have taken great stride to meet their clients' needs, we have observed that they still required improvement in terms of consistency of internal financial control, as well as compliance with policy and procedures. As a first step, one stringent set of guidelines and

procedures, for all FSUs to adhere to, need to be established, communicated, continually reviewed and clearly documented.

We found the role and responsibility of Accounting and Reporting Division in respect to the financial control environment to be limited. Improvements in terms of guidance and greater monitoring and regular compliance reviews of actual disbursements, revenues, operating performance and cash flows would strengthen controls.

The City has made great progress by investing in a state of the art financial system. In our opinion, challenges still exist in relation to the utilization of its full functionalities. The City still lacks a full financial control environment on which the external auditor could rely on while conducting the statutory attest audit.

In summary, we found a lack of an overall financial control environment, which is critical when trying to set an atmosphere conducive to effective management operations in conjunction with the sound operations of a reliable financial system.

Some of the weaknesses of the City's management control environment were also raised in the Office of the Auditor General's 2005 Audit of the Management Control Framework. We found that during 2006, management had not taken action, which they had agreed to, to resolve the significant issues raised in this audit. Management had agreed to implement the 2005 audit's recommendations at no additional cost. We understand that it is management intent to seek third-party independent advice in 2007 at a cost of \$100,000 to develop an effective internal control framework for the City.

We have attached as Appendix 2 of the detailed audit report contained in the Auditor General's Annual Report, an excerpt of our observation and recommendation as well as management's response relating to our 2005 work on the Financial Management Control Framework.

In our opinion, all recommendations contained in this report can be implemented without the requirement for additional funds. However, this may require strategic redeployment of existing resources, both financial and staff.

### **Acknowledgement**

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

## **SOMMAIRE**

### ***Introduction***

La vérification de l'environnement de contrôle financier faisait partie du plan de vérification de 2006 qui a été proposé par le vérificateur général de la Ville et reçu par le Conseil municipal le 15 décembre 2004.

### ***Contexte***

La Ville d'Ottawa est une vaste organisation qui compte 4 services principaux appuyés par 10 Unités du soutien financier (USF). Elle a un effectif de plus de 12 000 équivalents temps plein (ETP). De ce nombre, 345 postes relèvent directement du directeur des Services financiers et du trésorier municipal (en excluant 140 employés de la Gestion de l'approvisionnement).

Dans le budget de fonctionnement de 2005, les dépenses de fonctionnement de la Ville d'Ottawa s'élevaient à environ 2,1 milliards de dollars.

Le budget des immobilisations approuvé pour 2005 se chiffrait à 612,3 millions de dollars.

Les contrôles financiers internes de la Ville jouent un rôle essentiel en ce qui a trait à l'efficacité de ses opérations et à la responsabilisation.

La vérification a porté sur les contrôles financiers internes en vigueur durant l'exercice 2006. Les données de 2005 et 2006 furent utilisées pour fin d'analyse.

### ***Objectifs de la vérification***

Les objectifs de la vérification étaient les suivants :

- Établir si les processus choisis comprennent des contrôles financiers adéquats;
- Établir le rôle et l'efficacité des Unités du soutien financier;
- Établir le rôle et l'efficacité de la Division de la comptabilité et des rapports en ce qui concerne les processus examinés;
- Évaluer l'utilisation des systèmes financiers (outils de gestion et de production de rapports).

Au début de la présente vérification, le chef des Services généraux a donné son accord quant aux objectifs fixés pour la vérification. Il comptait élaborer un plan de travail pour améliorer le cadre de contrôle financier de la Ville en tenant compte des questions soulevées pendant la vérification.

### ***Critères de la vérification***

- Établir s'il existe des contrôles financiers adéquats pour les processus vérifiés.
- Établir s'il existe des possibilités de détecter et de réduire les risques dus aux faiblesses des processus et du contrôle, mis en évidence par l'analyse des données sur les décaissements et les recettes.
- Établir le rôle et l'efficacité des Unités du soutien financier et de la Division de la comptabilité et des rapports en ce qui concerne les processus vérifiés.
- Évaluer l'utilisation des systèmes financiers (outils de gestion et de production de rapports).

### ***Étendue de la vérification***

Afin d'évaluer l'environnement de contrôle financier en vigueur en 2006, un échantillon représentatif des processus employés par les USF a été vérifié. Les USF ont été sélectionnées en fonction de la valeur monétaire des opérations et de l'éventail des types d'opérations pertinents à chaque USF.

Le Système de gestion financière de la Ville est composé du SAP (planification des ressources de l'entreprise (PRE) pour les Finances, l'Approvisionnement, les Ressources humaines, la Gestion des biens immobiliers, Opérations sur le terrain), auquel viennent s'ajouter divers sous-systèmes intégrés tels que CLASS, M4, SIG/MAP, etc.

### ***Principales constatations***

#### **1. Efficacité des contrôles financiers**

Afin de s'assurer de son caractère adéquat et de pouvoir accroître sa fiabilité, l'appartenance et la responsabilisation concernant le processus de contrôle interne doivent être clairement attribuées.

Un cadre de contrôle de la gestion financière coordonné permet d'atténuer les risques et assure que les procédures de contrôle sont solidement intégrées dans l'organisation et que les processus peuvent se répéter et durer. Il s'agit d'une exigence fondamentale en vue de démontrer la capacité développée de gestion financière. Le Bureau du vérificateur général du Canada indique au sujet de la capacité de gestion financière :

*L'absence de pratiques de gestion et de contrôle financiers qui puissent se répéter et durer veut dire que toute donnée produite peut ne pas être complète, exacte ou fiable. De même, sans un cadre de contrôle adéquat, les actifs peuvent ne pas être protégés convenablement et les ressources peuvent ne pas être contrôlées adéquatement<sup>3</sup>.*

L'efficacité des contrôles financiers devrait être fondée sur des processus établis, clairs et complets qui réclament une application constante des procédures de contrôle. Pour maintenir son efficacité, un cadre de contrôle financier devrait être documenté, réévalué et communiqué aux intéressés de façon continue. Nous avons constaté, dans de nombreux cas, qu'il n'existait pas de preuve suffisante d'application des procédures de contrôle et que les processus financiers de la Ville n'étaient pas suffisamment documentés. Nous avons également constaté que les contrôles financiers n'étaient pas uniformes d'une USF à l'autre. Notre examen du Système de gestion financière de la Ville (SAP) a révélé des lacunes importantes au niveau de la capacité d'accès au système. Nous sommes d'avis que le système de contrôle financier de la Ville d'Ottawa comporte des lacunes importantes.

De plus, les vérificateurs externes n'ont pas pu se fier à plusieurs des contrôles financiers de la Ville et, ils ont donc adopté une stratégie de corroboration pour leur vérification légale. Une vérification qui s'appuie sur les contrôles serait probablement plus efficace et permettrait d'exécuter la vérification légale dans des délais plus acceptables.

### **1.1 Documentation des processus**

Nous avons constaté que, de façon générale, il n'y avait pas suffisamment de processus établis, officiels ou non, de documentation ou de directives sur les procédures à suivre pour le traitement des opérations financières. Obtenir des politiques et des procédures à jour de certaines USF relevait souvent du défi. Par exemple, une USF a été incapable de fournir de la documentation adéquate et à jour sur la délégation de pouvoirs. Le seul document qui nous a été remis était un courriel datant de 2003, dont le directeur concerné avait reçu copie.

Nous avons noté que, pour ce qui est du processus relatif aux cartes d'achats, l'uniformité d'utilisation par la Ville et la documentation étaient satisfaisantes. Nous avons constaté qu'une procédure claire et officielle est en vigueur et est suivie de façon assez constante par toutes les USF et tous les services connexes. Des contrôles de détection sont également en place depuis que la Section des politiques et de la conformité effectue fréquemment des vérifications de ce processus. De telles politiques et une telle conformité devraient exister pour tous les processus.

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<sup>3</sup> Modèle de la capacité de gestion financière, publié par le vérificateur général du Canada, 1999.

### **Recommandation 1**

Que la Direction des services financiers établisse des processus financiers et qu'elle les documente et les examine de façon continue avec l'aide du personnel des différentes USF et d'autres groupes des services financiers. Ces mesures renforceraient l'obligation de se conformer aux procédures de contrôle attendues et offriraient des références claires pour assurer l'efficacité des contrôles.

#### **Réponse de la direction**

Incluse à la réponse globale de la direction.

### **1.2 Preuve des procédures d'examen ou de contrôle**

Nous avons noté de nombreuses situations où il n'existait aucune preuve que les procédures de contrôle requises avaient été appliquées. Dans bien des cas, seulement une signature attestant que l'approbation avait été donnée ou que l'examen avait été effectué aurait été nécessaire. Dans d'autres cas, le rapport ou la feuille de travail ayant fait l'objet d'une analyse ou d'un rapprochement aurait dû être conservée. En l'absence de telles preuves, il est difficile de conclure que les procédures de contrôle interne sont efficaces.

### **Recommandation 2**

Que la Direction des services financiers s'assure que l'examen, l'approbation et les autres procédures de contrôle sont clairement attestés au moyen de signatures ou de documents pertinents.

#### **Réponse de la direction**

Incluse à la réponse globale de la direction.

### **1.3 Descriptions d'emploi ou de tâches**

Nous avons constaté que bien des employés, soit parce qu'ils étaient nouveaux, soit parce qu'ils en remplaçaient d'autres, ne comprenaient pas bien les exigences de leur poste. Souvent, nous n'avons pas trouvé de descriptions d'emploi ou de tâches détaillées auxquelles les nouveaux employés ou les employés temporaires auraient pu se référer, ce qui fait que l'on a souvent recours à l'expertise professionnelle (voir la section 1.4), et qu'on encourt le risque que les procédures ne soient ni uniformes ni appropriées.

### **Recommandation 3**

Que la Direction des services financiers, en collaboration avec la Direction des services aux employés, s'assure que des descriptions de tâches et d'emploi détaillées sont rédigées dans le cadre de la documentation des processus, pour étayer la formation des employés des finances et leur servir de référence.

### **Réponse de la direction**

La direction n'est pas d'accord avec pas cette recommandation.

La pratique actuelle de la Ville consiste à rédiger des descriptions d'emploi traduisant les compétences, les connaissances, les qualifications professionnelles et l'expérience requises pour les postes et à dresser la liste des principales tâches qui incombent aux titulaires. Il s'agit d'une pratique utile pour la Ville en ce qui a trait aux postes ayant des titulaires multiples, et pour lesquels une seule description générique de travail est nécessaire. La Direction des services financiers tentera plutôt d'améliorer les descriptions de processus détaillées.

## **1.4 Qualifications et formation du personnel**

Seulement 22 des 345 employés (à l'exception de la Division de la gestion de l'approvisionnement) de la Direction des services financiers sont détenteurs d'un titre professionnel comptable. En l'absence de processus officiels et officieux, un plus grand nombre de personnes détentrices d'un titre professionnel comptable accroîtrait la confiance dans l'efficacité et le caractère adéquat de l'environnement financier, et fournirait au personnel des lignes directrices lorsqu'il n'y a pas de procédures.

### **Recommandation 4**

**(a) Que la Direction des services financiers offre une formation spécifique en finances et en comptabilité et encourage le personnel des finances à la suivre.**

**(b) Que la Direction des services financiers détermine un nombre approprié de postes exigeant un titre professionnel comptable.**

### **Réponse de la direction**

(a) Incluse à la réponse globale de la direction.

(b) La direction n'est pas d'accord avec pas cette recommandation.

La direction est d'avis que la Division de la comptabilité et des rapports et les Unités de soutien financier de la Direction des services financiers comprend un nombre approprié d'employé détenant un titre professionnel comptable. Dans ces groupes d'employés, on dénombre 18 comptables professionnels sur un total de 62 employés, soit un ratio de presque 1 pour 3.

On a examiné tous les postes de la Direction des services financiers quant à la nécessité de détention d'un titre professionnel comptable à la suite de la fusion. La Direction continuera de déterminer les compétences et habiletés requises chez son personnel, notamment la nécessité de posséder un titre professionnel comptable, à mesure qu'elle créera de nouveaux postes, et que les exigences évolueront en réponse aux besoins émergents. La direction est d'avis qu'il est plus approprié d'examiner le nombre de comptables professionnels de l'IPPM et des groupes de direction des USF

ainsi que de la Division de la comptabilité et des rapports de la Direction des services financiers.

### **1.5 Analyse des données sur les décaissements et les recettes**

Nous avons effectué des analyses des données et des rapports de tendances détaillés, ce qui nous a permis d'étudier les opérations inhabituelles dans les décaissements et les recettes.

À la lecture de ces rapports, nous avons pu établir que :

- sur un échantillon de 279 écritures comptable, 19 étaient des paiements effectués en double, pour un total de 9 064 \$;
- 5 606 factures, représentant un montant de 23,6 millions de dollars, avaient possiblement été datées avant la date du bon de commande. À titre de test, nous avons examiné un échantillon de 50 factures pour déterminer si la date de facturation avait été entrée correctement. Notre examen a révélé que dans 98 p. 100 des cas, la date de la facture précédait celle du bon de commande. Cette procédure n'est pas conforme aux pratiques d'approvisionnement normalisées qui exigent qu'un bon de commande soit établi avant la passation de commande, la réception des marchandises ou paiement pour tout achat;
- contrairement à la pratique généralement reconnue consistant à payer les factures seulement 30 jours après leur émission, 186 476 décaissements, représentant un montant de 499 millions de dollars, pourraient avoir été payés avant la fin de cette période. Nous estimons que le manque à gagner en revenus d'intérêts s'élève à environ 291 000 \$. Le Bureau du vérificateur général envisage d'effectuer une vérification de la fonction de trésorerie de la Ville.

#### **Recommandation 5**

**Que la Direction des services financiers effectue une vérification périodique des décaissements en portant une attention particulière à ceux qui ne semblent pas conformes aux politiques et aux pratiques opérationnelles de la Ville.**

#### **Réponse de la direction**

Incluse à la réponse globale de la direction.

## **2. Rôles et efficacité des Unités du soutien financier**

Nous avons constaté que les Unités du soutien financier s'efforcent de répondre aux besoins de leurs services clients. Cependant, leurs pratiques et leurs procédures ne sont pas uniformes et ne sont pas documentées correctement. Aucune division ni aucune direction ne semble exercer une surveillance de toutes les USF. Sans surveillance, il est

peu probable que l'efficacité et l'uniformité de toutes les USF puissent être vérifiées de façon adéquate.

## **2.1 Uniformité des procédures de contrôle des USF**

Au cours de notre examen des différentes Unités de portefeuille des USF, nous avons remarqué que les procédures de contrôle étaient en général appliquées, mais qu'elles n'étaient pas uniformes.

### **Recommandation 6**

**Que la Direction des services financiers s'assure que des directives sont élaborées dans le cadre du contrôle financier de la Ville afin d'assurer que les USF appliquent des procédures de contrôle uniformes.**

**Que la Direction des services financiers s'assure, dans les rares cas où les procédures de contrôle interne doivent différer d'une USF à l'autre, que ces procédures sont fondées sur une évaluation des risques et sont clairement documentées et communiquées aux intéressés. Les unités ou les divisions qui dépendent des contrôles des USF devraient avoir une très bonne compréhension des processus de contrôle interne.**

### **Réponse de la direction**

Incluse à la réponse globale de la direction.

## **2.2 Uniformité de l'étendue et du niveau de services et des rôles et responsabilités des USF**

Au cours des travaux qu'il a effectués en 2005 et 2006, le Bureau du vérificateur général a relevé plusieurs cas où le travail des USF ne répondait pas aux attentes en matière de prestation des services, dans des secteurs tels que l'uniformité des pratiques, l'application des règles et le niveau de participation dans l'application des contrôles et des processus. Bien qu'il y ait des ententes de niveau de services entre les centres d'expertise et les services clients, celles-ci sont obsolètes ou ne sont pas appliquées. Dans la pratique, le niveau de service fourni par les USF varie de façon importante.

### **Recommandation 7**

**Que la Direction des services financiers examine toutes les pratiques utilisées par les USF de façon à élaborer un ensemble de directives et de procédures rigoureuses que toutes les USF devront observer.**

**Que, dans son cadre de contrôle de la gestion financière, la Direction des services financiers définisse clairement, documente et fasse connaître le rôle et les responsabilités des USF.**

### **Réponse de la direction**

Incluse à la réponse globale de la direction.

## **3. Rôle et efficacité de la Division de la comptabilité et des rapports**

Nous avons constaté que la Division de la comptabilité et des rapports de la Direction des services financiers joue un rôle limité dans la surveillance de la conformité aux contrôles financiers de la Ville. En outre, aucune division ou unité de la Direction des services financiers n'a été chargée de la surveillance de la maintenance de systèmes de contrôle interne adéquats, ce qui va à l'encontre des pratiques acceptables dans des organisations de la taille de la Ville d'Ottawa engagées dans des activités financières comparables aux siennes.

### **3.1 Division de la comptabilité et des rapports**

Nous avons constaté que les USF ne comprennent pas bien le rôle de la Division de la comptabilité et des rapports. Plus important encore, aucune division au sein de la Direction des services financiers n'est responsable de façon générale de la surveillance de l'efficacité d'un système de contrôle interne adéquat et de sa conformité, ce qui est contraire aux normes acceptables (c.-à-d. minimales) dans les organisations de la taille de la Ville d'Ottawa engagées dans des activités financières comparables aux siennes. On peut s'attendre à ce que le fait de confier la responsabilité du cadre de contrôle financier à une division en particulier renforce et simplifie les procédures.

Cette situation expose la Ville à des risques de pertes financières inacceptables dues à d'éventuelles fraudes ou erreurs comptables.

### **Recommandation 8**

**Que la Direction des services financiers confie de manière générale la responsabilité de la surveillance des contrôles financiers de la Ville à la Division de la comptabilité et des rapports ou à une autre division de la Direction.**

**Que la Division de la comptabilité et des rapports élabore et mette en œuvre des procédures financières qui comprendraient l'examen d'un pourcentage prédéterminé de factures et d'autres instruments financiers de façon continue.**

### **Réponse de la direction**

Incluse à la réponse globale de la direction.

## **4. Utilisation des systèmes financiers (outils de gestion et de production de rapports)**

Nous avons constaté que le Système de gestion financière de la Ville d'Ottawa (SAP) et les sous-systèmes connexes (p. ex., le système d'inscription au programme récréatif et de réservation des installations CLASS) ne sont pas utilisés suffisamment aux fins des

contrôles financiers, ce qui tient à une surveillance inadéquate de l'accès aux systèmes et au contournement ou remplacement des contrôles programmés. Nous avons également trouvé des exemples où les fonctionnalités du système n'étaient pas exploitées au maximum et où l'information était téléchargée dans des tableaux pour effectuer des fonctions manuellement qui pourraient probablement être traitées par le Système de gestion financière de la Ville (SAP). La Ville d'Ottawa ne profite donc pas de tous les avantages de l'investissement important qu'elle a fait dans ses systèmes financiers.

#### **4.1 Responsabilités incompatibles et séparation des responsabilités**

Notre examen des données sur l'accès des utilisateurs au Système de gestion financière de la Ville (SAP) nous a permis de déterminer quels employés de la Ville avaient la capacité d'effectuer des opérations délicates ou des opérations incompatibles. Grâce à cette information, nous avons détecté de nombreux problèmes potentiels de séparation des responsabilités.

Voici quelques exemples de problèmes potentiels de séparation des responsabilités :

- Au moins 24 utilisateurs ont actuellement la possibilité de créer un bon de commande et de l'autoriser, d'inscrire une facture et des reçus de marchandises contre un bon de commande, de créer les renseignements relatifs à un chèque et d'inscrire un paiement sortant;
- Au moins 25 utilisateurs ont la capacité de créer un fournisseur, d'inscrire les factures, de créer les renseignements relatifs à un chèque et d'inscrire des paiements sortants;
- Au moins 11 utilisateurs ont la capacité de créer un client et une commande client, d'annuler un document de facturation, d'inscrire des paiements et d'entrer une note de crédit d'un client;
- Au moins 52 utilisateurs ont la capacité de créer un bon de commande, d'inscrire un reçu de marchandises et de modifier les listes d'inventaires.

#### **Recommandation 9**

**Que la Direction des services financiers examine l'autorisation actuelle des utilisateurs du Système de gestion financière de la Ville (SAP) relativement aux responsabilités incompatibles, qu'elle modifie l'accès au besoin et que les examens soient effectués de façon périodique.**

#### **Réponse de la direction**

La direction est d'accord avec cette recommandation.

Le vérificateur général a remarqué que 25 utilisateurs détiennent l'autorisation de créer un fournisseur, d'inscrire une facture, de créer des renseignements relatifs à un

chèque et d'inscrire des paiements. Parmi ces 25 utilisateurs, on compte 3 membres du personnel opérationnel et 22 membres du personnel des STI. La direction est au courant de l'attribution de ces responsabilités au personnel opérationnel. Dans ce cas, le directeur de la Division de la comptabilité et des rapports a autorisé par écrit ces membres du personnel opérationnel à accéder au système afin de répondre aux exigences opérationnelles. Par ailleurs, le personnel des STI utilise son accès pour offrir un soutien aux utilisateurs, répondre aux appels de la ligne d'assistance et examiner les problèmes signalés. Les STI se livreront à un examen du nombre d'employés ayant accès au système et appliqueront la même norme de diligence pour les fonctions incompatibles, même si ces employés ne mettent pas à jour les données et les opérations dans un contexte de production. L'examen commencera au deuxième trimestre de 2007.

#### **4.2 Contournements des contrôles des applications du Système de gestion financière (SAP) de la Ville**

Durant notre revue générale des opérations du Système de gestion financière (SAP) de la Ville, nous avons constaté que des contournements importants étaient permis et que les fonctionnalités automatisées de contrôle interne du SAP n'étaient pas entièrement utilisées. Voici ce que nous avons observé :

- Le Système de gestion financière de la Ville (SAP) permettait le contournement des prix provenant du système d'inscription au programme récréatif et de réservation des installations CLASS<sup>4</sup>;
- Les factures pouvaient être traitées pour paiement deux fois;
- L'impression des chèques du système de gestion financière de la Ville (SAP) pouvait se faire plus d'une fois;
- Le nombre de jours de congé de maladie pris peut dépasser ce qui est autorisé (p. ex., du 1<sup>er</sup> janvier au 31 décembre 2006, 724 employés (42 de l'IPPM et 682 de la section locale 503 du SCFP (intérieur/extérieur) ont pris au total 5 587 jours de congé de maladie non certifiés au-delà de la limite permise par leurs conventions collectives respectives, ce qui, en fonction des taux de rémunération des employés de décembre 2006, représente un coût d'environ 1 094 000 \$);
- Les crédits de congés annuels pouvaient être accumulés au-delà de la limite de report permise. Nous avons constaté que 1 713 employés ont reporté des congés annuels au-delà des limites maximales permises, ce qui représente un coût de 6,8 millions de dollars;
- Les contrôles des augmentations d'échelon de paie pouvaient être contournés.

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<sup>4</sup> Le système dans lequel toutes les inscriptions à chaque programme sont inscrites avant d'être téléchargées dans le SAP.

Nous avons également noté des cas où un employé, sans y être autorisé, pouvait naviguer dans certains écrans du Système de gestion financière de la Ville (SAP) et contourner les limites imposées.

En juillet 2004, au moment où il prenait connaissance des états financiers consolidés vérifiés de la Ville d'Ottawa de 2003, le Conseil a posé des questions au sujet de problèmes liés à la séparation des responsabilités et à la résistance des contrôles d'accès au Système de gestion financière de la Ville (SAP). À ce moment-là, la direction avait indiqué qu'un examen approfondi des contrôles serait entrepris. Nous n'avons pas trouvé les résultats de cet examen au cours de notre vérification.

### **Recommandation 10**

**Que la Direction des services financiers, en collaboration avec la Direction des services de la technologie de l'information, examine la conception des systèmes pour mettre en œuvre des contrôles qui ne permettront pas le contournement des contrôles des prix, le traitement en double, la prise de congés de maladie en sus de la limite permise, etc. Il est aussi recommandé que l'on effectue régulièrement des examens afin de confirmer que les possibilités de contournement jugées nécessaires sont adéquates et dûment approuvées.**

### **Réponse de la direction**

La direction n'est pas d'accord avec cette recommandation.

Certaines exigences opérationnelles nécessitent de contourner les processus normalisés. La direction comprend que cela soulève des risques supplémentaires, mais elle a mis en place des contrôles compensatoires afin d'atténuer ces risques. Par exemple, afin de débloquer une retenue de garantie, le système nécessite qu'une modification au document d'autorisation soit apportée. Sans cette capacité de contournement, il n'est pas possible de débloquer une retenue. Les contrôles compensatoires relèvent que seul le superviseur, Comptes créditeurs a la capacité de modifier les documents et que chaque contournement doit être documenté. Le système génère un rapport de tout les contournements pour examen par les gestionnaires afin que ceux-ci puissent les comparer à une liste maîtresse tenue à jour par le superviseur, Comptes créditeurs. Ce type de contrôles compensatoires existe pour tout contournement du système. Les commentaires particuliers de la direction concernant les constatations de la vérification sont les suivants :

- a. Contournement des contrôles dans le SAP – Aucune fonctionnalité de cette nature n'existe dans le SAP. CLASS est un programme autonome relié au SAP au moyen d'un fichier d'interface. Les renseignements relatifs aux prix ne figurent pas dans le SAP, et les contournements des contrôles des prix ne sont donc pas possibles.

- b. Paiement de factures en double – Consulter la réponse de la direction à la partie 5.3.1
- c. Impression de chèques – Consulter la réponse de la direction à la partie 5.3.5
- d. Congés de maladie – Consulter la réponse de la direction à la partie 5.4.5
- e. Congés annuels – Consulter la réponse de la direction à la partie 5.4.8
- f. Taux de rémunération – Consulter la réponse de la direction à la partie 5.4.5

#### **4.3 Utilisation du Système de gestion financière de la Ville (SAP)**

Nous avons constaté que plusieurs USF utilisaient des logiciels, en plus du Système de gestion financière de la Ville (SAP), pour préparer leurs rapports, particulièrement dans les cas où les USF effectuaient différents rapprochements ou avaient à préparer des rapports précis.

Cette situation est le résultat d'une conception inadéquate du système ou d'un manque de formation (ou d'une mauvaise formation) des utilisateurs, ce qui, en fin de compte, neutralise les fonctionnalités du Système de gestion financière de la Ville (SAP). L'utilisation de toutes les fonctionnalités du SAP lors de la production des rapports augmenterait la confiance dans l'exactitude des données, limiterait les erreurs humaines durant le téléchargement des données et serait sans doute plus efficace et moins coûteuse.

#### **Recommandation 11**

**Que la Direction des services financiers, en collaboration avec la Direction des services de la technologie de l'information, analyse et modifie les fonctions de conception et de rapport du Système de gestion financière de la Ville (SAP) pour mieux répondre aux besoins des USF et des autres utilisateurs.**

**Que la Direction des services financiers en collaboration avec la Direction des services de la technologie de l'information, élabore et offre une formation « avancée » sur le Système de gestion financière de la Ville (SAP) pour améliorer les compétences du personnel.**

#### **Réponse de la direction**

Incluse à la réponse globale de la direction.

#### **Recommandations découlant du rapport détaillé**

Les paragraphes qui suivent constituent un sommaire des recommandations précises de même que des réponses données par la direction à la suite de la vérification détaillée. Les comptes rendus complets à ce sujet sont contenus dans le rapport de vérification détaillé, à la section 5 – Constatations détaillées et recommandations.

## **5.1 Recettes – Direction des parcs et des loisirs – Location des terrains de sport et des arénas**

### **5.1.1 Contrôle de l'accès**

#### **Recommandation 12**

Que la Direction des services financiers, en collaboration avec la Direction des services de la technologie de l'information, limite le niveau d'accès au système CLASS aux personnes qui doivent y avoir accès pour effectuer leur travail et qui ont le niveau d'autorisation approprié, et donne un accès en lecture seule à ceux qui n'ont pas à faire des changements, ou qui n'ont pas l'autorisation de le faire, dans les modules des terrains de sport et des arénas du CLASS.

#### **Réponse de la direction**

La direction est d'accord avec cette recommandation, à laquelle elle a déjà donné suite.

Les Services financiers et les Services de la technologie de l'information poursuivront leurs travaux en partenariat avec la Direction des parcs et des loisirs en tant que propriétaire du processus opérationnel de l'application CLASS, afin de s'assurer du caractère adéquat des contrôles internes, et ce, de manière constante.

Pour ce faire, les superviseurs et les gestionnaires des installations attribueront le profil de sécurité approprié à leurs employés.

### **5.1.2 Vérification des contrats**

#### **Recommandation 13**

Que la Direction des services financiers, en collaboration avec la Direction des parcs et des loisirs, demande que l'examen des contrats ouverts devienne un processus officiel exigeant des rapports imprimés et signés par les gestionnaires de secteur. Le suivi devrait être documenté dans les rapports étayant l'analyse et le travail effectué, ce qui permettra d'assurer que les recettes appropriées sont comptabilisées en temps opportun.

#### **Réponse de la direction**

La direction est d'accord avec la recommandation.

La Direction des services financiers, en collaboration avec la Direction des parcs et des loisirs, élaborera un processus officiel de signature du rapport de contrôle de la location d'ici le troisième trimestre de 2007.

## **5.2 Recettes – Direction des parcs et des loisirs – Terrains de sport, inscriptions et camps d'été**

### **5.2.1 Établissement des prix**

#### **Recommandation 14**

**Que la Direction des services financiers, en collaboration avec la Direction des services de la technologie de l'information, examine la conception du système CLASS afin d'empêcher les contournements et afin que les changements de prix ne soient permis que par approbation du superviseur et qu'ils soient effectués séparément de façon à différencier les ventes au prix courant et les rabais ou les autres modifications.**

#### **Réponse de la direction**

La direction est d'accord avec la recommandation.

Les Services financiers et les Services de la technologie de l'information poursuivront leurs travaux en partenariat avec la Direction des parcs et des loisirs, en tant que propriétaire du processus opérationnel de l'application CLASS, afin de s'assurer du caractère adéquat des contrôles internes.

En 2006, la direction a examiné et réduit les capacités de contournement des contrôles des prix, au moyen du contrôle du groupe de sécurité du module d'inscription au programme CLASS. Un examen supplémentaire d'autres modules du CLASS sera réalisé d'ici le troisième trimestre de 2007, dans le but de déterminer d'autres domaines où ces contrôles pourraient être resserrés davantage.

### **5.2.2 Dépôts en espèces**

#### **Recommandation 15**

**Que la Direction des services financiers, en collaboration avec la Direction des parcs et des loisirs, mette en place une procédure exigeant que, dans la mesure du possible, les dépôts en espèces soient préparés par au moins deux personnes. Même si cette méthode n'élimine pas complètement le risque de collusion, elle diminuera les risques de fraude et de vol.**

#### **Réponse de la direction**

La direction est d'accord avec cette recommandation. Des travaux dans ce sens sont déjà en cours.

Le guide détaillé de la politique de gestion de la trésorerie stipule que dans la mesure du possible, les dépôts en espèces devraient être préparés par plus d'une personne. La Direction des services financiers poursuivra sa collaboration avec la Direction des

parcs et des loisirs dans le but de respecter cette exigence, sauf dans les établissements ou un seul employé travail, conformément au manuel existant. La Direction des services financiers élargira également l'étendue des examens de conformité afin d'y inclure les processus de comptabilisation à l'encaissement et de gestion.

### 5.2.3 Remboursements

#### **Recommandation 16**

(a) Que la Direction des services financiers, en collaboration avec la Direction des parcs et des loisirs, établisse une politique et une procédure de remboursement qui préciseraient les dates limites pour les remboursements complets ou partiels et qui ne dépasseraient pas la date d'achèvement d'un programme.

(b) Que la Direction des services financiers, en collaboration avec la Direction des parcs et des loisirs et la Direction des services de la technologie de l'information, examine la conception du système CLASS afin de refuser des remboursements au-delà de la date d'achèvement d'un programme.

(c) Que la Direction des services financiers établisse une procédure exigeant que l'USF concerné examine un pourcentage prédéterminé des remboursements du CLASS.

#### **Réponse de la direction**

(a) La direction est d'accord avec cette recommandation qui est déjà en place.

La Direction des parcs et des loisirs dispose déjà d'une politique de remboursement qui stipule qu'un remboursement n'est plus autorisé une fois que le programme a été réalisé dans une proportion de 50 p. 100.

(b) La direction n'est pas d'accord avec cette recommandation.

La technologie pour personnaliser le module d'inscription de programme du système CLASS est non disponible. Le système comporte une limitation qui ne permet pas la prévention automatisée d'un remboursement lorsque 50 p. 100 des heures de programme sont écoulées. Au module d'inscription, chaque session d'inscription (printemps, été, automne, hiver) doit être indiquée comme « complété » avant que des remboursements ne puissent plus être effectués. Compte tenu des milliers de programmes à chaque session ayant diverses dates de début et de fin, ceci est une fonction complétée à l'arrière plan par le personnel de soutien CLASS, 30 jours suivant la fin de chaque session. La période d'autorisation susmentionnée est nécessaire pour permettre au personnel d'effectuer le traitement définitif des comptes, après l'annulation de cours, etc.

(c) La direction est d'accord avec cette recommandation.

La Direction des services financiers élargira l'étendue du programme d'examen de la conformité pour y inclure les remboursements du CLASS, si elle détermine que la valeur de ces remboursements excède le coût des ressources supplémentaires nécessaires pour procéder aux examens. Un tel processus donnera également lieu à une évaluation des contrôles compensatoires en place actuellement ou récemment mis en œuvre pour atténuer les risques financiers inhérents aux remboursements. La direction convient de mettre en œuvre cette recommandation mais estime que la charge de travail supplémentaire exigera le recours à une ressource supplémentaire. Préalablement à toute demande de ressources supplémentaires au cours du processus budgétaire de 2008, la Direction s'engage à devancer l'examen de la Direction des services financiers, dans le cadre du Programme d'examen des processus en vigueur dans les directions, pour identifier des économies d'efficience pouvant financer des ressources supplémentaires requises. Le coût estimatif se situe entre 60 000 \$ et 75 000 \$.

#### **5.2.4 Soldes des comptes débiteurs**

##### **Recommandation 17**

**Que la Direction des services financiers, en collaboration avec la Direction des parcs et des loisirs, analyse et examine les soldes des comptes débiteurs en temps opportun et conserve la documentation afin que la Ville puisse faire un suivi et prendre des mesures.**

##### **Réponse de la direction**

La direction est d'accord avec cette recommandation.

En 2006, la Direction des parcs et des loisirs ont mis en place une procédure d'examen trimestriel des soldes impayés des comptes débiteurs relevés dans les rapports produits par le CLASS. En outre, le personnel a reçu des directives claires sur les délais de recouvrement des comptes débiteurs à respecter, et les superviseurs des installations ont entamé leur formation sur la production de rapports.

La Direction des parcs et des loisirs dispose d'une pratique bien établie pour ce qui est du transfert des comptes débiteurs en souffrance à l'Unité des comptes débiteurs, qui a la l'expertise pour recouvrer les créances. Cette pratique est conforme au modèle du Centre d'expertise adopté et mise en œuvre par la Ville au moment de la fusion.

#### **5.2.5 Étude de détermination des prix**

##### **Recommandation 18**

**Que la Direction des services financiers, en collaboration avec la Direction des parcs et des loisirs, conserve les documents concernant l'étude de détermination des prix.**

**Le personnel de soutien devrait conserver la documentation relative à ses constatations afin de s'assurer que les prix sont exacts durant toute l'année et saisis correctement par les programmeurs.**

**Réponse de la direction**

La direction est d'accord avec cette recommandation.

La pratique actuelle de la Direction des parcs et des loisirs consiste à conserver les documents touchant l'étude de détermination des prix. Le processus lié à l'examen du guide requiert que les programmeurs exécutent les formalités d'ouverture et de fermeture de session d'utilisation, autorisent toute modification et confirment l'exactitude des prix en apposant leur signature sur les rapports du guide. Ces derniers sont conservés jusqu'à la publication du nouveau guide.

**5.3 Processus d'achat et de décaissement**

**5.3.1 Enregistrement des factures en double**

**Recommandation 19**

**Que la Direction des services financiers, en collaboration avec la Direction des services de la technologie de l'information, examine la conception du système pour inclure des contrôles qui ne permettent pas les entrées en double et des rapports qui indiquent les écritures en double possibles.**

**Que la Direction des services financiers mette en place des examens plus rigoureux par les USF et un meilleur suivi par l'Unité des comptes créditeurs pour éviter les paiements en double. De plus, un programme d'examen continu, conçu pour détecter le traitement des factures en double, réduirait aussi le risque de paiement en double et servirait de mécanisme en vue des recouvrements. Une approche exhaustive permettrait d'éviter les écritures en double, réduirait les paiements en double et faciliterait les recouvrements en cas de paiement en double.**

**Que la Direction des services financiers recouvre des paiements en double qui représentent un montant de 9 064 \$ et le paiement en trop de 750 \$ mentionnés dans la présente vérification (référer à la section 5.6.2).**

**Réponse de la direction**

La direction n'est pas d'accord avec cette recommandation.

La direction est d'avis que les contrôles internes qui visent à éviter le traitement en double de factures de fournisseur sont appropriés pour gérer de manière rentable les risques de ce type. Le taux d'erreur de cet examen est d'une fraction de moins de 1 p. 100.

Toutefois, comme mesure de prévoyance, la Direction des services financiers évalue le caractère adéquat de l'utilisation du logiciel *Audit Control Language* comme outil de détection des paiements en double. Elle terminera l'examen de son processus de paiement des comptes créditeurs d'ici la fin du quatrième trimestre de 2007.

La Direction des services financiers a recouvert tous les paiements en double signalés dans la recommandation.

### **5.3.2 Triple rapprochement (Bons de commande - reçus de marchandises - facture)**

#### **Recommandation 20**

**Que la Direction des services financiers examine toutes les pratiques utilisées par les USF en vue d'établir pour toutes les USF un ensemble de directives et de procédures rigoureuses comprenant l'utilisation uniforme du triple rapprochement.**

#### **Réponse de la direction**

Incluse à la réponse globale de la direction.

### **5.3.3 Autorisation des factures**

#### **Recommandation 21**

**Que la Direction des services financiers établisse une pratique exigeant que toutes les factures associées à des biens soient signées par le service client pour attester leur réception. Si la facture n'est pas signée, que le personnel des comptes créditeurs la renvoie à l'USF pour la faire approuver rapidement.**

#### **Réponse de la direction**

La direction n'est pas d'accord avec cette recommandation.

Dans le cadre du processus actuellement en usage, les factures de fournisseur sont acheminées directement au service central des comptes créditeurs, dont le personnel compte sur les contrôles intégrés au SAP pour payer les factures pour des biens. Les factures pour des services sont réacheminées aux USF pour approbation et signature des clients.

Il est également important de distinguer les biens figurant à l'inventaire des autres biens. Pour les biens figurant à l'inventaire, la saisie du reçu de biens s'effectue à l'endroit où se trouve l'inventaire, à partir du bordereau d'emballage. Ce dernier est conservé au site de réception. Les contrôles compensatoires consistent, en un système automatisé de gestion des stocks et en un décompte physique des stocks. Pour ce qui est des biens ne figurant pas à l'inventaire, le reçu de biens est saisi par le client ou l'USF à partir d'un bordereau d'emballage, le cas échéant. En l'absence de bordereau

d'emballage, on utilisera une facture. Le bordereau d'emballage est conservé au site de réception.

Les processus susmentionnés mettent à contribution les pratiques exemplaires intégrées au SAP, notamment le processus de triple rapprochement des bons de commande, des reçus de biens et des factures de fournisseur. La direction préfère que tous les reçus de biens soient émis à partir de bordereaux d'emballage et que l'on continue à acheminer toutes les factures de fournisseur au service central des comptes créditeurs. Cette façon de faire réduira au minimum le nombre de factures perdues ou égarées ainsi que les risques d'avoir à payer des frais de retards.

### **5.3.4 Rapports d'état des anomalies décelées par le triple rapprochement**

#### **Recommandation 22**

**Que la Direction des services financiers, en collaboration avec la Direction des services de la technologie de l'information, examine la conception et la configuration du Système de gestion financière de la Ville (SAP) pour refuser les changements d'état de l'opération par toute personne habilitée à traiter le paiement de factures.**

#### **Réponse de la direction**

La direction n'est pas d'accord avec cette recommandation.

Il existe bon nombre de raisons valables justifiant l'autorisation ou la demande de modification de l'état des documents relatifs aux comptes créditeurs, notamment le remboursement d'une retenue de garantie et la modification d'une méthode de paiement.

À la lumière d'un examen des constatations, la direction a déterminé que la situation soulevée par le vérificateur était imputable à une omission. En effet, les employés de la Direction des services financiers de l'un des bureaux de la Ville supprimaient de manière inappropriée les blocages au paiement générés par le système. Toutefois, une enquête approfondie a révélé que leur pratique était attribuable à une faille dans leur formation. La direction a déjà corrigé la situation. Il existe déjà des contrôles compensatoires visant à détecter l'annulation inappropriée de blocages au paiement, et le présent rapport sera désormais examiné régulièrement.

### **5.3.5 Impression quotidienne et hebdomadaire des chèques**

#### **Recommandation 23**

**(a) Que la Direction des services financiers, en collaboration avec la Direction des services de la technologie de l'information, examine la conception et la configuration du Système de gestion financière de la Ville (SAP) pour ne permettre qu'un téléchargement pour les chèques imprimer quotidiennement et hebdomadairement**

du Système de gestion financière de la Ville (SAP) vers l'imprimante, ou au moins exiger une approbation spéciale si le fichier doit être réimprimé.

(b) Que la Direction des services financiers, en conformité à la politique de la Ville qui s'y relie, vérifie et documente tous les cas d'activités frauduleuses, notamment lorsqu'une tentative de fraude échoue et que les chèques sont renvoyés par la banque. En plus, que les cas d'activités frauduleuses soient signalés aux Services de sécurité.

#### **Réponse de la direction**

(a) La direction est d'accord avec cette recommandation.

La direction est d'avis qu'elle possède déjà un contrôle compensatoire, dans son service de comptabilité, pour ce qui est de l'utilisation des formulaires sécurisés employés pour créer des chèques. Toutefois, en vue de la présente recommandation, la direction, en collaboration avec les Services de la technologie de l'information fera un examen des options de conception et de configuration du SAP pour permettre un seul téléchargement des chèques quotidiens et hebdomadaires vers l'imprimante ou au minimum nécessite l'approbation particulière pour permettre la réimpression du fichier chèque. On estime que les modifications devant être apportées au système représentent à un coût de 25 000 \$ à 50 000 \$ pour des services professionnels. Ceci inclus mener une évaluation des risques et des menaces de la sécurité de technologie informatique et reconfiguration du SAP pour s'assurer que des mesures sécuritaires appropriées sont en place pour permettre un seul téléchargement des chèques quotidiens et hebdomadaires vers l'imprimante. En raison d'autres priorités des Services de la technologie de l'information, cette initiative ne pourra débuter avant le quatrième trimestre de 2007.

(b) La direction est d'accord avec cette recommandation.

Incluse à la réponse globale de la direction.

### **5.3.6 Registre des chèques**

#### **Recommandation 24**

**Que la Direction des services financiers tienne un registre des chèques en main et effectue un inventaire périodique et un rapprochement de ces chèques.**

#### **Réponse de la direction**

La direction est d'accord avec cette recommandation qui était déjà en place avant la vérification.

Le journal de la formule de chèque est conservé dans la chambre forte. Tout mouvement enregistré à la formule de chèque est dûment pris en note en présence d'un témoin. Le journal est tenu à jour par les Services d'imprimerie qui ont la garde

de la formule de chèque. Une vérification sur place de l'utilisation de la formule de chèque a été entreprise par la Direction des services financiers et se poursuivra.

La direction souhaiterait également fournir des renseignements supplémentaires au sujet de la formule de chèque. Cette dernière est constituée de papier bond spécial comportant plusieurs dispositifs de sécurité, le logo de la Ville d'Ottawa ainsi qu'un numéro de série à l'endos. Elle ne comporte aucun renseignement bancaire, ni caractères magnétiques. Il s'agit essentiellement d'un bout de papier blanc, sur lequel on imprime le texte et les caractères nécessaires à sa conversion en chèque.

### **5.3.7 Chèques imprimés quotidiennement et hebdomadairement**

#### **Recommandation 25**

**Que la Direction des services financiers évalue la possibilité d'avoir des commandes de chèques différentes pour chaque location ou des chèques sont imprimés.**

#### **Réponse de la direction**

La direction est d'accord avec cette recommandation.

Celle-ci sera mise en œuvre au deuxième trimestre de 2007.

### **5.3.8 Séparation des responsabilités de l'imprimerie**

#### **Recommandation 26**

**Que la Direction des services financiers établisse une procédure exigeant deux signatures sur les demandes de chèque et que les rapprochements soient effectués par une personne autre que celle qui commande et reçoit les chèques.**

#### **Réponse de la direction**

La direction n'est pas d'accord avec cette recommandation.

La direction croit qu'il y a déjà suffisamment de contrôles manuels en place. Au nombre des processus de contrôle figurent une vérification de l'identité de la personne et de l'organisation qui passe la commande et une vérification visant à assurer que la séquence de numérotation des documents est continue et complète.

De plus, les commandes de formules de chèque sont livrées au service de l'expédition et de la réception, où elles font l'objet d'une vérification à la lumière du bordereau d'emballage qui les accompagne. Le bordereau d'emballage est paraphé par le réceptionnaire et remis avec les chèques au coordonnateur de l'imprimerie, qui les achemine au superviseur principal pour vérification finale et entreposage sécuritaire. Il faut également souligner que les formules de chèque, comme c'est d'ailleurs le cas pour tout type de document sécurisé, sont produites dans des papeteries appliquant des mesures de contrôle strictes. Dans le cadre d'un processus

d'amélioration continue, elle envisagera la possibilité de confier la fonction de commande à un autre employé que le superviseur.

La Division de la sécurité municipale a fait l'examen des procédures lorsque le Service d'imprimerie a entrepris l'impression des chèques pour emploi et aide financière.

### **5.3.9 Examen de la Division de la gestion de l'approvisionnement**

#### **Recommandation 27**

Que la Direction des services financiers exige que la Division de la gestion de l'approvisionnement vérifie le niveau d'autorisation du personnel qui approuve les libérations de fonds. De plus, il est recommandé que lorsque ces paiements ne sont pas approuvés par un employé de l'USF, la Division de la gestion de l'approvisionnement s'assure que l'employé concerné est investi du pouvoir voulu.

#### **Réponse de la direction**

Incluse à la réponse globale de la direction.

## **5.4 Paie**

### **5.4.1 Formulaire de demande de mesure d'administration du personnel – Pouvoir d'approbation**

#### **Recommandation 28**

Que la Direction des services aux employés exige qu'un superviseur signe et approuve toutes des demandes de mesure d'administration du personnel avant que toute mesure soit prise.

#### **Réponse de la direction**

La direction est d'accord avec cette recommandation qui est déjà pratique courante.

Le Formulaire de mesure d'administration du personnel, de format électronique, doit être acheminé depuis l'ordinateur de bureau du superviseur ou du gestionnaire. L'envoi électronique de ce formulaire depuis l'ordinateur de bureau du superviseur ou du gestionnaire a valeur d'autorisation de prendre une mesure.

### **5.4.2 Lettre d'offre d'emploi signée**

#### **Recommandation 29**

Que la Direction des services aux employés exige que les lettres d'offre d'emploi soient préparées par le conseiller en ressources humaines pour toutes les demandes de mesure d'administration du personnel et qu'elles soient signées par le gestionnaire de programme ou par le superviseur embaucheur ainsi que par

**l'employé que l'on embauche. La copie signée devrait aussi être versée au dossier de l'employé.**

**Réponse de la direction**

La direction est d'accord avec cette recommandation.

Cette recommandation traduit la pratique actuelle de la Ville, sauf en ce qui concerne les nouveaux employés à temps partiel et les nouveaux employés occasionnels. Pour des raisons d'efficacité, la Direction des services aux employés a distribué aux services clients un modèle normalisé de lettre d'emploi à l'intention des nouveaux employés à temps partiel et des nouveaux employés occasionnels, lequel doit être signé par le gestionnaire ou le superviseur compétent et accepté par l'employé. Une copie en est ensuite déposée dans le dossier de l'employé.

**5.4.3 Examen du rapport sur le titulaire**

**Recommandation 30**

**Que la Direction des services aux employés exige que les superviseurs s'assurent de l'existence d'un rapport sur les titulaires pour le personnel relevant directement d'eux et qu'ils examinent ce rapport pour vérifier s'il contient des erreurs, des données erronées, des employés non autorisés ou des modifications non autorisées des catégories ou niveaux de paie.**

**Réponse de la direction**

La direction n'est pas d'accord avec cette recommandation.

Le rôle de Services aux employés est de s'assurer que des rapports sur les ressources humaines, ainsi qu'une formation sur l'utilisation de ceux-ci sont disponibles aux gestionnaires. Les Services aux employés ne surveillent pas l'utilisation de ces rapports par les gestionnaires. Ceux-ci ont la responsabilité de l'administration de leurs employés, ce qui comprend un examen des rapports sur les ressources humaines sur une base régulière.

Les rapports sur les titulaires sont accessibles en tout temps, dans le SAP, aux gestionnaires, à leurs adjoints administratifs et aux superviseurs ayant 15 subalternes directs ou plus, conformément au modèle de licence d'utilisation du SAP approuvé dans le cadre du projet des SGI. Les gestionnaires peuvent également accéder à leurs rapports sur les titulaires directement sur le site intranet de la Ville, sans passer par le SAP.

#### **5.4.4 Conserver l'accès aux données principales sur l'employé**

##### **Recommandation 31**

**Que la Direction des services aux employés exige que (a) les analystes et (b) les superviseurs de la paie puissent générer et analyser le rapport des changements apportés à l'information sur la paie des employés.**

##### **Réponse de la direction**

(a) La direction est d'accord avec cette recommandation qui était déjà en place avant la vérification.

Les analystes de la paie ont toujours eu accès à un rapport leur permettant d'examiner les changements apportés aux renseignements sur la paie d'un employé. Vers la fin de 2006, on a conçu un modèle de rapport amélioré, et les analystes de la paie emploient actuellement le rapport ZRXHR126B pour visualiser les changements apportés aux renseignements sur la paie d'un employé, à chaque période de paie.

(b) La direction n'est pas d'accord avec cette recommandation.

En ce qui concerne les superviseurs, bon nombre de contrôles sont actuellement en place pour assurer que les modifications apportées à la paie des employés sont complètes et exactes. Ces contrôles comprennent, notamment, l'autorisation écrite du gestionnaire pour ce qui est des modifications au taux de paie, les vérifications des services de la paie et les rapports de la direction comme le rapport sur le titulaire et le rapport de paie des centres de coûts, qui identifie les dépenses à inclure au budget du gestionnaire.

#### **5.4.5 Options de contournement**

##### **Recommandation 32**

(a) **Que la Direction des services de la technologie de l'information, en collaboration avec la Direction des services aux employés, dresse la liste de tous les contournements importants des contrôles du système et que ces derniers soient éliminés. Que, dans les rares occasions où des contournements sont jugés nécessaires, seul un nombre restreint d'utilisateurs puissent les effectuer. Il faudrait à tout le moins créer des contrôles de détection qui empêcheraient que des erreurs se glissent dans les données financières.**

(b) **Que la Direction des services de la technologie de l'information, en collaboration avec la Direction des services aux employés, examine la conception et la configuration du Système de gestion financière de la Ville (SAP) pour évaluer la possibilité de restreindre le nombre de jours de congé de maladie non certifiés accordés au-delà des limites permises.**

### **Réponse de la direction**

a) La direction n'est pas d'accord avec cette recommandation.

La direction est d'avis qu'il n'est pas nécessaire d'éliminer les contournements des contrôles puisque que la Division de l'administration de la paie dispose de contrôles lui permettant de s'assurer que tous les changements aux taux de rémunération, y compris les contournements des contrôles de la paie, se conforment aux dispositions de l'autorisation accordée par la direction.

Par exemple, les échelles salariales relatives au contrat ATU 1760 (avec le Syndicat uni du transport) n'affichent qu'un salaire minimal et un salaire maximal. La convention collective de certains syndicats confère à ses membres des taux de rémunération d'exception. Dans ces deux types de situations, il incombe à la Division de l'administration de la paie de mettre le système à jour manuellement et d'y inscrire le taux de rémunération approprié.

En ce qui a trait aux augmentations attribuables au contexte économique, lorsqu'un contournement est nécessaire, un deuxième analyste de la paie procède à une vérification indépendante afin de s'assurer que le contournement en question respecte les dispositions de la convention collective. La Division de l'administration de la paie réalise actuellement bon nombre de vérifications afin d'identifier les modifications au système, dont les contournements.

(b) La direction n'est pas d'accord avec cette recommandation.

Actuellement, tous les gestionnaires ont accès aux rapports générés à partir du SAP fournissant des données sur les congés de maladie accumulés. Dès qu'un employé atteint le niveau de congés de maladie prévue en sa convention collective, il en relève de la responsabilité du gestionnaire d'assurer que l'employé fournisse un certificat médical dans les délais prescrit.

La Division de l'administration de la paie travaillera en collaboration avec les Services de la TI afin d'évaluer la possibilité de structurer le système de manière à satisfaire à cette exigence dans le respect des dispositions des diverses conventions collectives dans le plan de travail 2008. La Direction des services aux employés accusera un retard à étudier cette initiative puisqu'elle se concentre sur les initiatives relatives aux heures supplémentaires formulées dans le cadre de l'examen des heures supplémentaires par direction pour 2006, réalisé par la firme Deloitte. En tant que mesure provisoire, la Direction des services aux employés expédiera un communiqué, à tous les gestionnaires, leurs rappelant les exigences relatives aux congés de maladie.

#### **5.4.6 Sommaire des rapports de déclaration du temps – Séparation des responsabilités**

##### **Recommandation 33**

**Que la Direction des services aux employés, en collaboration avec les établissements de soins de longue durée, examine ses processus concernant les rapports de déclaration du temps.**

##### **Réponse de la direction**

La direction est d'accord avec cette recommandation.

La Direction des soins de longue durée a réalisé un examen des processus de production de rapports de déclaration du temps. Depuis novembre 2006, les rapports sur le temps de travail des quatre établissements de soins de longue durée sont préparés et résumés par le commis à l'administration du programme, et non par le coordonnateur de la dotation. Les rapports sont ensuite acheminés à un commis du service central de la paie pour saisie.

#### **5.4.7 Saisie de données des rapports de déclaration du temps**

##### **Recommandation 34**

**(a) Que la Direction des services aux employés exige que les adjoints aux transactions de temps fassent un examen complet du rapport de déclaration du temps avec le logiciel Audit Time d'un autre adjoint, afin d'assurer un examen indépendant de l'exactitude et de l'exhaustivité des heures saisies dans le Système de gestion financière de la Ville (SAP) par rapport au document source.**

**(b) Que la Direction des services aux employés s'assure que les contrôles appropriés sont en place pour traiter tous les formulaires de DC/DTEE, de manière à garantir que les autorisations voulues ont été obtenues et que les formulaires incomplets ou erronés ne sont pas acceptés et qu'ils sont renvoyés au groupe client pour que l'information manquante soit fournie avant le traitement.**

##### **Réponse de la direction**

(a) La direction est d'accord avec cette recommandation. Elle l'a déjà mise en œuvre.

Depuis le milieu de l'année 2006, on procède à des examens selon lesquels un adjoint aux transactions de temps vérifie la plus grande partie du travail de l'un de ses collègues. Ce type d'examen est réalisé quotidiennement et se concentre sur les points soulevant les plus grands risques, comme ceux du paiement des heures supplémentaires, du travail sur demande, du kilométrage, etc. Un examen complet ne serait ni rentable, ni pratique dans le contexte des ressources existantes.

(b) La direction est d'accord avec cette recommandation, à laquelle elle a déjà donné suite.

La direction avait approuvé cette recommandation formulée dans le rapport sur la vérification des heures supplémentaires réalisée par le vérificateur général en 2005, qui a donné lieu à la mise en place de modifications par la Direction des services aux employés.

En 2006, on a amélioré les formulaires de déclaration du temps et de demande de congé en y intégrant un espace pour que le gestionnaire ou le superviseur accordant l'autorisation inscrive en lettres moulées ses nom, titre et numéro de poste. On a dressé des listes d'autorisations à la lumière des activités qui permettraient l'identification des personnes autorisées à remplir des feuilles de temps. Tous les formulaires de déclaration du temps et de demande de congé font actuellement l'objet d'un examen visant à vérifier si l'autorisation voulue a été obtenue et s'ils sont complets. Au terme de cet examen, on doit les renvoyer au client pour qu'il procède à un suivi, le cas échéant. Au milieu de l'année 2006, on a mis sur place une procédure de vérification par les pairs qui veut qu'un adjoint aux transactions de temps vérifie la plus grande partie du travail de l'un de ses collègues.

#### **5.4.8 Banque de congés annuels (vacances)**

##### **Recommandation 35**

(a) Que la Direction des services de la technologie de l'information, en collaboration avec la Direction des services aux employés, examine la conception et la configuration du Système de gestion financière de la Ville (SAP) et restreigne le report de congés annuels au-delà du nombre permis annuellement.

(b) Que la Direction des services aux employés s'occupe activement des excédents grandissants de congés annuels au-delà de la limite permise, en demandant aux employés qui ont reporté des congés de désigner la période où ils prévoient prendre ces congés (en plus de leur allocation annuelle), ou en payant les excédents de congé avant la fin de l'année civile 2007.

##### **Réponse de la direction**

(a) La direction n'est pas d'accord avec cette recommandation.

Les diverses conventions collectives permettent le report des avantages auxquels un employé a droit pendant plus d'une année, si bien qu'il n'est pas recommandé que le système SAP soit modifié de façon à restreindre ce report. La direction a déjà accès aux rapports produits par le SAP pour faire le suivi des congés excédentaires.

(b) La direction n'est d'accord avec cette recommandation.

La question du passif financier entourant les crédits de congés annuels a déjà été présentée au Conseil dans une lettre de recommandations de 2005 acheminée par des vérificateurs financiers externes de la Ville et a fait l'objet de la réunion du Comité des services organisationnels et du développement économique le 6 février 2007.

Cette vérification a révélé que les employés municipaux reportent un nombre considérable de congés annuels inutilisés, ce qui alourdit considérablement le passif financier de la Ville. À n'importe quel moment, ce passif comprend :

- les congés annuels accumulés par les employés pendant l'année en cours conformément aux modalités d'emploi et aux conventions collectives
- les congés annuels des années antérieures reportés par les employés conformément aux modalités d'emploi et aux conventions collectives
- tout autre congé annuel d'une année antérieure reporté en plus des congés ci-dessus

Selon la politique de la Ville, les deux premières composantes de cette responsabilité sont acceptées. La troisième fait l'objet des conventions collectives, qui permettent un report supplémentaire des congés annuels inutilisés en plus des congés auxquels un employé a normalement droit dans des circonstances exceptionnelles, pourvu que les approbations nécessaires soient obtenues.

Par ailleurs, certains membres de la direction montrent un total important de congés annuels inutilisés reportés de façon excessive. La Ville en avait été informée lors du regroupement des postes qu'occupaient ses employés dans les anciennes municipalités.

Depuis la vérification, certains employés ont procédé à une analyse détaillée des congés en suspens de tous les employés municipaux. Avant la fin du deuxième trimestre de 2007, les employés présenteront au Comité et au Conseil un plan pour éliminer le passif en suspens associé à l'excès de congés annuels reportés.

On rappellera aussi à la direction, dans un communiqué, qu'elle est chargée de faire le suivi des congés des employés, d'encourager les employés à prendre leurs vacances, et de faire en sorte qu'une lettre d'approbation soit versée dans le dossier de l'employé si le total de ses congés annuels excède le total de congés auxquels il a droit.

#### **5.4.9 Examen des centres de coûts**

##### **Recommandation 36**

**Que la Direction des services aux employés exige que les superviseurs examinent les rapports des centres de coûts de l'Administration de la paie.**

**Réponse de la direction**

La direction n'est pas d'accord avec cette recommandation.

La Direction des services aux employés n'a pas le pouvoir de demander aux superviseurs d'examiner les rapports des centres de coûts de l'Administration de la paie. Cependant, elle a rendu les rapports des centres de coûts de l'Administration de la paie accessibles aux gestionnaires, aux gestionnaires de programme et aux superviseurs ayant plus de 15 subalternes directs. Elle offre également des séances de formation ainsi que des mises à niveau pour SAP-RH afin d'apprendre aux utilisateurs comment utiliser ces rapports, qu'elle les encourage à examiner régulièrement. Les Services financiers travaillent aussi en collaboration constante avec les gestionnaires à l'examen des frais associés aux centres de coûts et à l'identification de toute anomalie. Le cadre de travail de la responsabilisation des gestionnaires de la Ville stipule que les ressources humaines et la gestion des finances sont les responsabilités des gestionnaires d'exploitation.

En plus d'avoir accès aux rapports financiers des centres de coûts, les gestionnaires ont également accès à leurs rapports financiers, qui présentent un tableau exhaustif de la totalité du budget du gestionnaire.

**5.4.10 Chèques sur demande****Recommandation 37**

(a) Que la Direction des services aux employés s'assure que l'accès au code d'opération du Système de gestion financière de la Ville (SAP) pour les processus d'activités hors cycle subséquents (lorsque les chèques sont traités et imprimés) soit limité durant les essais et l'assurance de la qualité de l'environnement du Système de gestion financière de la Ville (SAP).

(b) Que la Direction des services financiers exige que les chèques non utilisés soient conservés dans un endroit sûr en tout temps.

**Réponse de la direction**

(a) La direction est d'accord avec cette recommandation. Elle y a déjà donné suite.

L'environnement de mise à l'essai est restreint de manière à permettre uniquement à certains employés de la Division de l'administration de la paie de bénéficier de l'accès nécessaire à la production d'une télécopie d'un chèque de paie, pour en vérifier les résultats.

(b) La direction est d'accord avec cette recommandation, laquelle était d'ailleurs déjà mise en pratique avant la présente vérification.

La constatation faite au terme de la vérification et dont il est question dans la présente partie touche un cas isolé. Les Services financiers ont constaté que les Services aux employés s'étaient conformés à ces exigences avec diligence.

## **5.5 Efficacité des Unités du soutien financier**

### **5.5.1 Vérification de la délégation de pouvoirs – Gestion des biens immobiliers**

#### **Recommandation 38**

**Que la Direction des services financiers exige que l'USF vérifie, avant qu'un bon de commande soit émis, le niveau d'autorisation de l'employé afin d'éviter les dépenses indûment autorisées.**

#### **Réponse de la direction**

Incluse à la réponse globale de la direction.

## **5.6 Analyse des données – Système de gestion financière de la Ville (SAP)**

### **5.6.1 Analyse des recettes**

#### **Recommandation 39**

**Que la Direction des services financiers, en collaboration avec la Direction des parcs et des loisirs, examine les rapports fournis afin de s'assurer que les résultats sont conformes aux attentes et aux pratiques courantes ainsi qu'à leur connaissance des opérations courantes.**

#### **Réponse de la direction**

La direction est d'accord avec cette recommandation.

Les comptes sans solde impayé indiquent que les clients se conforment aux politiques en vigueur et qu'ils paient à l'avance les programmes et les services demandés. On pourrait envisager de procéder à un examen visant à déterminer si les comptes « qui datent » et dont le solde est nul ne pourraient pas être supprimés de la base de données. Toutefois, on ne recommande pas ici la suppression des comptes de nos utilisateurs réguliers. Il faut définir ce que l'on entend par « comptes qui datent » puisque bon nombre de nos clients ne recourent à nos services qu'une fois l'an, notamment dans le cadre des inscriptions aux camps qui s'effectuent chaque été, comme il apparaît dans l'examen prévu à la partie 5.6.1, sur l'Analyse des recettes. Cette pratique sera mise en œuvre au deuxième trimestre de 2007.

## 5.6.2 Analyse des décaissements

### **Recommandation 40**

Que la Direction des services financiers, dans le cadre de son examen périodique des décaissements, examine les documents justificatifs et les détails des opérations, et qu'elle enquête sur les éléments inhabituels et prenne les mesures qui s'imposent.

Que la Direction des services financiers demande au personnel de s'assurer que pour toute achat, des bons de commande soient préparés avant de passer une commande, d'en accuser la réception ou d'effectuer le paiement.

Que la Direction des services financiers élabore et mette en œuvre une politique relative aux modalités de paiement des factures et aux pratiques en matière de paiement.

#### **Réponse de la direction**

Incluse à la réponse globale de la direction.

#### **Réponse globale de la direction en ce qui a trait aux recommandations suivantes de la vérification : 1, 2, 4a), 5, 6, 7, 8, 11, 20, 23b), 27, 38 et 40.**

La direction est d'accord avec ces recommandations.

Voici une réponse globale de la direction en ce qui a trait aux recommandations suivantes de la vérification : 1, 2, 4a), 5, 6, 7, 8, 11, 20, 23b), 27, 38 et 40. La réponse traite des recommandations centrées sur les contrôles internes et sur le Système d'information sur la gestion financière (SIGF).

Au moment de la fusion, la Direction des services financiers a créé une nouvelle section des politiques et de la conformité chargée de ce qui suit : effectuer des examens réguliers de conformité; élaborer, documenter et tenir à jour les politiques et les procédures; créer des processus administratifs et des lignes directrices opérationnelles; et régler toutes les questions relatives à la taxe à la consommation.

La structure organisationnelle de la section des politiques et de la conformité comprend 11 ETP, dont 2 ETP qui se consacrent à l'élaboration et à la tenue à jour de 53 politiques et procédures qui relèvent de la Direction des services financiers. Cependant, les deux employés affectés aux politiques ont été réaffectés en raison d'une augmentation de la charge de travail dans cette section, laquelle découle de la vérification des cartes de crédit, de l'Examen général des programmes et de modifications aux exigences législatives. Il en résulte que les Services financiers ne se sont pas suffisamment concentrés sur la documentation des politiques et procédures des contrôles internes.

La direction a réaffecté le personnel de la section des politiques et de la conformité conformément à l'effectif initial. Cette section continuera à documenter et à faire l'examen des processus financiers, alors que le personnel des unités du soutien financier et d'autres groupes financiers veilleront à l'application de procédures de contrôle uniformes. La section des politiques et de la conformité élaborera aussi de nouvelles politiques et lignes directrices pour appuyer le cadre de contrôle financier de la Ville.

Au départ, la section des politiques et de la conformité était centrée sur les examens de conformité dans le domaine des transactions par carte de crédit, mais elle a élargi ses activités pour englober les processus financiers essentiels comme les paiements sans référence à un bon commande, les demandes d'indemnité de frais de déplacement, la petite caisse, les bons de commande des services, les services d'accueil, les cadeaux et les divertissements, et d'autres activités du genre définies par la haute direction. Tous les trimestres, on fait circuler les rapports de conformité parmi le personnel de la direction et des Services financiers. En réponse aux recommandations de la présente vérification, la portée de la section des politiques et de la conformité sera élargie pour inclure des examens périodiques des dépenses et des factures afin de veiller à ce qu'elles soient conformes aux politiques et aux pratiques administratives de la Ville.

Dans le cadre de l'examen de conformité, les Services financiers continueront à veiller à ce que le personnel prépare des bons de commande avant le début de travaux ou la réception de marchandises, quand le contrat est fondé sur un bon de commande. Il y a certaines rares occasions où il est justifié de faire exception à ce principe pour éviter l'interruption de services municipaux essentiels comme dans le cas de l'achat de sel et d'essence. De plus, les Services financiers continueront aussi à veiller à ce que les employés qui autorisent les dépenses aient le niveau pertinent de pouvoirs délégués.

Au moment de la fusion en 2001, on a fixé le budget de formation des Services financiers à environ 67 \$ par employé. En raison de contraintes budgétaires permanentes, le budget de formation n'a pas été augmenté depuis ce temps. Par la suite, la formation du personnel des Services financiers a accusé un certain retard par rapport aux niveaux optimaux. En réponse à la recommandation de la vérification, on offrira une formation en finances et en comptabilité au personnel. La formation sera dispensée par des fournisseurs internes et externes, et elle portera sur des politiques et procédures propres à la Ville, notamment l'utilisation du Système de gestion financière générale (SAP).

Selon le paragraphe 286(1) de la *Loi sur les municipalités*, la responsabilité des contrôles financiers internes de la Ville incombe au trésorier. En approuvant la structure organisationnelle et de gestion de la Ville et le modèle du Centre d'expertise, le Conseil municipal a indiqué au trésorier de déléguer ces

responsabilités dans ce cadre organisationnel. Pour veiller à ce qu'il y ait des contrôles financiers suffisants en place, le trésorier de la Ville délègue les responsabilités pertinentes en matière de contrôles financiers internes à certaines divisions des Services financiers, notamment la Division de la comptabilité et des rapports.

La direction admet que le Système de gestion financière générale (SAP) nécessite des modifications continues pour améliorer son utilité. En 2006, les directions des Services financiers et des Services de la technologie de l'information ont mis en œuvre un processus permanent pour établir les améliorations à apporter au SAP, pour déterminer l'ordre des priorités et la mise en œuvre des améliorations afin de contrôler activement le processus dans la section des Finances. Une fois que ces améliorations auront été apportées, il sera plus facile pour le personnel des Services financiers d'utiliser la technologie pour faire le suivi d'activités et pour créer des rapports. De plus, un certain nombre de rapports financiers « en temps réel » du SAP sont accessibles dans l'intranet de la Ville à l'intention des gestionnaires. Ces rapports permettent aux gestionnaires de rester à jour en ce qui a trait aux questions de gestion financière dans leur secteur de responsabilité.

Les Services financiers continueront aussi à travailler avec les STI pour examiner la possibilité de rejeter les modifications à l'état des transactions afin de veiller à ce que seul le personnel essentiel et autorisé, sur approbation de la direction, ait accès à la fonction de modification. Les Services financiers continuent de travailler avec les STI pour veiller à la formation pertinente et à la supervision du personnel. Dans sa lettre de recommandation de 2005, Ernst & Young a mentionné la question de la division des tâches dans le domaine de la gestion des stocks. À la suite de ces recommandations, le Conseil a approuvé des ressources supplémentaires dans le budget de 2007, lesquelles permettent la division pertinente des tâches et l'accès au système.

La direction s'est aussi engagée à créer une unité du Système d'information sur la gestion financière (SIGF) dans la section de la comptabilité. Cette unité sera créée selon le modèle de l'unité du Système d'information sur les ressources humaines (SIRH) des Services aux employés. La création d'une unité spécialisée permet à la Direction des services financiers de former une équipe interne d'experts du système au sein de la Direction, qui soit capable de veiller à ce que le SAP soit modifié pour répondre à ses divers besoins. Les modifications feront en sorte d'augmenter l'efficacité opérationnelle et permettront à la Direction des services financiers de maximiser le rendement de l'investissement municipal dans la technologie.

Les Services financiers élaboreront une politique sur les modalités de paiement dans le cadre de l'examen prévu du processus des comptes fournisseurs. Cet examen débutera au deuxième trimestre de 2007 et sera terminée d'ici le troisième trimestre

de 2007. Il convient de noter que les contrôles du processus relatifs aux modalités de paiement des factures sont déjà en place.

Cette vérification a permis à la direction d'appliquer de nombreuses améliorations qui renforceront les contrôles financiers internes existants. La direction est d'accord avec les recommandations du vérificateur et veillera à leur mise en œuvre. Afin de se conformer complètement aux recommandations du vérificateur, la Direction des services financiers a fait l'examen des niveaux de ressources existants dans l'optique de réaffecter les ressources dans la mesure du possible. En résultat de cette analyse, on a déterminé qu'une certaine réaffectation des ressources est possible; cependant, la Direction des services financiers aura besoin de ressources supplémentaires.

Ces ressources seront nécessaires pour effectuer une dotation adéquate, pour mettre en œuvre les modifications du système et pour dispenser la formation selon les recommandations du vérificateur général. Pour se conformer entièrement aux recommandations, le coût estimé sera d'environ 725 000 \$ à 900 000 \$. Avant de demander des ressources supplémentaires, la direction s'est engagée à faire progresser l'examen de la Direction des services financiers, dans le cadre du Programme d'examen des processus en vigueur dans les directions. Toute économie découlant de ce processus servira à financer des activités relatives à la mise en œuvre des recommandations du vérificateur général. L'examen des processus en vigueur dans les directions aura lieu d'ici le quatrième trimestre de 2007.

## ***Conclusion***

Au moment de la fusion, la Ville a dû regrouper les différents systèmes des 12 anciennes municipalités en un seul environnement de contrôle financier intégré. Des centres d'expertise, tels que les Unités du soutien financier, ont été créés pour répondre au besoin de centraliser les connaissances et les spécialisations des experts, afin d'assurer que le niveau des services fournis et reçus est uniforme partout dans la Ville. Bien que l'idée soit bonne sur le plan conceptuel, nous constatons que d'autres améliorations sont nécessaires pour aider la direction à atteindre son objectif.

Malgré ses efforts, la Ville n'a pas réussi à mettre sur pied un cadre de contrôle financier clair, ni à attribuer la surveillance de cet environnement. Nous sommes d'avis que nous avons tout à gagner en renforçant les contrôles dans ce secteur clé. « Une voix unique » pourrait communiquer et maintenir les contrôles, existants et nouveaux, et assurer que nous pouvons continuer de nous conformer aux politiques et procédures opérationnelles relatives à la gestion financière.

Les USF jouent un rôle primordial dans l'environnement de contrôle financier de la Ville. Il est clair que l'absence de surveillance mène à un manque de rigueur dans l'application des pratiques et procédures financières dans toute la Ville, et de là, à la

fragmentation du cadre financier. Nous n'avons pu trouver aucune indication qu'il existait des directives municipales claires quant aux rôles et responsabilités des USF et que ces derniers étaient compris. Nous avons remarqué que bien que les USF se soient efforcées de répondre aux besoins de leurs clients, elles doivent encore s'améliorer pour ce qui est de l'uniformité des contrôles financiers internes et de la conformité aux politiques et aux procédures. Tout d'abord, des directives et des procédures rigoureuses, auxquelles les USF seraient tenues d'adhérer, doivent être mises en place, diffusées, examinées sur une base continue et clairement documentées.

Nous avons constaté que le rôle et les responsabilités de la Division de la comptabilité et des rapports en matière d'environnement de contrôle financier sont limités. Des améliorations au chapitre des directives, d'une surveillance accrue, de l'examen régulier de la conformité des décaissements actuels, des recettes, des résultats de fonctionnement et des flux de trésorerie renforceraient les contrôles.

La Ville a fait des progrès importants en investissant dans un système de gestion financière de pointe, mais selon nous, il existe encore de nombreux défis relativement à l'utilisation de toutes ses fonctionnalités. La Ville ne bénéficie pas encore d'un environnement de contrôle financier complet auquel un vérificateur externe pourrait se fier pour effectuer une vérification d'états financiers légale.

En résumé, nous avons noté l'absence d'un environnement de contrôle financier général, ce qui est critique lorsque l'on essaie de créer un climat qui se prête à une gestion efficace et d'assurer le bon fonctionnement d'un système de gestion financière fiable.

Certaines des faiblesses de l'environnement de contrôle de gestion de la Ville ont également été soulevées dans le rapport du vérificateur général de 2005 sur la vérification du cadre de contrôle de gestion. Nous avons constaté que, durant l'année 2006, la direction n'a pas pris les mesures qu'elle s'était engagée à prendre afin de résoudre les problèmes importants soulevés dans la vérification de 2005. La direction avait accepté de mettre en œuvre les recommandations de la vérification de 2005, sans coûts additionnels. Nous croyons comprendre que la direction a l'intention d'obtenir l'avis indépendant d'un tiers en 2007, au coût de 100 000 \$, en vue d'élaborer un cadre de contrôle interne efficace pour la Ville.

À l'annexe 2 de la vérification détaillée, contenus dans le rapport annuel du vérificateur général, on trouvera un extrait de nos observations et de notre recommandation, ainsi que les réponses de la direction à notre rapport de 2005 sur le cadre de contrôle de la gestion financière.

Nous sommes d'avis que toutes les recommandations contenues dans le présent rapport peuvent être mises en œuvre sans fonds additionnels. Toutefois, il faudra peut-être réaffecter de façon stratégique les ressources existantes, tant financières qu'humaines.

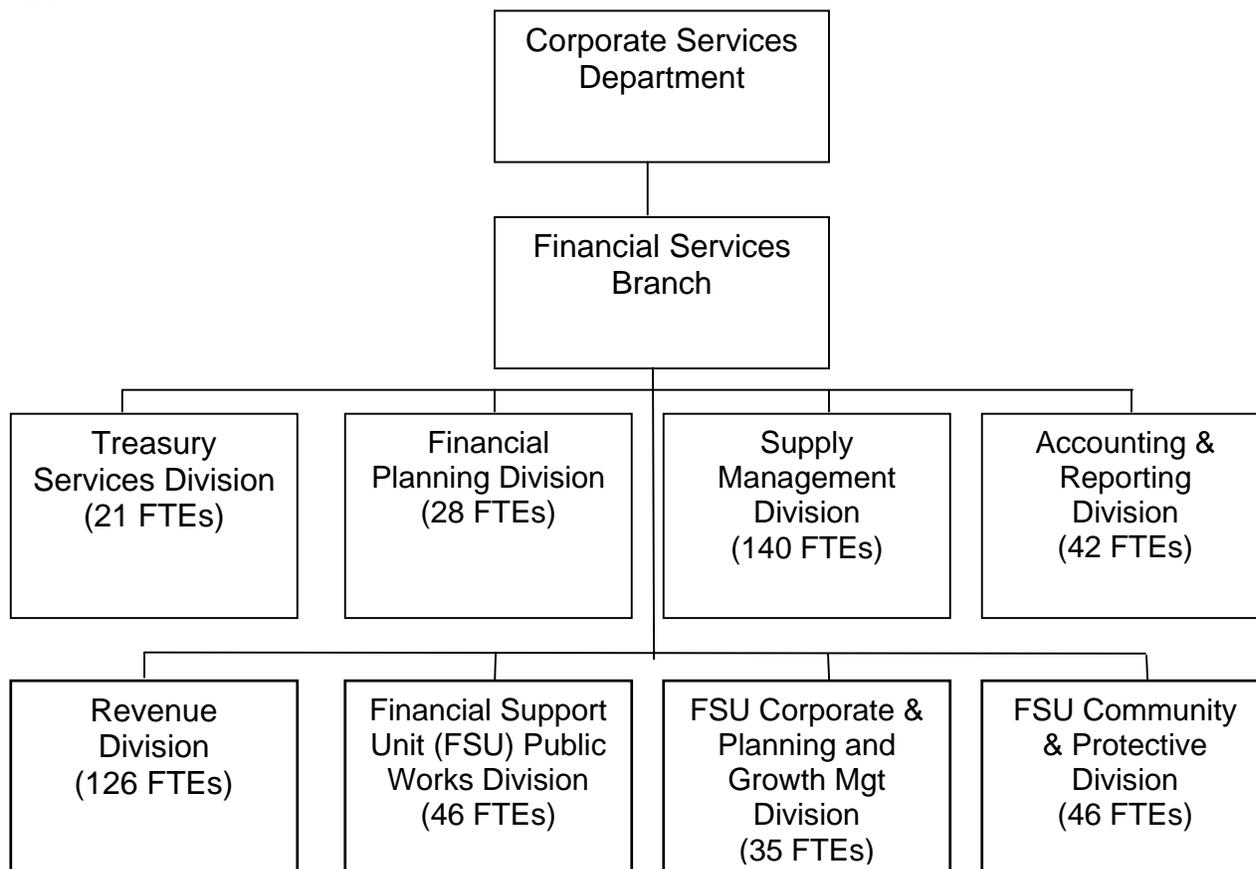
### ***Remerciement***

Nous tenons à exprimer nos remerciements à la direction pour la coopération et l'aide qu'elle a fournies à l'équipe de vérification.

## 1 BACKGROUND

The Audit of the Financial Control Environment was part of the 2006 audit plan brought forward by the City's Auditor General and received by Council on December 15, 2004.

The City of Ottawa is a large organization, with 4 departments supported by 10 Financial Support Units. FSUs were created at amalgamation on January 1, 2001, with the objective of centralizing knowledge and specializations to ensure consistent levels of financial support services were provided to departments. Predominantly, the FSUs support Public Works and Services, Community and Protective Services, Planning, Transit and the Environment, and Corporate Services. The majority of the financial transactions are processed by FSUs on behalf of the departments. Additional divisions reporting to the Director of Financial Services and City Treasurer, such as Accounts Payable Unit, Supply Management and Accounting and Reporting Divisions also support the departments. These divisions rely on the information processed by the various FSUs. The current Financial Services Branch organizational chart is presented below.



**Figure 1: Organizational Chart – Financial Services Branch**

Other relevant facts include:

- In the 2005 operating budget, the City of Ottawa's operating expenses amount to approximately \$2.1 billion.
- The 2005 approved capital budget totalled \$612.3 million.
- City of Ottawa staff approximates 12,000 FTEs of which 345 work under the Director of Financial Services and City Treasurer (excluding 140 Supply Management staff).

Audits conducted in recent years, such as the Audit of the Management Control Framework and the Management Letters submitted to the City by the external auditors subsequent to their fiscal 2003, 2004 and 2005 year-end financial statement audits, have highlighted the need for a detailed review of the City of Ottawa's financial control framework. These analyses have shown that the City has a fragmented financial control framework. Issues of consistency, process compliance, and documentation were raised in these audits and in management letters.

In fiscal 2006, the City of Ottawa's Auditor General audit plan included an audit of the City of Ottawa's Financial Internal Control Environment, which was completed in 2006 and is the subject of this report.

## **2 AUDIT OBJECTIVES**

The objectives of this audit were to:

- Determine whether there are adequate financial controls in place within the processes selected;
- Determine the roles and effectiveness of the Financial Support Units;
- Determine the role and effectiveness of the Accounting and Reporting Division with respects to the processes reviewed; and
- Evaluate the utilization of the financial systems (reporting and management tools).

At the beginning of this audit the Chief Corporate Services Officer indicated his agreement with the objectives of the audit. His goal was to use the issues identified by the audit as the basis on which to develop his work plan to improve the financial control framework of the City.

### **2.1 Audit Criteria**

- Determine whether there are adequate financial controls in place in the processes reviewed.

- Determine if opportunities exist to detect and decrease risks due to process and control weaknesses, as identified through data analysis of disbursements and revenues.
- Determine the roles and effectiveness of the Financial Support Units and of the Accounting and Reporting Division with respect to the processes reviewed.
- Evaluate the utilization of the financial systems (reporting and management tools).

### 3 AUDIT SCOPE

To assess the financial control environment in place in 2006, a representative sample of FSU processes were reviewed. The FSU selection was based on both a consideration of the transactions dollar value as well as the assortment of transaction types relevant to the individual FSU. Specifically, we looked at:

- Revenue: Recreation Unit
- Expenditure: Recreation/Ottawa Public Library/Child Care Portfolio Unit
- Expenditure: Real Property Asset Management (RPAM)/Finance Portfolio Unit
- Payroll: Long Term Care/Public Health/Cultural Services and Community Funding/Housing Portfolio Unit
- Payroll: Utilities Portfolio Unit

Review of the procedures in place, as well as a number of interviews, were conducted for the remaining six additional FSUs.

Also, due to the nature of FSUs' roles and responsibilities, most audits conducted by the Office of the Auditor General in both 2005 and 2006 have an FSU component. Where it was deemed relevant, observations contained in these audits are reported herein.

The City's Corporate Financial Management system is composed of SAP (enterprise resource planning for Finance, Supply, Human Resources, Real Property and Asset Management, Field Operations), complemented by various integrated sub-systems such as CLASS, M4, GIS/MAP, etc.

#### **Revenue Stream**

The revenue stream was examined in the Parks and Recreation Division, which are supported by Recreation/OPL/Child Care Portfolio Unit within the Community and Protective Services FSU Division. The revenue transactions specifically analyzed were Sports Fields, Registrations, Summer Camps Registrations and Arena Rentals.

Transaction walkthroughs were conducted from process initiation to the recognition of revenue in the City's Corporate Financial Management System (SAP). The objective of

the walkthroughs was to confirm and assess the design of the internal controls, both manual and automated.

To identify trends and apparent anomalies, we analyzed the entire population of transaction for the aforementioned sub-streams, for the year ended December 31, 2005.

### ***Procurement Expenditure Stream***

The procurement expenditure stream was covered through Parks and Recreation/Ottawa Public Library/Child Care and Real Property Asset Management FSUs' Portfolio Units.

The processes related to Departmental Purchase Orders (DPOs), FSU Purchase Orders (FPOs), Payments Without Reference (PWRs) and Purchasing Card transactions were examined. In addition, some transactions that flow through Supply Management, a division under the Director of Financial Services and City Treasurer, which handles all expenses greater than \$10,000, were also examined. Since transactions were followed from their inception to payment, the review of the procurement expenditure stream also covered centralized services such as Accounts Payable, Cash Operations, and Supply Management. We assessed the design and effectiveness of the internal controls, both manual and automated.

The transaction tests were performed to assess compliance with the following policies and bylaws:

- Purchasing By-Law No. 50 of 2000: This By-Law provides guidance on signing authorities and competitive processes required for purchases. For the purpose of this audit, the March 7<sup>th</sup>, 2006 version was utilized.
- Delegated Financial Signing Authorities: Delegated authorities were provided in different formats by the areas reviewed in-depth. Such documentation provided guidance on signing authorities by employee name and/or position authorized by directors.
- Purchasing Card Procedures: This procedure provides detailed instructions on roles by position regarding this process. For the purpose of this audit, the August 17, 2005 version was utilized.

To identify trends and apparent anomalies, we analyzed the entire population of disbursements by the City, for the year ended December 31, 2005.

### ***Payroll***

Payroll is a Division of the Employee Services Branch.

The work related to payroll covered the Long Term Care/Public Health/Housing and Utilities FSUs' Portfolio Units. Within these FSUs' Portfolio Units, the Organization and Position Change Approval (OPCA) form which replaced the former Job Evaluation Review form and is used by managers to action such changes as position creation, change or re-organization, the Request for Personnel Action form, which initiates the hiring process, and Time Reports sub-processes were reviewed.

In addition, a walkthrough for all the following sub-processes was conducted; Pay Close - Net Pay, On-Demand Cheques, Electronic Transfer and 3<sup>rd</sup> Party Vendor Electronic Transfers and Access to Payroll-Time through Pay - Job to Roles Matrix.

In summary, to carry out our audit work, we reviewed the relevant by-laws and policies, conducted various interviews with staff and reviewed supporting documentation. Process descriptions were created from this information and key controls within the processes were identified. Walkthroughs were conducted for each identified key control to determine its effectiveness.

## 4 KEY FINDINGS

### 4.1 Financial Control Effectiveness

To ensure its adequacy and increase its reliance, ownership and accountability for the internal control process needs to be clearly assigned.

A coordinated financial management control framework helps to mitigate risks, ensure that control procedures are firmly entrenched in the organization, and that the processes are repeatable and sustainable. This is a fundamental requirement in demonstrating mature financial management capabilities. According to the Office of the Auditor General of Canada regarding financial management capabilities:

*The lack of repeatable, sustainable practices of financial management and control means that any data produced may not be complete, accurate or reliable. Similarly, without an adequate control framework, assets may not be adequately protected or resources adequately controlled.<sup>5</sup>*

The effectiveness of financial controls should be supported by established, clear and complete processes that require that control procedures have been consistently carried out. To sustain its effectiveness, a financial control framework should continually be documented, re-assessed and communicated. We found that there were numerous instances where there was insufficient evidence of control procedures having been

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<sup>5</sup> Financial Management Capability Model published by the Office of the Auditor General of Canada, 1999.

carried out and there is a lack of documentation of the City's financial processes. Financial controls were also found to be inconsistent across FSUs. From our review of the City's Corporate Financial Management System (SAP) 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.

#### **4.1.1 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.

This general comment applies to revenue processes as well as the procurement and payroll processes that we reviewed. As a result, we noted inconsistencies in the procedures followed for similar transactions in various FSUs. Although most of the various practices may have been developed to apparently provide for more efficient and rapid processing of transactions, they increase the risk that transactions are improperly initiated and recorded, and inevitably, that the internal control environment is ineffective.

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 exist and is followed fairly consistently across all FSUs and related departments for this process. 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.

#### **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.**

#### **Management Response**

Included in the overall management response.

#### **4.1.2 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.

#### **Recommendation 2**

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

#### **Management Response**

Included in the overall management response.

#### **4.1.3 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 4.1.4) and a risk of inconsistent and/or inappropriate procedures.

#### **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.**

#### **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.

#### **4.1.4 Staff Qualifications and Training**

As in other departments and branches, Financial Services Branch is allocated yearly budgets for training, conferences and convention from which to administer its staff's continuous professional development. In 2006, the Branch's budgets totalled \$33,700.

Training is available to Financial Services Branch personnel, based on interest and demand for the material; no minimum training is required.

Given that financial processes and procedures are not clearly established, we are of the opinion that a compensating control could be professional expertise demonstrated by staff holding accounting designations. The small number of staff with accounting designations and the apparent lack of mandatory training for most finance staff makes it difficult to compensate for insufficient process and documentation.

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.

We recognize that the Membership and Professional Fees Policy states that it is the City's responsibility to determine and authorize which memberships and professional fees are covered and that those specified within collective agreements, conditions of employment or legislation are reimbursed accordingly.

#### **Recommendation 4**

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

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

#### **Management Response**

(a) Included in the 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.

#### **4.1.5 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.

These data analysis reports extracted information such as: potential payments made before the invoice date, potential duplicate invoice payments, potential employees paid after termination date, and potential matching of vendor and employee addresses. The reports provide a unique perspective on the trends and nature of transactions occurring throughout a year.

From these reports we were able to identify that:

- From a sample of 279 entries, 19 were duplicate 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-day 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.

#### **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.**

#### **Management Response**

Included in the overall management response.

## **4.2 Role 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.

### **4.2.1 Consistency of FSUs Control Procedures**

In our review of the various FSUs Portfolio Units, we noted that the execution of control procedures was often completed but inconsistent. (For example, the RPAM Portfolio Unit has given authority to its clients to process purchase requisitions, approve the requisitions and conduct the budgetary release. They have imbedded signing authorities within the City's Corporate Financial Management System (SAP). In addition, some of RPAM's clients have the capability of completing their own goods receipt. Although this may be efficient for the FSU, not all dependent services are aware of this delegation, which creates a risk of error or failure of a control. Accounts Payable Unit was not aware that some of RPAM's clients goods receipts were completed by the client, and the Supply Management Division (which issues the PO for transactions greater than \$10,000) were not aware that some of RPAM's budgetary releases were completed by the client. As a result, no independent review was conducted on certain transactions and the required oversight reviews are not operative. This practice differs from practices observed in other branches and FSUs.)

### **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.**

### **Management Response**

Included in the overall management response.

#### **4.2.2 Consistency in Range and Level of Services and of FSUs 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.

As reported in the Office of the Auditor General's 2005 Annual Report, two common themes – the consistency in the range and level of services being provided and the ambiguity of the working relationship delineating roles and responsibilities of FSU and their client department – continue to be a source of daily challenges and frustration. For example, from our work in 2006 we found the following:

- The 2006 Audit of Burial Permits identified a need for the Financial Support Unit to increase its role in working with the Client Services and Public Information Branch. The audit found that the FSU did not play a role in the invoicing and collection processes prior to the Branch requesting their involvement. In this case the FSU should have involved itself earlier to ensure that appropriate controls and procedures were in place and operating as required. These controls should have been properly documented and have included regular reconciliation to verify the completeness of transactions and receipt of payments.
- The 2006 Audit of the Contract Award of the Operating and Maintenance Agreement for the Village Walk Wastewater Treatment Facility found that the Financial Support Unit inappropriately awarded a contract, valued at \$1.8 million, using an FSU Purchase Order (FPO); without proper Council approval and in violation with the Purchasing By-law.
- The 2006 Audit of Parking Meter Cash Revenue and Audit of OC Transpo and Para Transpo, Cash, Ticket and Pass Revenue highlighted numerous weaknesses in cash handling and revenue processes. The FSU did not ensure that appropriate processes were in place and that the controls were functioning properly nor did it involve itself in the collection process.
- As a result of 2006 reports made to the Fraud and Waste Hotline relating to the CLASS<sup>6</sup> recreation program registration and facility booking system, we found that there was a need for greater involvement on the part of the Financial Support Unit to ensure that appropriate controls and processes are in place relating to refunds.

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<sup>6</sup> The system in which all registrations for each program is entered, and subsequently uploaded into SAP

System control weaknesses, including enabling employees to issue course refunds, even after the course's had ended, against their own debit card, were identified. Corporate Security report that in one case an employee transferred approximately \$10,000 in fraudulent clients refunds to their own account.

- We found a case where a Financial Support Unit insisted that a specific hospitality form be completed. Enquiries revealed that this level of scrutiny was not required for other similar level staff in other areas of the City.

Conversely, in the 2006 Audit of the Ottawa Fire Services Branch, we found that the FSU was consciously and proactively fulfilling his responsibilities by providing management with detailed expenditure analysis. The FSU is positively contributing to the financial management of Fire Services Branch.

### **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.**

### **Management Response**

Included in the overall management response.

## **4.3 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.

### **4.3.1 Accounting and Reporting Division**

The Accounting and Reporting Division is responsible for the management of the City's general ledger and the monthly closing of financial data within the Corporate Financial Management System (SAP). This data is then utilized by the Financial Planning Division to prepare and distribute budget to actual reports. The Accounting and Reporting Division responsibilities include organizing and preparing the year-end financials for the City of Ottawa external audits. The Division reviews all significant year-end accruals and prepares working papers on a variety of accounts.

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.

Monitoring and regular compliance reviews of actual disbursements, revenues, operating performance and cash flows would stand to strengthen controls. For example, Accounting and Reporting Division could develop a policy of reviewing a predetermined percentage of invoices for accuracy, appropriateness and completeness. It is not uncommon for corporations the size of the City of Ottawa to adopt such practices as reviewing a certain percentage of invoices on a continual basis.

We have attached as Appendix 1 a discussion of "Why municipalities are investing in and managing internal controls".

### **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.**

### **Management Response**

Included in the overall management response.

## **4.4 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.

#### **4.4.1 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 of potential segregation of duties issues 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.

The City of Ottawa needs to determine if segregation of duty conflicts exist within the Corporate Financial Management System (SAP). Segregation of duties should be based on sound accounting principles tailored to the City. Each employee position should be associated with known and predefined Corporate Financial Management System (SAP) access rights.

#### **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.**

#### **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.

#### **4.4.2 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 the Corporate Financial Management System's (SAP) 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<sup>7</sup>;
- 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

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<sup>7</sup> The system in which all registrations for each program is entered, and subsequently uploaded into SAP

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.

### **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.**

### **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

### **4.4.3 Corporate Financial Management System (SAP) Utilization**

We found that many FSUs used software, in addition to the 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. We appreciate that the Corporate Financial Management System's (SAP) is configured to have extracts downloaded to Microsoft Excel. However, where possible, the Corporate Financial Management System (SAP) should

prevail. For example, the Accounting and Reporting Division uses Microsoft Excel to complete the Budget Developments report and also creates year-end financial statements schedules. Microsoft Excel spreadsheets are also used for the preparation of daily bank reconciliation and various revenue schedules (e.g. monthly reconciliation of sales at OC Transpo). Most staff felt that the Corporate Financial Management System (SAP) did not offer them flexible reporting options, and therefore, data often needed to be downloaded from the Corporate Financial Management System (SAP) to be reconciled.

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 the 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. We will further investigate this issue in a future audit.

#### **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.**

#### **Management Response**

Included in the overall management response.

## **5 DETAILED FINDINGS AND RECOMMENDATIONS**

### ***5.1 Revenue Stream - Parks and Recreation Branch – Sportfields and Arena Rentals***

#### **5.1.1 Control Access**

CLASS is the City of Ottawa's software application used for on-line Parks and Recreation Branch program registrations and facilities bookings. For fiscal 2005, Sportfields and Arena Rentals revenues were in the amount of \$11.7 million.

We found that there was limited access control over the CLASS system. The allocation process (e.g. allocation of ice rental to the customers) is performed by the program coordinators. We noted that there are no access controls, and thus many City of Ottawa staff have access to the system and are authorized to make changes to the rental contracts. Although reviews are made by the program coordinators and major changes would likely be detected, undetected changes could result in incorrect bookings, inappropriate revenue recognition and inaccurate billings. As a result, inappropriate personnel may have access to the information and have the possibility of making unauthorized changes.

### **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.**

#### **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.

### **5.1.2 Contracts Verification**

Arena and sport field rentals contracts are considered finalized only when they are firmed up in the CLASS recreation program registration and facility booking system. The program coordinators, once the contracts are returned signed and approved by the customer, firm up the contracts in CLASS. Only then is revenue recognized through the Corporate Financial Management System (SAP). Contracts may remain “non-finalized” in the system and therefore a review of the contracts is necessary. This could result in revenue not being recognized. We were informed that a review of the contracts, that are not yet finalized, is currently being performed by staff. This is not a formal process; therefore, this review could easily be missed and not performed on a timely basis. There is also no evidence that this review is performed as reports, analyses and follow up documentation are not completed and retained.

**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.**

**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.

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

For fiscal 2005, Sportfields, Registrations and Summer Camp revenues were in the amount of \$12.8 million.

**5.2.1 Pricing**

The pricing of various types of programs and memberships are predetermined in the CLASS system by the programmers and are populated by the system when registration is performed. We noted that controls within CLASS are ineffective as price overrides are possible. Price overrides are safeguarded through the permissions and authorization level. However, due to staff constraints at some locations, permission controls are ineffective. Management has identified the risk created by overrides, however, based on our observations, overrides remain a possible function. This results in risk of incorrect or fraudulent pricing of revenues and memberships.

**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.**

**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.

### **5.2.2 Cash Deposits**

Within Sportfields, Registrations and Summer Camp areas, we found cases where only one employee prepared the cash deposit. This represents a segregation of duties deficiency since cash could easily be stolen and not reported.

#### **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.**

#### **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.

### **5.2.3 Refunds**

Staff with the appropriate CLASS system permission level can approve refunds at any time within 18 months after the end of the program that a customer has been registered for. Refunds are approved at the facility level and not by the FSU. (See section 5.1.1 Control Access.) For example, a refund can be made on a registration for a program after the program has ended as long as the staff has the proper authorization level. The time frame allowed for refunds was determined to be too long and there is a lack of control over the refund authorization process. In essence, due to a long refund period, it is possible to carry out fictitious refunds, which would go undetected. Changes have been made to the allowable refund period. Allowable period has been changed to six months. In our opinion, this change is insufficient as six months remains too long and creates opportunity to falsify refunds.

A 2006 report to the Fraud and Waste Hotline exposed a system control weakness, which enables employees to issue refunds of \$10,000 against their personal debit or credit card even after programs had ended.

Pursuant to our work, we found that there was a need for greater involvement on the part of the Financial Support Unit to ensure that appropriate controls and processes are in place relating to refunds.

### **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 predetermine percentage of CLASS refunds.**

### **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.

#### **5.2.4 Accounts Receivable Balances**

Registrations are recorded through the CLASS system and balances can remain unpaid. This results in an accounts receivable in the CLASS system. These balances are not reviewed on a timely basis. Quarterly, area managers will meet and review these balances; however, there is no evidence of this. No reports or summary on the follow-up of these balances are maintained. This weakness results in potentially large accounts receivable balances not being collected.

#### **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.**

#### **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.

#### **5.2.5 Pricing Review**

Pricing within the CLASS system is predetermined. Prices for arena rentals, sports field rentals, hall rentals, admissions (pool, public skating), swimming lessons, fitness and aquatic memberships are standardized across the City. These prices are entered by CLASS Support who follow a clear process for entering, checking and verifying that the information is correct. The recreation programmers enter their own facility-specific programs (e.g. aerobic classes, art classes, summer camps, etc.). They also follow a specific process driven by CLASS Support for data entry, checking, and verifying the accuracy of information. City staff maintain that this information is verified again when each Recreation Guide is produced in hard copy and the recreation programmers should review the Guide to ensure the prices are the same as in the CLASS system. However, no evidence regarding these reviews is kept; no logs and/or reports are

retained for this review. This could result in incorrect pricing and potential errors remaining undetected because the review may not be performed.

### **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.**

#### **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.

## ***5.3 Procurement and Disbursement Process***

### **5.3.1 Posting of Duplicate Invoices**

Applies to all FSUs.

Currently, the Corporate Financial Management System (SAP) allows duplicate invoices to be posted and eventually processed. The Corporate Financial Management System (SAP) will notify the employee who is creating the Goods Receipt or Service Entry, by showing an attention item at the bottom of the screen, but will allow them to still proceed with the transaction, as only a notification is shown. This could lead to an invoice being processed for payment twice. It is important to note that the notification is generally shown to two individuals; for example, for Departmental Purchase Orders (DPOs), the FSU will see the notification when the Goods Receipt is created and the Accounts Payable Clerk will also see the notification when the accounts payable voucher is created. For Purchases Without Reference (PWRs), the notification will appear to the creator within the Corporate Financial Management System (SAP) and to the individual releasing the PWR on the Corporate Financial Management System (SAP). Note that once the transaction is processed, no audit trail exists of such notification.

From the entire 2005 vendor payments database, transactional data analysis was conducted. The review centered on payments to vendors that had the same invoice numbers, invoice dates, and amounts. Based on the initial results, a judgmental sample of entries was selected for further review. This sample is not statistically valid but serves to illustrate opportunities for potential cash recovery.

We reviewed a judgmental sample of 279 entries with a dollar value of nearly \$2.7 million. From our review of the source documents, we found that 19 of the 279 entries were duplicate payments, which represents an occurrence rate of nearly 7%. These duplicate payments amount to \$9,064, which represents approximately 0.3% of the total dollar value of the sample. All duplicate payments found had a dollar value of less than \$3,000.

We also noted a breakdown in the payment processing and approval process. In 3 of the 19 cases, a FSU had reviewed both the original invoice and the duplicate. Further, in two of these three cases, the duplicate payment was made to the vendor even though it was expressly noted on the source document that it was a "Possible Duplicate". It was also observed that 13 of the duplicate payments involved payments without reference to a purchase order where either both payments were processed as a payment without reference or one was processed as a payment without reference and the other processed as a payment against a purchase order. The other six duplicates resulted from processing the original invoice and the reminder notice and invoice copy against the same purchase order.

There was also a lack of supporting documentation and segregation of duties. For example, payments to Postage by Phone did not include a vendor statement or invoice. In addition, the same person is responsible for requesting the payment, authorizing the payment, and the cheque is returned to this person prior to mailing.

These results suggest a likelihood of weakness in internal control, business process, and/or system controls and illustrate areas where improvements within the financial process are necessary.

### **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.**

### **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.

### **5.3.2 Three Way Match (Purchase Order – Goods Receipt – Invoice)**

The Corporate Financial Management System (SAP) is designed to conduct a three-way match between the purchase order, goods receipt and invoice. For materials, the goods receipts transaction confirms the receipt of the goods and should be recorded when the City receives them. The goods receipt transaction for services can only be confirmed based upon the receipt of the invoice from the service provider and therefore cannot be recorded until the receipt of the invoice.

Invoice information is used to create a “goods receipt” for some goods and all services. Therefore, the day that the goods or services are received is not necessarily documented and typically the date used for the goods receipt entry is the invoice date. Typically, the invoice is received by the FSU, which creates the goods receipt within the Corporate Financial Management System (SAP) using invoice information. The invoice is then forwarded to the Accounts Payable Unit, which enters in the same information to prompt the payment. Cut-off errors can occur since the receipt date of the inventory or services is the day that the accounts payable should be recognized. The City is currently creating an accounts payable entry solely based on invoice date that may be several days or weeks after the receipt of goods and services. Significant timing errors could occur in the recording of accounts payable.

However, the practice differs for the Field Operations Portfolio Unit, which inputs the goods receipt based on packing slips for their salt transactions only (65% of their disbursements) instead of the invoice. They adopted this business practice to reduce complaints from vendors as a result of late payments. The Field Operations Portfolio Unit will keep the packing slips and attach them to the related invoice and forward the package to the Accounts Payable Unit for payment processing. This practice should be adopted for all disbursements of this FSU and by other FSUs.

Packing slips for large transactions should be sent to the FSU for processing the goods receipt entry within the Corporate Financial Management System (SAP). At a minimum, staffs that sign the invoice to support receipt of goods should state on the invoice the date such services and/or goods were received. Management indicated that for the stores inventory process, the Corporate Financial Management System (SAP) is configured to conduct a three-way match between the purchase orders, the goods receipt and the invoice. However, no oversight or reconciliation occurs on a test-basis.

We are of the opinion that these issues indicate the City's lack of fundamental internal control in the management of the receipt of goods. As part of its 2007 work plan, the Office of the Auditor General is scheduled to conduct an Audit of Inventory Management.

### **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.**

#### **Management Response**

Included in the overall management response.

### **5.3.3 Invoice Authorization**

Applies to all FSUs.

Based on discussions with various FSUs, it is common practice for goods based invoices with reference to a purchase order to be signed off by the FSU client. This sign off demonstrates that the FSU client has received the goods stated on the invoice, and therefore, the FSU will record their goods receipt entry in the Corporate Financial Management System (SAP) based on this information. The invoice is usually forwarded to the Accounts Payable Unit who enters the invoices information and prompt for payment. If the invoice is received directly by Accounts Payable, it is typically held there until a goods receipt appears in the Corporate Financial Management System (SAP). If, after some time, no goods receipt appears, Accounts Payable staff contacts the FSU for processing, but do not usually forward the invoice for signature. If an unsigned invoice is kept with Accounts Payable for processing, there is no evidence that the FSU has actually contacted the client to ensure that the correct items have been received.

Time lags can result between the actual receipt of the invoice and its payment, due to Accounts Payable holding on to goods based invoices. Cases exist where the vendor

has had to re-contact the client department or FSU for past due accounts and have had to forward a new invoice for processing.

### **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.**

#### **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.

### **5.3.4 Three Way Match Exception Reports**

The three way match exception reports are solely utilized by the Accounts Payable Unit. At this stage, the related FSUs responsibility has been fulfilled.

The Corporate Financial Management System (SAP) allows Accounts Payable staff to release payments for transactions for which more than a 5% variance exists between the goods receipt, purchase order and invoice. This type of transaction is supposed to be released by only the Senior Coordinator. Currently, staff go through an alternative screen within the Corporate Financial Management System (SAP) and change the status of the transaction. Accounts Payable staff that enter the invoice information in the Corporate Financial Management System (SAP), to prompt payment, could thus

process payments, which have large variances to the purchase order without authorization or review. This could provide opportunities for fraudulent activities as vendors could be paid an amount much larger than that on the purchase order.

### **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.**

### **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.

## **5.3.5 Printing of Daily and Weekly Cheques**

Cheques are printed daily and can be printed more than once. Once the Corporate Financial Management System (SAP) cheque file has been created by the Accounting Clerk, the Corporate Financial Management System (SAP) does not limit the number of times that it can be printed. This could provide opportunities for fraudulent duplications of cheques or result in delays in reconciliations and payment operations.

Similarly, a weekly cheque file can be downloaded more than once to the designated cheque printer by the Digital Printing Technician or anyone who knows his computer password. This is possible since the file, which is sent via email can be downloaded until the Digital Printing Technician deletes the file from the protected server.

Like many corporations, the City of Ottawa falls victim annually to a number of attempts of cheque alterations or forgeries. We determined that, since 2003, there have been at least 40 such occurrences, which have been prevented from clearing our account payable account.

It was observed that Financial Accounting has been diligent in crafting a Branch policy entitled "Fraudulent Cashed Cheques" which took effect in September 2006. This policy provides guidance to Financial Services staff to identify and take action as appropriate if any unusual items are identified in downloading the daily banking activity and reconciling the bank account. We were advised by management that the City has not incurred any financial losses as a result of attempted fraudulent account payable cheques as of yet. Management also advised us that additional steps and measures have been established to prevent fraudulent cheques from being cashed. Documenting and reviewing all cases of attempted fraud may help the City to improve its safeguard features on its cheques.

### **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 was turned back by the bank. In addition, that these cases be reported to Corporate Security.**

### **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.

### 5.3.6 Physical Cheque Log

No log is kept to monitor cheque boxes movement from the vault and/or the safe within the print shop. It is policy that two employees go into the vault at the same time, but this cannot be verified. Since no listing is maintained of which cheque boxes should be in the vault and which ones have been taken for printing, it would be difficult to detect any missing boxes in a timely manner.

A cheque quantity log should be kept for the vault. When a new order is received and placed in the vault, the box and cheque numbers received should be noted. When boxes are removed from the vault, these should also be noted and employees who took the box should initial the log. The quantity of cheques on hand should be periodically inventoried and agreed to the log.

#### **Recommendation 24**

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

#### **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.

### 5.3.7 Daily and Weekly Cheques

Cheque lots are received at the print shop and allocated between the print shop and Financial Services. The reconciliation of all cheques on hand can become complex when the one location finishes their lot before another.

The City should consider having two separate sets of cheques ordered, one for daily cheques and another for the weekly cheques. This would result in efficiencies for City employees as management would spend less time reconciling such lots at both

locations. Also, it would be easier for a manager to control the cheques being used, as all cheques will be on location.

### **Recommendation 25**

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

#### **Management Response**

Management agrees with this recommendation.

This recommendation will be implemented in Q2 2007.

### **5.3.8 Print Shop Segregation of Duties**

The Senior Supervisor of the print shop creates his own manual work order and purchase order for cheque requisitions. Also, deliveries are received by himself or his staff. No signature, other than his own, is required on this paperwork. The fact that he also physically receives orders provides the potential of ordering cheques without another City employee being aware. He is also responsible of reconciling the sequences of cheques received to the prior order.

### **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 orders and receives the cheques.**

#### **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 manufactures.

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.

### **5.3.9 Supply Management Division Review**

It is currently not the responsibility of Supply Management Division to verify who approved the technical and budgetary releases for purchases. The Division assumes that this responsibility lies with the FSU. During our testing, the Division's employees seemed unaware that some purchase requisition releases were not approved by the FSUs (e.g. Real Property Asset Management Portfolio Unit, which has delegated the authority to the client department). In such cases, the delegations are imbedded within the Corporate Financial Management System (SAP). Supply Management should be aware of who is approving the budgetary release, as this would further ensure that the work is being requested by an individual with appropriate delegation. Note that when the budgetary release is approved by someone within the FSU, the responsibility to review the delegation of authority should stay with the FSU (as the requisitioner's name might not be recorded within the Corporate Financial Management System (SAP)).

#### **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.**

#### **Management Response**

Included in the overall management response.

## ***5.4 Payroll***

At amalgamation, the City of Ottawa had various payroll systems. To streamline its operational requirements, the Corporation made the decision to standardize human resources (HR) management through the City's Corporate Management Financial System; HR/Payroll System SAP 4.6C. Employee Services Branch is responsible for the payroll process and Financial Services Branch has little involvement in the payroll process. In 2005, compensation accounted to 46% of the City operating budget of \$2.1 billion.

### **5.4.1 Request for Personnel Action form - Approval Authority**

The Request for Personnel Action form is used to initiate a hiring process. When a RPA is received by a Human Resource Consultant (HRC), the authorized Program Manager or Supervisor's name indicated in section 3 of the RPA is not "hard coded" and can be edited by the HRC. There is therefore no assurance that the authorized

Program Manager or Supervisor has approved the RPA as the hard coded name is that of the sender based on the desktop computer name of the person who directly send it to the HRC. The RPA instruction indicates that: “if the administrative support person has completed the form, they must ensure that the email address appears in the SEND TO box in section 3 of the RPA.” However, this email address in the box is not at all times received by the recipient because either the email address is incorrect or due to unexplained technical errors noted in our process walkthroughs.

In addition, the HRC cannot verify that this RPA has indeed been sent to the Program Manager or Supervisor because the email address does not show up upon receipt of the RPA unless they verify this directly with the hiring Program Manager or Supervisor.

Although an administrative assistant or staff coordinator may initiate the preparation of a RPA, supervisors should sign and the approval should rest with Program Managers. The Program Manager or Supervisor’s hard coded desktop computer name should appear on the RPA in order that proper hiring approval is readily verifiable.

### **Recommendation 28**

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

#### **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.

### **5.4.2 Signed Employment Offer Letter**

Employment Offer Letters are usually prepared by the Human Resources Consultants. However, Long Term Care and Public Health casual employees’ offer letters are prepared by staff coordinators.

Thus, full time and casual employment offer letters are not prepared consistently.

### **Recommendation 29**

**That Employee Services Branch require that Employment Offer Letters be prepared by the Human Resources Consultants (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.**

### **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.

### **5.4.3 Review of Incumbent Report**

The Incumbent Report details all employees' position number, organizational unit, pay grade, pay level and other payroll related information. Errors in employee master data entries and position pay levels would normally be identified by Program Managers or Supervisors of a particular area upon review of this report.

Through our discussions with various Program Managers and/or Supervisors, it was highlighted that there was no consistency across the Corporation when using the Incumbent Report. Some Program Managers and/or Supervisors use this report only when preparing a RPA.

### **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.**

### **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.

#### **5.4.4 “Maintain” Access to Employee Master Data**

Employee Time Assistants (ETAs) are responsible for the creation of employee master data based on the Requests for Personnel Action. A Payroll Analyst reviews the Request for Personnel Action against the data created or entered in the Corporate Financial Management System (SAP) employee master data.

There are currently six positions that have “maintain” access to the employee master data. Payroll staffs that have “maintain” access to employee master data can create or change employee master data without being noticed, since the Payroll Analyst reviews the changes only if there is a Request for Personnel Action.

#### **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.

#### **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.

#### **5.4.5 Options to Override**

Pay rates are configured in the Corporate Financial Management System (SAP) based on position, union affiliations, pay grades and level. However, because of variations with regards to red-circled employees, pay levels may be changed to “00” and pay rates can be manually entered.

The next increment date is initially manually entered and the system would indicate the next increment date based on the employee status (full-time, casual or part-time and union affiliations). The increment date can be changed, as it is not blocked.

The Senior Payroll Analyst has the responsibility to run and review reports for increases made by the system based on next increment dates. This review is on a spot check basis only and therefore, errors could be missed.

In addition to pay rate changes, the Corporate Financial Management System (SAP) permits for greater than individual collective agreements' allowable uncertified sick leave days. The City of Ottawa has several conventions detailing the terms of employment for employees at all levels of the organization. Furthermore, we observed that uncertified sick leave days are captured through four distinct leave codes within the Corporate Financial Management System (SAP):

- 6051: Income Protection Plan (IPP) uncertified (used by CUPE, CIPP, MPE employees)
- 6053: IPP with top-up uncertified (used by employees with “old sick leave banks”);
- 6055: Sick Pay Fire uncertified (used by Fire Services Branch because they may accumulate unused sick leave); and
- 8117: Uncertified sick leave (used by OC Transpo employee – as their former absence type was never amended to reflect the new City's 6051 absence type)

In many cases, collective agreements at the City require staff to provide a medical certificate after four consecutive days of sick leave. This requirement is applicable to both CUPE 503 Inside/Outside and CIPP employees.

In reviewing absence for CUPE 503 Inside/Outside and CIPP staff for 2006, we found numerous instances where greater than four consecutive working days were taken yet the absences in the Corporate Financial Management System (SAP) were uncertified.

Certification for sick leave after a specific number of cumulative working days, in any calendar year, is required under the CUPE 503 Library, CUPE 503 Inside/Outside and CIPP collective agreements. The other employment agreements do not specify this requirement. Therefore our analysis was conducted on CUPE 503 Inside/Outside and CIPP staff.

The CUPE 503 Inside/Outside collective agreement states that a medical certificate is required subsequent to an employee taking eight days of uncertified sick leave during a year. For CIPP employees, the allowable amount is 10 uncertified sick leave days in a year. Furthermore, both the CUPE 503 Inside/Outside and CIPP collective agreements state that a medical certificate is required after an employee has taken four consecutive working days of sick leave.

Analysis on the data entered in the Corporate Financial Management System (SAP) between January 1 to December 31, 2006, revealed that 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 agreement. Based on the employees December 2006 pay rate, this represents an estimated cost of approximately \$1,094,000.

For the period reviewed, January 1 to December 31, 2006, we compared total CUPE 503 Inside/Outside and CIPP staff, which had surpassed the limit set in their individual collective agreement, to specific branch approved total FTEs. The following are the top five branches, which had the highest percentage of staff with uncertified sick leave days greater than the limit of their respective collective agreement:

- By-law Services, 20.5%;
- Client Services and Public Information, 18.5%;
- Employment and Financial Assistance, 18.3%;
- Surface Operations, 16.7%; and
- Utility Services, 14.3%.

Uncertified sick leave days warrant management attention.

### **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.**

### **Management Response**

(a) Management does not agree with this recommendation.

Management believes that 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.

#### **5.4.6 Time Report Summarization – Segregation of Duties**

At the Long Term Care facilities, time reports are prepared and summarized, without independent review, by Staff Coordinators based on the rotation schedules (which are also prepared by the Staff Coordinators), with changes based on phone-in leaves or supervisors' verbal instructions.

Because of the reliance on Staff Coordinators for preparation of time reports and RPAs, there should be an oversight review of the submitted time report and segregation of duties. Rotation of Staff Coordinators should be implemented between Long Term Care facilities to limit the opportunities of false employees and/or employees being overpaid.

#### **Recommendation 33**

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

#### **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.

#### **5.4.7 Time Report Entry**

Time and Transaction Assistants (TTA) enter all time reports into the Corporate Financial Management System (SAP). An Audit “Time” report is printed by the TTA the following day to verify the time reports against what they have entered in the Corporate Financial Management System (SAP). However, the TTAs review is not consistent; some conduct spot checks while others perform a complete review.

During 2005, we observed occurrences where a staff detected erroneous leave charges against their pay stub. An inquiry to Payroll reported that these were the result of another employee using the wrong employee number when submitting their Exception Leave Request/Time Reporting forms (ELR/TR). A simple verification by the data entry clerk, that the employee number entered in the Corporate Financial Management System (SAP) correlates to the name of the employee submitting the leave form would suffice to ensure data integrity and eliminate unnecessary errors.

The Office of the Auditor General’s 2005 Audit of Overtime reported a case where an employee was self-authorizing, signing and submitting their own Exception Leave Request/Time Reporting forms (ELR/TR) over a 20-month period for compensation totalling approximately \$41,800. Verification by the Time and Transaction Assistants (TTA), that an appropriate supervisory authority signed the ELR/TR form would have identified this situation within a relatively acceptable delay.

While both observations were previously reported to Payroll, processes to identify and prevent irregularities were found to remain a concern.

#### **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.**

#### **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.

#### **5.4.8 Annual (Vacation) Leave Bank**

City employees are generally not permitted to carry over more than one year's annual leave entitlement, to the next fiscal year. However, the Corporate Financial Management System (SAP) is not configured to identify and restrict annual leave balances in excess of this maximum.

Our work relating to payroll processes covered the Long Term Care, Public Health, Cultural Services and Community Funding, Housing and Utilities FSUs' Portfolio Units. To validate the extent of this practice, our sample included all employees of one division within scope; the Wastewater Division of the Utility Services Branch. Using annual leave carried-over at the end of 2006, we found that of the 125 staff reviewed, 31 or 25% had carried-over in excess of their yearly entitlement. In total, the Division carried-over 2,511 hours (or approximately 307 days of excess annual leave) to 2007.

During 2005, Employee Services Branch informed us that the carry-over of annual leave in excess of the yearly entitlement is dealt with within individual collective agreements. The sections relevant to the Wastewater Division are as follows:

- *Per section 7.1.1 (i) (j) (k) of the CUPE 503 Inside/Outside collective agreement, "employees who have more than one year's vacation leave entitlement to their credit must obtain written authorization by September 15<sup>th</sup> of each year, from the Deputy City Manager (formerly General Manager) of their Department, to carry over their excess leave to the following year".*

- *Per section 8.05 – Maximum Carry-Over of the CIPP collective agreement, “employees are not permitted to carry over more annual leave into the following year than the number of days of leave earned by them in that year unless they receive prior authorization from their immediate manager”.*
- *Per the Carry-Over Leave section of the MPE agreement, “employees are encouraged to utilize vacation leave in the year in which it is earned. Where this is not possible, carry over of unused vacation leave up to a maximum of one year’s entitlement is permitted”.*

The general practice of the City is to restrict or limit staff annual leave carry-over to their yearly entitlement.

In the past, Employee Services Branch have provided reports to managers whose staff had accumulated high balances. The responsibility to track and manage leave ultimately resides with individual managers. Managers are provided training and access to the Corporate Financial Management System (SAP), Human Resources module to access the information. Nonetheless, no control or safeguard exists at present within the Corporate Financial Management System (SAP) to identify or restrict carry-over in excess of allowable limits.

Annual leave accrues as it is earned and thereafter this accrual is reduced as leave is taken. The annual leave allowance is increased by an employee's continuous years of service. At the City, accrued annual leave is reflected monthly on an employee's pay stub, thus providing each employee an ongoing balance.

When expanded to a corporate-wide basis, carry-over of annual leave represents an important financial liability to the City and should be limited to the extent possible. We estimate the excess portion of the carry-over liability, at the end of 2006, to represent 25,785 days totalling approximately \$6.8 million.

The liability relating to annual leave is the product of an employee's hourly rate and annual leave balance at the end of the fiscal year. Upon leaving the City, any unused annual leave balance, regardless of the hourly rate at which it was earned, will be paid out at the employee's latest hourly rate; thus the future monetary value of annual leave. Generally, an employee's hourly rate is at its highest level when they leave the City.

From a financial perspective, we are of the opinion that the City would benefit financially from encouraging staff to draw down on their annual leave banks rather than paying the leave balances. For those employees where circumstances are not congruent to drawing down on balances, and where the City elects to pay the excess annual leave balances, payment should be done within the 2007 fiscal year, at the employees current hourly rate, rather than at future higher wage rates. Our report did

not take into consideration the qualitative and health benefit associated with taking leave rather than paying it to employees.

We found that on a corporate-wide basis, 1,713 employees carried over annual leave exceeding their maximum allowable entitlements into 2007. Figure 2, below, outlines the number of employees by classification within various ranges of excess days. Figure 3, outlines the dollar value of days in excess of allowable maximum as at December 31, 2006 by classification of the various collective agreements. Included in Figure 2 and 3 are staff on long-term disability.

EXCESS DAYS	CUPE 5500	ATU 279*	CUPE 503 Inside/ Outside*	CUPE 503 Library	CIPP*	MPE*	Non-Union/Non MPE*	OPFFA (Fire)*	ATU 1760	TOTAL
<25	1	268	683	9	245	140	38	14	7	1405
25 - 49	0	3	92	1	41	38	11	6	2	194
50 - 74	0	0	38	0	9	21	6	4	0	78
75 - 99	0	0	9	0	3	6	0	0	0	18
100 - 290	0	0	6	0	2	10	0	0	0	18
<b>TOTAL</b>	<b>1</b>	<b>271</b>	<b>828</b>	<b>10</b>	<b>300</b>	<b>215</b>	<b>55</b>	<b>24</b>	<b>9</b>	<b>1713</b>

\* Includes staff on long term disability

**Figure 2: Annual Leave in Excess of Allowable Maximum as at December 31, 2006**  
(Number of staff by collective agreement)

EXCESS DAYS	CUPE 5500	ATU 279*	CUPE 503 Inside/ Outside*	CUPE 503 Library	CIPP*	MPE*	Non-Union/Non MPE*	OPFFA (Fire)*	ATU 1760	TOTAL
<25	\$2,583	\$202,213	\$1,166,690	\$5,212	\$504,763	\$486,251	\$63,481	\$47,275	\$4,540	\$2,483,009
25 - 49	\$0	\$15,289	\$661,459	\$4,806	\$405,143	\$482,567	\$68,147	\$57,664	\$9,652	\$1,704,726
50 - 74	\$0	\$0	\$464,320	\$0	\$160,443	\$497,616	\$54,867	\$73,989	\$0	\$1,251,236
75 - 99	\$0	\$0	\$160,109	\$0	\$70,978	\$228,444	\$0	\$0	\$0	\$459,532
100 - 290	\$0	\$0	\$223,464	\$0	\$47,640	\$562,509	\$0	\$0	\$0	\$833,613
<b>TOTAL</b>	<b>\$2,583</b>	<b>\$217,502</b>	<b>\$2,676,042</b>	<b>\$10,018</b>	<b>\$1,188,967</b>	<b>\$2,257,388</b>	<b>\$186,494</b>	<b>\$178,929</b>	<b>\$14,192</b>	<b>\$6,732,115</b>

**Figure 3: Annual Leave in Excess of Allowable Maximum as at December 31, 2006**  
(Dollar value of days in excess of allowable maximum by collective agreement)

Little oversight seems to be given to annual leave planning and management. To avoid the accumulation of excess annual leave, which is a financial liability for the City, we must look to the Corporate Financial Management System (SAP) to provide restrictions and to management to establish, for future years, an "alert" process. Furthermore, to alleviate the present situation, for the days reported in the Figure 2, above, staff should be made to identify the period in which they will take the leave before the end of the calendar year or ultimately the leave balance paid out before the end of the fiscal year.

When comparing both databases, out of the 1,713 employee, we found that 71 CUPE 503 Inside/Outside and CIPP employees, with greater than their individual collective agreements allowable sick leave (IPP) levels, also had vacation leave banks in excess of one year entitlement. We found that these employees could be attributed to the following top five branches:

- Surface Operation, 11 employees;
- Long Term Care, 10 employees;
- Employment and Financial Assistance, 7 employees;
- Utility Services, 7 employees; and
- City Clerk's Services, 6 employees.

### **Recommendation 35**

**(a) That Information Technology Services Branch in conjunction with Employee Services Branch review the Corporate Financial Management System (SAP) design/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.**

### **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:

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

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

#### **5.4.9 Review of Cost Centres**

The Program Managers' review of payroll cost centers in their area of responsibility is not consistent across the Corporation.

After every payroll close, the Payroll Analysts conduct a review of all net pays higher than \$3,000 for errors or unauthorized changes. Since Payroll Analysts work within the Payroll Division, some errors might not be detected, as the Payroll Analyst is not involved with daily operations of the City's various departments.

Payroll Cost Center reports generated in the Corporate Financial Management System (SAP) would enable the Program Managers to identify abnormal amounts for employees. Scanning and keeping such support would not really take up much time, as Program Managers are more involved with the operations and daily activities.

#### **Recommendation 36**

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

### **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.

#### **5.4.10 On-Demand Cheques**

On-Demand cheques are issued by the Payroll Division for payments to RRSP accounts, employees who require their pay in cheque form, and other situations requiring immediate payments.

Two Senior Payroll Analysts have authority to process and print cheques. We noted that the Payroll Research Officer could process and print a cheque with electronic signature using test clients. In addition, unused cheques are not properly secured.

### **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 System (SAP) environment.**

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

### **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.

## ***5.5 Effectiveness of the Financial Support Units***

### **5.5.1 Verification of delegation of authorities - Real Property Asset Management Branch**

While conducting our walkthroughs we noticed that some employees were authorized within the Corporate Financial Management System (SAP) to conduct the technical and budgetary releases for higher dollar values than their 'prescribed' authority levels. No one has the responsibility to verify the delegations in RPAM once the budgetary release is conducted (FSU and Supply Management do not verify authority as they rely on the Corporate Financial Management System (SAP)). Therefore, it would be possible for an RPAM district manager (with authority up to \$50,000) to perform the technical and budgetary releases on a PO for \$90,000. The FSU or Supply Management would not likely detect this, as they do not consider it their responsibility to verify purchase order releases.

#### **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.**

#### **Management Response**

Included in the overall management response.

## ***5.6 Corporate Financial Management System (SAP) Data Analysis***

### **5.6.1 Revenue Stream Analysis**

Revenues for Parks and Recreation Branch are first captured on CLASS recreation program registration and facility booking sub-system and subsequently uploaded to the Corporate Financial Management System (SAP).

We reviewed four specific revenue streams for the year ended December 31, 2005. More specifically, we reviewed all revenue transaction data associated with Sports Fields, Registrations, Summer Camps Registrations and Arena Rentals.

The results of our analysis did not highlight any significant issues or apparent anomalies. However, results did demonstrate that data cleanup is required. For

example, 558 clients within the system had a nil value account balance, with 404 of these accounts relating to Summer Camp registrations.

There were also instances of missing information within some records. For example, 3,771 registration entries did not have a corresponding "Course Session Year".

### **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.**

#### **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.

### **5.6.2 Disbursement Analysis**

We requested a system file containing all the disbursement transactions for the entire City of Ottawa for fiscal 2005. These transactions were then analyzed and the resulting reports provided a number of instances where, depending on the City's expectations and policies, there could be inefficient policy or practice breaches.

Highlights of the transactional data analysis include:

- Identification of conflicts, which may arise when employees act as vendor was undertaken. Based on an address and postal code match between employee file and vendor master file, we identified records for further review. It should be noted that the City provides guidelines to its employees relating to "moonlighting" in both its policy on Outside Business Activity and Code of Conduct. Additional transaction data analysis surrounding excessive employee expense reimbursement was performed. Samples from both analyses were selected for further review. As a result of our work to date, one case remains subject to further review.
- Identification of invoices, which were dated before the purchase order date was undertaken. For fiscal 2005, 5,606 invoices totalling \$23.6 million were identified. A

non-statistical sample of 50 was reviewed to determine if the invoice date was entered correctly. Our review identified that 98% of the invoices sampled were in fact dated before the purchase order date. This practice is not in conformance with standard purchasing practices, which requires a purchase order be in place prior to the ordering, receipt or payment of any purchase.

- Cycle time analysis on the number of days between invoice date and cheque date was undertaken.

Payment Aging	Number of Invoices	Invoice Amount
Before invoice date	2,304	\$31,993,615
On invoice date	7,836	\$47,773,527
1 to 15 days	120,367	\$446,042,758
16 to 30 days	111,526	\$360,535,956
31 to 60 days	50,461	\$168,745,153
61 to 100 days	12,050	\$37,395,231
Over 100 days	8,701	\$38,926,601
<b>Total</b>	<b>313,245</b>	<b>\$1,131,412,841</b>

**Figure 4: Aging of 2005 Disbursements**

From the 313,245 disbursements, we excluded payments such as employee disbursements, payments to social services clients and agencies, payroll, school board and other remittances, grants, rent, etc. The remaining 186,476 disbursements totaling \$499 million are estimated primarily to be to suppliers of goods and services, and paid before the generally accepted 30-days from the invoice date. We reviewed a non-statistical sample of 50 disbursements to verify that the invoice date was entered correctly. Financial Services did not provide one of the invoices, and 90% of the remaining 49 invoices had the correct invoice date. The 10% with a different invoice date were still paid before the 30-days from the invoice date. In addition, from the sample we noted that a recurring payment was set up without proper authorization resulting in overpayment of \$750. In this case, the City's Corporate Financial System (SAP) was set-up to issue 12 monthly payments although authorization was for 6 months only. We estimated potential foregone interest revenues of as much as \$291,000 using RBC average T-Bill interest rate of 1.7%. This indicates a need for better cash management.

RBC's average T-Bill interest rate was used as management informed us that the City did not have a short term borrowing program in 2005 except for the occasional overnight facility to cover banking operations. At that time, the rate of interest charged on overnight borrowings was RBC Prime less 1/2 of 1%.

The Office of the Auditor General is considering conducting an audit of Treasury function.

#### **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 purchases.**

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

#### **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.

## 6 CONCLUSION

At amalgamation, the City was presented with the task of consolidating the former 12 municipalities various systems into one integrated financial control environment. Centres of expertise, such as Financial Support Units were created in recognition of the City's need to centralize its expert knowledge and specializations to ensure consistent levels of support services were being provided and received across the Corporation. Although conceptually a sound idea, we find that further improvement is needed to support management's achievement of this goal.

The City's endeavours also fell short by not clearly developing a financial control framework or assigning the oversight for the financial control environment. In our opinion, we can only benefit from strengthened controls in this key area. "One voice" could communicate and uphold its existing and new controls and ensure that we remain compliant with policies and operating procedures relating to financial management.

FSUs play a pivotal role in the City's financial control environment. Clearly the lack of oversight result in inconsistency of financial practices and procedures throughout the Corporation - hence a fragmented framework. We could find no clear Corporate direction or understanding of their roles and responsibility. While FSUs have taken great stride to meet their clients' needs, we have observed that they still required improvement in terms of consistency of internal financial control, as well as compliance with policy and procedures. As a first step, one stringent set of guidelines and procedures, for all FSUs to adhere to, need to be established, communicated, continually reviewed and clearly documented.

We found the role and responsibility of Accounting and Reporting Division in respect to the financial control environment to be limited. Improvements in terms of guidance

and greater monitoring and regular compliance reviews of actual disbursements, revenues, operating performance and cash flows would strengthen controls.

The City has made great progress by investing in a state of the art financial system. In our opinion, challenges still exist in relation to the utilization of its full functionalities. The City still lacks a full financial control environment on which the external auditor could rely on while conducting the statutory attest audit.

In summary, we found a lack of an overall financial control environment, which is critical when trying to set an atmosphere conducive to effective management operations in conjunction with the sound operations of a reliable financial system.

Some of the weaknesses of the City's management control environment were also raised in the Office of the Auditor General's 2005 Audit of the Management Control Framework. We found that during 2006, management had not taken action, which they had agreed to, to resolve the significant issues raised in this audit. Management had agreed to implement the 2005 audit's recommendations at no additional cost. We understand that it is management intent to seek third-party independent advice in 2007 at a cost of \$100,000 to develop an effective internal control framework for the City.

We have attached as Appendix 2 an excerpt of our observation and recommendation as well as management's response relating to our 2005 work on the Financial Management Control Framework.

In our opinion, all recommendations contained in this report can be implemented without the requirement for additional funds. However, this may require strategic redeployment of existing resources, both financial and staff.

## **7 ACKNOWLEDGEMENT**

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

## APPENDIX 1

### **Why Are Municipalities Investing In Internal Control<sup>8</sup>**

The City's stakeholders do not like surprises, and increasingly these stakeholders are scrutinizing the City's disclosures relating to its governance standards, risk management processes, and internal control structure.

#### ***Support of Key City Initiatives***

With this increased scrutiny and regulation, City executives and employees still face the daily demands of running the organization. City performance is measured primarily by managing public funds and the expectation for management of approved budgets and services rendered. Municipalities are increasingly looking for better ways to deliver on the financial performance expected by stakeholders through a variety of key initiatives. These initiatives may include capital investments and change management activities; such as IT implementations and upgrades and establishing shared service centres.

The success of these programs is predicated upon the delivery of a defined benefit, the effective use of capital resources, and the assumption of measured business risks. How comfortable, though, are municipalities that the business risks around these major programs and change initiatives are being properly controlled and managed? Almost daily, entities are reporting the failure to realize desired outcomes of major programs, significant overruns in budgets, and the late delivery of programs due to the failure to adequately manage associated risks.

#### ***Creating a Value-Based Internal Control Program***

A true value-based review of enterprise-wide risks and controls transcends the traditional view – with its emphasis on monitoring adherence to policy and procedures and identifying and reporting areas of non-compliance. A value-based view of internal controls is augmented through a control/process improvement approach, which is factored in to each stage of everyday work.

#### ***Key Elements of the Value-Based Internal Control Approach***

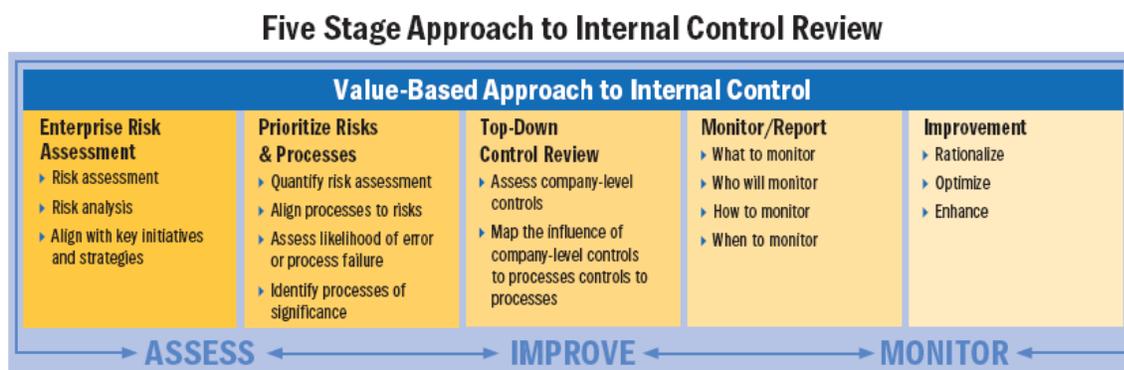
The challenge of delivering a value-based internal control program is to build a methodology that is flexible in its application, but includes appropriate rigor. The following multi-step approach can be applied sequentially or in any order depending on the regulatory and business imperatives faced by the City when responding to its risk agenda. It emphasizes three major components of control evaluation – Assessment,

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<sup>8</sup> Ernst & Young, LLP

Improvement, and ongoing Monitoring – and an ability to balance these activities depending on the drivers of the program – compliance, improvement, or both.

This flexible and adaptive approach is fundamental in changing the paradigm from a one-size-fits-all internal control program to a framework that delivers value based on the requirements of specific company stakeholders.



### ***Enterprise Risk Assessment***

The risk assessment process is a fundamental activity in any internal control program. In performing the risk assessment process, the following questions should be addressed to focus the internal control program on the areas of greatest concern to all relevant stakeholders.

- What is the scope of the internal control program (financial reporting, financial processing, business and/or operational, or a combination)?
- Which processes are of major concern?
- What areas of the City have had problems in the past?
- Where have other municipalities, or some of the pre-amalgamation cities, had problems?
- Which operations consistently under perform?
- Which capital projects or major change initiatives are the most strategic to the City's success?

The outcome from this assessment should be a clear understanding of the City's risk profile as well as the purpose and mandate of the internal control program.

### ***Prioritize Risks and Processes***

Risks are prioritized based on a range of qualitative and quantitative criteria, which indicate the likelihood of an error or sub optimal performance for a given process. This

defines the significance of the work to be performed, the type of review required, and the associated benefit.

### ***Top-Down Control Review***

Entity-level controls are the foundation of the City's internal control environment. These controls fall into two broad categories: "setting the tone" and monitoring activity.

"Setting the tone" includes issuing policies and procedures and defining terms of reference for the council and its standing committees. Monitoring activities include the financial statement close process, financial and operational variance analyses, and internal audit's capabilities and coverage of major risk areas.

The value and importance of an appropriate suite of entity-level controls has come into sharper focus over the last few years due to corporate and government scandals. Entity-level controls, if designed and operated effectively, can provide a key source of reliance and reduce evaluation of controls at the transaction level when performing compliance or regulatory reviews. This reduces the total cost of the compliance program.

In addition, strong entity-level controls are one of the most important elements of a highly effective internal control structure. They are the backbone of an effective control environment and integral to the control culture at the City. These controls guide and enable execution of day-to-day City operations, provide the flags and tools to measure delivery of objectives, and reduce the risk of a major process failure.

### ***Monitoring and Reporting***

The extent of detailed internal control monitoring and assurance is based on the risk associated with the process or program and is aligned with council, committee, and senior executive requirements. A key challenge in this area is to balance the source of the assurance and monitoring, the cost of its provision, levels of objectivity, and the competency of the provider versus the nature of the risk and complexity of the control.

Leading organizations are implementing innovative responses to monitoring and assurance demands through the appropriate use of multiple sources: self-assessment by managers and process owners, internal audit functions, and third-party service providers.

### ***Improvement***

The results of the risk assessment, process/ risk mapping, and monitoring activities at the City will provide detailed insights into the effectiveness and efficiency of the controls and associated processes. Historically, findings and recommendations from

internal control programs have addressed each individual issue and replaced an ineffective control with an effective alternative and may have ignored process inefficiencies.

A value-based approach also considers the sum of control and process issues from both effectiveness and efficiency perspectives, including the root causes of failures or performance variability, and identifies how the control and business process can be improved or enhanced.

The improvement stage of this approach is the actual improvement process itself. This is an on-going controls efficiency and process improvement focus that is built into the program. Whenever an issue is identified from the risk assessment, process/risk mapping, or monitoring activities, it is perceived as an opportunity to do things better, not merely to fix an isolated compliance issue.

### ***What Value Should be Delivered from the Internal Control Investment?***

Leading municipalities are realising significant benefits from investments in a value-driven approach. These benefits include:

- Positive influence on taxpayer confidence through increased transparency and fewer surprises
- Better understanding and alignment of appropriate controls to key risks for major capital programs and change initiatives vital to the successful execution of the City's mission
- More timely and reliable financial and business reporting
- Elimination of outdated, redundant, and ineffective controls
- Enhancement of processes and the underlying control structures, to drive operating effectiveness and cost efficiencies.

## APPENDIX 2

### 2005 Audit of the Management Control Framework

#### 3.3 Financial Management Control Framework

*The City's financial management control framework is fragmented. Control procedures, roles, responsibilities and accountabilities are set out in various ways, some formal, some informal. There is no formal framework that explicitly outlines the City's financial management control structure.*

#### **Criteria**

- An approved internal control framework is in place that identifies and documents internal control requirements and internal control activities.
- Responsibility, accountability and authority for processing financial transactions are assigned.

#### **Observations**

Financial management and internal control over financial transactions is an important part of overall management control. It is also important to note that financial management is not the exclusive domain of financial officers; it is every manager's responsibility. An important aspect of implementing good financial control is understanding of roles and responsibilities and the ability for finance and operational management to work together.

The roles, responsibilities and accountabilities of financial management activities are set out in various ways. For example:

- within Finance, roles and responsibilities are assigned through generic job descriptions and specifically assigned duties;
- the various policies and by-laws, e.g., the Purchasing By-law, Purchasing Manual and Delegated Authorities By-law, also set out responsibilities for financial transactions; and
- built-in access controls have been established within the administrative and financial applications of the City's Corporate Financial Management System (SAP).

The Corporate Financial Management System (SAP) and a number of other feeder systems, processes and procedures support the City's financial management activities. At the time of implementing the City's Corporate Financial Management System (SAP), business process maps were developed and financial transaction controls were established as part of the system design and documentation. In addition to the programmed system controls within the Corporate Financial Management System (SAP), individual managers with financial management responsibilities have put in place financial control procedures to help ensure transactions are processed in accordance with policy, legislation, and by-laws.

The control framework established at the time of implementing the City's Corporate Financial Management System (SAP) is an important element of the City's control framework. However, it does not provide a complete picture of the control requirements for overall financial management activities within the City. In other words, other than what exists in the Corporate Financial Management System (SAP) systems documentation, there is no clearly documented corporate framework that explicitly outlines the City's internal control requirements, risk considerations and accountability structure for financial management. What is currently in place is a fragmented framework, consisting of control procedures and documentation that is spread across the organization. You would have to look at individual processes by department to determine the controls that are in place.

The existing financial control framework is essentially as follows:

#### Preventative Controls (controls over processing of inputs)

- The City's financial management model is very decentralized. Reliance is placed on the Financial Support Units to ensure manual internal control procedures (e.g., delegated signing authorities, contracting requirements for quotes) are applied. As the extent of review on the transactions and processes is at the discretion of the Financial Support Units, there is a large variance in the amount of review that takes place.
- For processing individual financial transactions, reliance is placed on programmed processing controls within the Corporate Financial Management System (SAP).

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### Detective Controls (controls to detect control breakdowns subsequent to processing transactions)

There is a Policy and Compliance Unit within Financial Services that conducts compliance reviews. While a perception may exist that this unit can provide assurance that controls are working as intended, the Program Manager responsible for this area views its purpose as more limited, to include the following:

- to select a sample of transactions, using a risk-based approach, for review of compliance with financial policies, procedures and legislation;
- to examine and evaluate financial policies and controls and recommend changes or improvements where necessary; and
- to analyze issues and problem areas identified by corporate management and finance staff and recommend solutions.

In addition, various functional units (e.g., Accounts Payable, Revenue, Travel, and Cash Receipts) also have developed policy and control procedures for their operations. For example, the payment of all invoices is centralized in Accounts Payable and policies and procedures have been developed to assist in carrying out this function.

There is no formal documentation of roles and responsibilities between operational managers and the Financial Support Units. Procedures have been established but not formally documented. In some cases, these may have been established through the Service Level Agreements, but the Service Level Agreements are out of date and are not being applied. In practice, the level of service provided by the Financial Support Units varies significantly.

A coordinated and comprehensive financial management control framework helps to manage the risks of errors or omissions going undetected, exposure to fraud or inappropriate use of City assets, or inefficient or ineffective control practices not being detected. This is particularly important in an organization of the size of the City where the nature of the operations is quite diversified, decentralized, and supported by numerous feeder systems and processes.

In addition to helping to mitigate risks, a formal and coordinated financial management control framework helps to ensure that control procedures are firmly entrenched in the organization, and that the processes are repeatable and sustainable. This is fundamental requirement in demonstrating mature financial management capabilities. According to the Office of the Auditor General of Canada regarding financial management capabilities:

*The lack of repeatable, sustainable practices of financial management and control means that any data produced may not be complete, accurate or reliable. Similarly, without an adequate control framework, assets may not be adequately protected or resources adequately controlled.<sup>9</sup>*

As part of the year-end audit, the Manager, Accounting and Reporting, Director of Financial Services and City Treasurer and Chief Corporate Services Officer sign a letter of representation regarding the adequacy of the system of internal controls to permit the preparation of accurate financial statements in accordance with generally accepted accounting principles. A formal financial management control framework would help senior management in fulfilling this responsibility by providing assurance to senior management on the extent of internal control activities.

Another important aspect to consider is public perception and the City's ability to demonstrate the adequacy of its financial management control processes. For example, changes are occurring in public expectations for complete and accurate financial reporting as an increasing amount of private sector companies experience significant breakdowns in internal control. To address this, new laws have been enacted in the United States and Ontario (i.e., the Sarbanes-Oxley Act in the United States and Ontario Bill 198) that require managers of publicly traded companies to make certifications with respect to the company's internal controls over financial reporting. The experience in the private sector is starting to create expectations for improved accountabilities for internal control and financial reporting for other types of organizations, including those in the public sector. There are indicators that similar requirements may be introduced in the public sector. Indeed, within the federal government of Canada, Treasury Board has proposed similar certification requirements for Crown Corporations.

In summary, the City has many internal controls in place aimed at ensuring completeness, accuracy, authorization, etc. However, the overall framework that exists is fragmented and not coordinated. Consistent with this, Ernst & Young communicated several internal control weaknesses to management after completion of their audit of the City financial statements for 2003<sup>10</sup>. Large, diverse and decentralized organizations require more mature financial management practices to be in place to assist in achieving corporate objectives. It is appropriate for the City to take steps to better coordinate the financial management control activities by establishing a more formal and modern financial management control framework in keeping with an organization of its size and diversity.

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<sup>9</sup> Financial Management Capability Model published by the Office of the Auditor General of Canada, 1999.

<sup>10</sup> At the time of this audit, the management letter accompanying the 2004 audit of the financial statements has not been received.

### **Recommendation 3**

**That the Chief Corporate Services Officer develop a formal financial management control framework that clearly defines financial management accountabilities, control objectives, risks and the related control processes/mechanisms that have been put in place to mitigate the risks. The roles and responsibilities as they relate to shared services (in particular, the Financial Support Units) should link to those set out in the Service Level Agreements between Financial Services and client departments.**

#### **Management Response**

Management agrees with the recommendation to develop an overall framework. If this framework is supposed to be broad and intended to describe general control objectives, levels of responsibility, overall control policies and philosophy, then this exercise is achievable in 2006, likely within existing resources. One specific issue that will be addressed, as part of the SLA updates noted in the response above, will be a clarification of the role of the Financial Support Units, so that services will be provided on a consistent basis and their role will be well understood. Management will also establish parameters for review of transactions that will be consistently applied. »