AUDIT, FINANCE AND ADMINISTRATION COMMITTEE
REPORT 17-006
9:30 p.m.
Monday, April 24, 2017
Council Chambers
Hamilton City Hall

Present: Councillor Skelly (Chair)
Councillors A. Johnson, C. Collins, M. Pearson, B. Johnson, L. Ferguson and A. VanderBeek (Vice Chair)

THE AUDIT, FINANCE AND ADMINISTRATION COMMITTEE PRESENTS REPORT 17-006 AND RESPECTULLY RECOMMENDS:

1. **Whistleblower Information Update for Q1 2017 (AUD17010) (City Wide) (Item 5.1)**

    That Report AUD17010 respecting Whistleblower Information Update for Q1 2017, be received.

2. **Audit Report 2015-13 Continuous Auditing Pilot – Accounts Payable (AUD17009) (City Wide) (Item 8.1)**

    (a)   That recommendations #1 – 14, as attached in Appendix "A" to AF&A Report 17-006, *as amended*, of Report AUD17009, respecting the Accounts Payable Continuous Auditing Pilot, be approved; and

    (b)   That the General Manager of Finance and Corporate Services be directed to provide to the Audit, Finance and Administration Committee *by June 30, 2017* the management action plans for addressing the implementation of the Audit report recommendations.

3. **Occupational Injury and Illness Claims Annual Report (HUR17005) (City Wide) (Item 8.2)**

    That Report HUR17005 respecting Occupational Injury and Illness Claims Annual Report, be received.

4.   **Employee Attendance Report 2016 (HUR17006) (City Wide) (Item 8.3)**

That Report HUR17006 respecting Employee Attendance Report 2016 (HUR17006) (City Wide), be received.

5.   **Managing Employee Absenteeism - Labour Relations Strategy (Item 12.1)**

That the presentation respecting the Management of Employee Absenteeism – Labour Relations Strategy, be received.

FOR THE INFORMATION OF COUNCIL:

(a)   **CHANGES TO THE AGENDA (Item 1)**

The Clerk advised the Committee of the following change to the agenda:

1. **DISCUSSION ITEM**

8.1   Audit Report 2015-13 Continuous Auditing Pilot – Account Payable (AUD17009) (City Wide)

There is an amendment to Appendix A of Report AUD17009 and copies of the amended Appendix are before the Committee.

The agenda for the April 24, 2017 Audit, Finance and Administration Committee was approved, as amended.

(b)   **DECLARATIONS OF INTEREST (Item 2)**

There were no declarations of interest.

(c)   **APPROVAL OF MINUTES OF PREVIOUS MEETING (Item 3)**

(i)   **April 10, 2017 (Item 3.1)**

The Minutes of the April 10, 2017 meeting of the Audit, Finance and Administration Committee were approved, as presented.

(d)   DISCUSSION ITEMS (Item 8)

(i)   Audit Report 2015-13 Continuous Auditing Pilot – Accounts Payable (AUD17009) (Item 8.1)

Mike Zegarac, General Manager, Finance and Corporate Services, addressed the Committee about the proposed amendments to Report AUD17009 respecting Audit Report 2015-13 Continuous Auditing Pilot – Accounts Payable and answered questions from the Committee.

Recommendations #1-14, as attached in Appendix "A" to AF&A Report 17-006 respecting the Accounts Payable Continuous Auditing Pilot, were approved, as amended.

Recommendation (b) of Report AUD17099 respecting Audit Report 2015-13 Auditing Pilot – Accounts Payable was amended by deleting the words "June 30, 2017" to read as follows:

> (b) That the General Manager of Finance and Corporate Services be directed to provide to the Audit, Finance and Administration Committee ~~by June 30, 2017~~ the management action plans for addressing the implementation of the Audit report recommendations.

For disposition of this matter, refer to Item 2.

(ii) Employee Attendance Report 2016 (HUR17006) (City Wide) (Item 8.3)

Zachary Nicol, HR Metrics Analyst, Organizational Development, Office of the City Manager, addressed the Committee respecting Employee Attendance Report 2016 (HUR17006) with the aid of a PowerPoint presentation.

The presentation respecting the Employee Attendance Report 2016 (HUR17006), was received.

A copy of the presentation is available on the City's website at www.hamilton.ca or through the Office of the City Clerk.

For disposition on this matter, refer to Item 4.

(e)   PRIVATE AND CONFIDENTIAL (Item 12)

(i)   Managing Employee Absenteeism - Labour Relations Strategy (Item 12.1)

The Committee move into Closed Session respecting Item 12.1 regarding Managing Employee Absenteeism - Labour Relations Strategy pursuant to Section 8.1, Sub-section (b) of the City's Procedural By-law 14-300, and Section 239(2), Sub-section (b) of the Ontario Municipal Act, 2001, as amended, as the subject matter pertains to personal matters about an identifiable individual, including City employees.

For disposition of this matter, refer to Item 5.

(f)   ADJOURNMENT (Item 13)

There being no further business, the Audit, Finance and Administration Committee adjourned at 11:25 a.m.

CARRIED

Respectfully submitted,

Councillor Donna Skelly
Chair, Audit, Finance and
Administration Committee

Lauri Leduc
Legislative Coordinator
Office of the City Clerk

CITY OF HAMILTON
INTERNAL AUDIT REPORT 2015-13
CORPORATE SERVICES –ACCOUNTS PAYABLE (CONTINUOUS AUDITING PILOT)

OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN
<u>WebCenter Training & Utilization</u> WebCenter is the City of Hamilton online approval system for Accounts Payable (AP) invoices. Invoice approvers and Financial Administrators (F&As) throughout the organization are assigned to the system for the purpose of accurately routing invoices and approving invoices for payment. AP offers both initial and refresher training opportunities for all system users, and provides a system manual, available online via the eNet. When reviewing WebCenter training records and evaluating user knowledge, several common exceptions were noted: • Staff were unaware of further WebCenter training opportunities.Some approvers received no formal initial WebCenter training at all.	1. That initial WebCenter training is made mandatory for all new system users.	~~Joint response to be submitted by the Accounts Payable and Finance & Administration Sections.~~ *AP - Agreed. The Signing Authority Form will be updated to include a field that will require the employee to indicate that training has been completed. AP will be provided a copy of the form and will grant system access only if the form has been completed and approved. Completion Date - Q2 2017*

CORPORATE SERVICES – ACCOUNTS PAYABLE (CONTINUOUS AUDITING PILOT)
AUGUST 2016

OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN
WebCenter Training & Utilization (Continued) • No clear approval/routing time expectations were communicated by management or during WebCenter training.	2. That all WebCenter users be made directly aware of further training opportunities (e.g. annual general e-mail advising of further training sessions).	~~Joint response to be submitted by the Accounts Payable and Finance & Administration Sections.~~ *Agreed. Training is available online 24/7. Knowledge Center is accessible for all employees and is accessible through ENET. Changes and updates to AP processes, forms, mileage rates etc. are recorded on the Knowledge Center website as well as communicated via email to FA Managers and BA staff for distribution* *Completed*
	3. That management consider how timeline expectations for F&A staff and approvers can be better communicated for consistency across the organization.	~~Joint response to be submitted by the Accounts Payable and Finance & Administration Sections.~~ *Agreed. Expected timelines will be incorporated into the training manual for AP, F&A, Receiver and Approver functions.* *The F&A Service Level Agreement will be updated to include expected timelines for invoice approval by the Departmental Approvers.* *Completion Date - Q2 2017*

CORPORATE SERVICES – ACCOUNTS PAYABLE (CONTINUOUS AUDITING PILOT)
AUGUST 2016

OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN
<u>Average Invoice Approval Time</u> Accounts Payable is targeting an organization-wide 30 day average invoice approval timeline. These 30 days include time for AP routing, F&A routing and invoice approval. The approval process includes having the approver review the invoice, ensure the goods or services have been received and approve the invoice for payment.	4. That Finance regularly monitor the average approval time for each Department and identify approvers far exceeding the timeline expectation. An action plan, for how to remedy approvers that consistently exceed the 30-day target is needed to make this monitoring process effective.	~~Response to be submitted by the Finance & Administration Section.~~ *Agreed. Reports that were created at time of the WebCenter implementation provide information that identifies approvers that exceed timeline expectations and are sent to Directors for further action. The revised Service Level Agreement will clarify timelines.* *Completion Date - Q2 2017*
In reviewing reports capturing City-wide approval timeline data from the WebCenter system, it was found during audit fieldwork that the average days for approval from invoice date was 38.83 days.	5. That routing/approval metrics be incorporated into Performance Accountability and Development (PAD) forms for approvers that handle a high volume of invoices, for F&A team members and others positions, as appropriate.	~~Joint response to be submitted by the Accounts Payable and Finance & Administration Sections.~~ *Disagreed. AP and FA PADs currently include these metrics.* *The current average turnaround time from the date an invoice is received in the WebCenter until approval is 18 days.* *Monthly reporting is provided to Departmental Directors listing invoices for their sections that have not been approved on a timely basis.*

CORPORATE SERVICES – ACCOUNTS PAYABLE (CONTINUOUS AUDITING PILOT)
AUGUST 2016

OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN

Detection of Duplicate Payments
The main systems used in the process are WebCenter and PeopleSoft Financial; both of which have been designed to continually scan and prohibit duplicate payment processing.
 	
In addition to system controls, AP management also generates monthly reports from PeopleSoft comparing invoice details (e.g. identical invoice numbers and invoice dates) to ensurepotential duplicate invoices are detected prior to payment.
 	
During audit testing, some areas of elevated risk were noted:
 	
• Invoices are loaded to WebCenterthrough the OFR (Oracle Forms Recognition) system in batches (up to 10 invoices per batch) and are scanned against the pre-existing OFR collection of invoices for duplication. They are not scanned against invoices within the batch. This may allow duplicate invoices within the same batch to proceed undetected through the payment process.
	6. That management explore OFR's capability of scanning invoices against the other invoices within the same batch.	~~Response to be submitted by the Accounts Payable Section.~~
		
		Disagreed. Duplicates are easier to identify in small OFR batches. There are a number of system processes currently in place that identify duplicate invoices
		   • *OFR Verification*
		   • *AP Clerk review/routing*
		   • *FA Clerk review/routing*
		   • *PO Matching process*
		   • *Goods Received indicator*
		   • *Invoice Approval*
		Quarterly/Annual reports are also used to conduct manual comparisons. The reports identify invoices that have a combination of the same vendor, invoice number, invoice date, invoice amount.

CORPORATE SERVICES – ACCOUNTS PAYABLE (CONTINUOUS AUDITING PILOT)
AUGUST 2016

OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN
Detection of Duplicate Payments (Cont'd.) • WebCenter scans for possible duplicates by matching exact values for all three of the following: invoice date, invoice number and vendor number. A minor difference (e.g. invoice: 01234 and invoice: 01234*) would proceed undetected. • The PeopleSoft duplicate reports generated by management, are generally completed for a one month period at a time (e.g. June 1 – June 30) and therefore, possible duplicate payments approved within a different month (e.g. March 31 and April 1) are not detected by this method. • Monthly duplicate reports include EDI (Electronic Data Interchange) sources from departments. These invoices are solely maintained at the Department level and are not easily accessible for review by Accounts Payable staff.	7. That management evaluate the feasibility of refining the duplicate checking parameters in WebCenter to include flagging potential duplicates with similar invoice numbers, when the vendor numbers and invoice amounts are identical. 8. That management develop annual duplicate checking reports that use the current parameters; however, exclude potential duplicate invoice payments approved within the same month. (In addition to the monthly reports already indicated.) 9. That management direct possible duplicates of EDI source invoices to the department level for review. This may be in addition to any review that Accounts Payable Management wishes to implement.	~~Response to be submitted by the Accounts Payable Section.~~ *Agreed. The processes noted above are currently in place. Completed* ~~Response to be submitted by the Accounts Payable Section.~~ *Agreed. Duplicate checking reports were completed on a monthly basis, with a final annual review. AP recently moved to a quarterly review with a final annual review. Completed* ~~Response to be submitted by the Accounts Payable Section.~~ *Disagreed. Fleet invoices are forwarded to AP and are easily accessible for review. Community Services and Public Health EDI invoices are created from a departmental system (Provincial) and must match client information and no duplicates have been identified. EDI source duplicate invoices are identified in the quarterly/annual duplicate reports.*

CORPORATE SERVICES – ACCOUNTS PAYABLE (CONTINUOUS AUDITING PILOT)
AUGUST 2016

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AUGUST 2016

OBSERVATIONS OF EXISTING YSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN
Approver Limits – Updating and Compliance Approvers in the WebCenter system are assigned approval limits in accordance to their job title. Exemptions to these standard amounts are to be accompanied by a "notification of signing authority" form with the appropriate leader level sign off, and are maintained at the Department level with F&A staff. A review of a sample of 20 approver amounts was conducted and three exceptions were identified where an increased approval limit was not supported with an appropriate sign off. A review of a sample of 15 invoices received by Accounts Payable originating from the Q: drive (pre-approved invoices from the Departments) identified two cases where invoices were approved beyond the approver's limit. Signing authority forms reviewed did not permit the amounts approved.	10. That all approver amount level increase requests be accompanied by a "notification of signing authority" form and verified by Accounts Payable that the appropriate level of management has signed off. The forms should be maintained by Accounts Payable for reference. 11. That all pre-approved invoices received from the Q: drive be cross referenced with approver signing authority levels and forms to ensure compliance before processing. If Accounts Payable wishes to continue the long term practice of exempting certain high-value ongoing payments from signing authority (e.g. Rent), a policy or amendment to the procurement policy should be passed.	~~Joint response to be submitted by the Accounts Payable and Finance & Administration Sections.~~ ***Agreed. Copies of the Signing Authority forms will be filed on a shared drive. AP will verify the form has been approved prior to increasing a signing authority limit. Completion date – Q2 2017*** ~~Response to be submitted by the Accounts Payable Section.~~ ***Agreed. F&A will continue to perform the cross-referencing of signing authorities.*** ***Only F&A have access to the Q drive and are responsible for verifying the signing authority. F&A cross-reference the signing authorities before scanning. Completed*** ***Agreed. The Procurement Policy including Schedule B – Exemptions in the Procurement Policy was updated March 9, 2016.***

CORPORATE SERVICES – ACCOUNTS PAYABLE (CONTINUOUS AUDITING PILOT)
AUGUST 2016

OBSERVATIONS OF EXISTING YSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN
Approver Limits – Updating and Compliance (Continued) Neither the PeopleSoft nor WebCenter systems are currently monitoring possible invoice payment splitting by approvers as a means to bypass their approval limits.	12. That management explore the feasibility and system capabilities of monitoring for potential invoice payment splitting to ensure approvers are in compliance with their designated limits.	~~Response to be submitted by the Accounts Payable Section.~~ **Agreed. Reports will be run and reviewed on a monthly basis to identify possible payment splitting. Completion Date – April 30, 2017**
Vendor Discount Opportunities for Early Payment Discounts offered by vendors for early invoice payment may be a savings opportunity and incentive for Departments to expedite their approval process.	13. That Procurement negotiate early payment savings opportunities for all new and, if feasible, existing vendors.	~~Response to be submitted by the Procurement Section.~~ **Disagreed. Contracts with existing vendors are not negotiable. Procurement will monitor any new contracts to be engaged and determine if the contract is feasible to offer an early discount.**
Presently, early discounts realized or lost are not actively monitored by Accounts Payable management, as these opportunities have been rarely realized to date. Management should further investigate potential opportunities associated with vendor discounts. In 2013, the Toronto Auditor General identified that the City of Toronto loses over $200,000 annually by not taking advantage of vendor discounts.	14. That Management develops reports in PeopleSoft to continually monitor the amount ($) of discounts realized and the value of discounts lost (e.g. the report may bebroken down by Department, and if possible by approver). Departments should be credited back any discounts received as an incentive for ongoing timely invoice approvals.	~~Joint response to be submitted by the Accounts Payable and Finance & Administration Sections.~~ **Agreed. Reports currently exist that provide amounts for earned and lost discounts. The lost discount report is currently available and can be provided to Departments on a monthly basis. Completion Date – April 30, 2017**

**CITY OF HAMILTON
INTERNAL AUDIT REPORT 2015-13
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