

Review of Conversion of Financial Data for Metro and All Former Municipalities

The Audit Committee recommends the adoption of the following report (October 21, 1999) from the City Auditor:

Purpose:

To provide the Audit Committee with a summary of the significant audit findings and recommendations relating to the migration of financial data from legacy systems of the former municipalities to the new SAP Financial Information System (FIS).

Recommendation:

It is recommended that:

- (1) the Accounting Services Division, Finance Department:
 - (a) develop and implement a plan of action to distribute the amounts residing in the suspense costing centres to their proper cost centres. Such a plan to include the time frame for completion and responsibilities assigned; and
 - (b) ensure bank reconciliations are up to date upon completion of the data conversion;
- (2) the Budget Division, Finance Department, in consultation with departments, put into action a plan to review the pre-1999 Capital Budget data on the FIS system for the purpose of signing off the completeness and accuracy of the information residing on the new FIS system;
- (3) the Purchasing and Materials Management Division, Finance Department, monitor purchase orders on a monthly basis in the FIS system that are outstanding for an extended period of time for follow-up to determine their validity and status; and
- (4) effective management of materials be improved by:
 - (a) conducting a complete physical inventory (including those items deemed obsolete) upon completion of the conversion of the 1998 financial data from the former City of Scarborough;
 - (b) including all obsolete inventory items in the City's financial records (General Ledger and Inventory Management System) until their disposal; and
 - (c) continuing to provide clear audit trails, including the establishment of proper approvals to track the disposal of all obsolete items.

Background:

The implementation of one integrated financial system necessitated the migration of data resident on four legacy systems to the new FIS system. A phased approach was adopted. At the end of June 1999, the General Ledger, Accounts Payable and Purchasing data for the former municipalities of North York (including East York, York, Scarborough) and Etobicoke, as well as Materials Management data from all the former municipalities with inventory warehouses was transferred to the new FIS system.

Phase 2, completed on August 26, 1999, involved the migration of financial data for the former City of Toronto and Metro.

Comments:

The contents of this report have been reviewed and discussed with management. The following comments are general observations and recommendations to support the objective of ensuring that the integrity of the data has not been compromised as a result of the conversion process.

General Ledger

The data conversion plan involved the loading of the 1998 General Ledger balances and the 1999 year-to-date figures for operating, capital, reserve and trust funds from the four remaining legacy systems (former municipalities of North York, Etobicoke, Toronto and Metro) into the new FIS system.

Reports were generated from the new FIS system and the legacy systems of the former municipalities for the purpose of verifying the results of the conversion. With reference to previously established general ledger account relationships (i.e., mapping of old accounts to new accounts created in the FIS system), revenue and expense totals by department, and balance sheet totals by category (asset, liability, equity) were compared between the FIS system and the legacy systems. In addition, a sample of individual account balance records, costing centres and internal orders (capital projects) was selected for verification at the detail level.

The results of our review indicate that based on previously established “mapping” rules, the conversion of the general ledger information appears to have been performed completely and accurately.

It should be noted, however, that at the time of the data conversions not all mappings of legacy accounts were identified. Unassigned accounts from each department and division were mapped to a separate suspense costing centre to be reclassified after the data conversion. At the time of our review, the balance in the suspense costing centre was \$10.7 million. Until these amounts are transferred to their proper accounts, management will not have accurate information for proper budget tracking and funds management.

We also observed that when the former City of Scarborough’s financial system was shut down, the 1998 closing balances (assets, liabilities, trust funds, reserve funds and capital projects) were

never transferred over to the former City of North York's financial system. Consequently, this financial information is currently not reflected in the new FIS system. Finance staff are in the process of identifying what information has not yet been transferred over to the new FIS system. When this data has been loaded into the FIS system, we will review the results.

This delay in transferring the 1998 balances from the former City of Scarborough into the FIS system has a negative impact on the organization's ability to prepare timely bank reconciliations. Incomplete account balance information means staff are not able to perform bank reconciliations.

Recommendation:

(1) The Accounting Services Division, Finance Department:

- (a) develop and implement a plan of action to distribute the amounts residing in the suspense costing centres to their proper cost centres. Such a plan to include the time frame for completion and responsibilities assigned; and
- (b) ensure bank reconciliations are up to date upon completion of the data conversion.

Management Response:

- (a) *Finance has been working with departments to distribute the dollars that were put in the program suspense cost centres. The Accounting Services Division has offered assistance to departments, however, it is the departments' responsibility to ensure that the costs are charged to the proper cost centres. On conversion, the amounts were placed in the suspense cost centres because Finance could not identify the specific cost centre to be charged, however, all efforts were made to ensure the costs resided in the proper program based on where the charges were made in the legacy systems.*
- (b) *On going efforts have been made to bring the bank reconciliations up to date. These efforts have included plans to close accounts, consolidation of bank reconciliation staff and a redistribution of responsibilities, allocation of resources from other accounting sections and external resources. The current status of bank reconciliations is as follows:*

<i>Total accounts</i>	<i>116</i>
<i>Reconciliations current (including 51 closed accounts)</i>	<i>71</i>
<i>One month in arrears</i>	<i>9</i>
<i>Two months in arrears</i>	<i>25</i>
<i>More than two months in arrears</i>	<i>12</i>

Staff are working to have these current by the end of November 1999. With the current progress, most should be current by month end.

All 1998 balances from the former City of Scarborough financial information system have now been transferred to the new financial information system.

Capital Budget

1999 Capital Budget

The Budget Division undertook responsibility for ensuring that the 1999 capital budget data to be entered into the FIS system was correct. The Division reviewed the data to be loaded to the FIS system for compliance with rules and guidelines established at the time and to ensure approval limits stipulated by Council were accurately reflected.

Although considerable care was given to ensuring the accuracy of the source data (i.e., the data to be loaded), the step of verifying the results after the data was transferred to the FIS system back to the original source data has not been performed. Although perhaps a minimal risk, there is the possibility that following the upload process, capital budget information reflected in the FIS system does not match the intended results.

In a meeting held with the Budget Division, staff agreed to verify the 1999 Capital Budget information recorded in the FIS system with the original source data previously signed off by them.

Pre-1999 Capital Budget

The accuracy of the pre-1999 capital budget data recorded in the FIS system has not been verified. This continues to be a formidable challenge in that, prior to conversion, the accounting treatment and/or practice in administering capital projects varied between the former municipalities. The decision not to close any of the existing capital projects added to the overall complexity of moving capital budget data from the legacy systems to the new FIS system.

Given the above circumstances and the process followed in retrieving the data subsequently uploaded to the FIS system, there is definite risk that the final results could be inaccurate. We believe the results of the conversion should be reviewed by individuals knowledgeable with the history and/or background of these capital projects.

In the absence of a proper review and sign off of the pre-1999 capital projects, there is no assurance that the capital budget data residing on the FIS system is accurate and complete.

Recommendation:

- (2) **The Budget Division, Finance Department, in consultation with departments, put into action a plan to review the pre-1999 Capital Budget data on the FIS system for the purpose of signing off the completeness and accuracy of the information residing on the new FIS system.**

Management Response:

A team has been established with representation from Accounting Services, Budget Services and Treasury Services to work with departments to get a final sign off on all pre-1999 projects. This team, led by staff from Budget Services, will complete its work by February 2000 and will:

- convert all active capital projects to the SAP project systems;**
- circulate lists of pre-1998 projects to departments;**
- review the 1998 capital projects to determine variances, budget transfers and clean up of accounts;**
- have departments sign off on the capital projects identified as continuing or closed;**
- develop policies and definitions to provide for consistent treatment for capital projects; and**
- report to Council on closing of completed projects.**

Accounts Payable and Purchasing

The legacy systems of the former City of Etobicoke and the former City of North York were shut down as of June 24, 1999, while the legacy systems of the former City of Toronto and the former Metro were shut down as of August 26, 1999. Open purchase orders (POs) as of the shut down date residing in the former municipalities' legacy systems and any invoices received after the shut down date were to be manually entered into the new FIS system for payment processing.

Our review of the Accounts Payable cut-over procedures and discussions with Accounts Payable staff indicate that adequate procedures are in place to ensure that invoices from legacy systems were properly transferred over to the new system for payment processing and that controls are in place to prevent payment of invoices previously paid in the legacy systems.

However, due to certain events beyond the control of the Purchasing and Materials Management Division (i.e., new system not available until just before going live), open POs from the legacy systems were not updated into the new FIS system until two weeks after the system went live. During that period, payments were processed without referencing the PO in the FIS system. As a result of the delay in the updating of legacy PO information into the FIS system, some POs which had been closed (paid), were incorrectly transferred over to the new system. Because encumbrances are recorded in the SAP system when a PO is created, this results in an over commitment of funds in the system.

Recommendation:

The Purchasing Division, Finance Department, monitor purchase orders on a monthly basis in the FIS system that are outstanding for an extended period of time for follow-up to determine their validity and status.

Management Response:

The Purchasing and Materials Management Division, Finance Department has produced a report for outstanding purchase orders by department. The departments will be requested to run these reports monthly and advise the Purchasing and Materials Management Division on the validity and status of the outstanding purchase orders.

Materials Management

Inventory data loaded into the FIS system is based on a physical inventory count of all inventory recorded in the legacy systems of the former municipalities. The results of the count were recorded onto count sheets which were subsequently entered into a spreadsheet. The final step involved loading the data contained in the spreadsheet into the FIS system.

Following the data upload, reports were generated from the FIS system for reconciliation purposes. The reconciliation process identified numerous input errors including count sheets which did not get entered into the spreadsheet files for input into the FIS system.

Due to the high percentage of input errors (15 percent), a 100 percent review of all inventory items was conducted and the appropriate adjusting entries entered into the system. Based on the error corrections performed, the inventory data now properly reflects the information contained in the physical count sheets.

Prior to the conversion, a business decision was made to exclude obsolete items from the FIS system. We were advised the strategy was to maintain obsolete items manually until they were disposed. This means the City does not have the ability to account for the movement of these items in the FIS system. Accountability for the movement of these items is based solely on the integrity of manual records maintained outside the system. This weakens the City's ability to properly control these inventory items.

Recommendation:

(4) Effective management of materials be improved by:

- (a) conducting a complete physical inventory (including those items deemed obsolete) upon completion of the conversion of the 1998 data from the former City of Scarborough;
- (b) including all obsolete inventory items in the City's financial records (General Ledger and Inventory Management System) until their disposal; and

- (c) continuing to provide clear audit trails, including the establishment of proper approvals, to track the disposal of all obsolete items.

Management Response:

- (a) the Purchasing and Materials Management Division is currently undertaking this and it will be completed by the end of November;
- (b) this is currently underway with completion expected by November 20, 1999; and
- (c) the Purchasing and Materials Management Division will continue to provide clear audit trails and approvals to track and dispose of all surplus items.

Conclusions:

The implementation of the recommendations included in this report will result in maintaining data integrity, bring the financial statements in line with the value of all the material on hand, and improve the control exercised over materials.

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