



**AUDITOR GENERAL'S
REPORT
ACTION REQUIRED**

**Continuous Controls Monitoring Program – City
Accounts Payable – January 1 to September 30, 2015**

Date:	February 16, 2016
To:	Audit Committee
From:	Auditor General
Wards:	All
Reference Number:	

SUMMARY

As part of the Continuous Controls Monitoring Program, the Auditor General provides City management with regular reports to assist in proactively monitoring financial transactions, detecting unusual expenses and identifying areas where internal controls could be strengthened.

In 2015, the program was expanded to include an analysis of payments processed by the City's Accounts Payable Unit. This first report on the continuous controls monitoring of City accounts payable is limited to an analysis of potential duplicate payments during the nine-month period from January 1 to September 30, 2015.

In a sample of 40 payments (20 pairs of invoices) identified through our data analysis, we identified two payments for duplicate invoices. There were also nine invoices where the payments were incorrectly processed to wrong vendors. At the time of this report, the Accounts Payable Unit had already recovered \$43,379 out of the \$47,008 in duplicates or incorrect payments. There is one remaining payment transaction that is being investigated by the Unit.

Improved controls through active monitoring of the City's payments is necessary to detect payment anomalies on a timely basis. Management has advised that the Accounts Payable Unit has made efforts to improve their existing system of processing payments which will minimize payments to wrong vendors. The Unit will continue to work on improving the accounts payable processes.

The nature and extent of the Auditor General's continuous controls monitoring of City payments will be expanded in future periods.

RECOMMENDATION

The Auditor General recommends that:

1. City Council receive this report for information.

Financial Impact

Management has advised that approximately 92 per cent of the \$47,008 in duplicate or erroneous payments have been recovered and the balance of the amount is being investigated.

Active monitoring of the City's payments will improve controls and detect payment anomalies on a timely basis.

DECISION HISTORY

The Auditor General's Work Plan includes an ongoing project related to Data Analytics and Continuous Controls Monitoring.

The objective of the Continuous Controls Monitoring Program is to use data analysis techniques to provide periodic reports to management to assist in proactively monitoring financial transactions, detecting unusual expenses and identifying areas where internal controls could be strengthened.

Since its inception in 2011, the program has continually expanded. The program now includes continuous monitoring of selected City expenses including:

- Overtime and standby pay
- Absenteeism for selected ill, ill-dependent leave and bereavement leave
- Mileage reimbursements
- Telecommunication expenses.

In addition, the program has also expanded to include monitoring of selected expenses at the Toronto Transit Commission.

In 2015, the program was again expanded to include continuous monitoring of payments processed by the City's Accounts Payable unit.

ISSUE BACKGROUND

In 2013, the Auditor General issued a report, "City Accounts Payable - Payment Controls and Monitoring Require Improvement". As a result of the audit, the Auditor General recommended improved monitoring of duplicate invoices. More specifically, the Auditor

General recommended that new reports be developed to identify potential duplicate payments for further investigation. Examples of two such reports were:

- Report on the same vendor number, invoice date and amount but different invoice number
- Report on the same vendor name, invoice date, and amount but different vendor number

These reports are listed as examples only. There may be other types of reports that could be used to strengthen review for, and the detection of, duplicate and incorrect payments.

<http://www.toronto.ca/legdocs/mmis/2013/au/bgrd/backgroundfile-55721.pdf>

The recommendation to develop new reports was not fully implemented in 2015. The status of implementation will be reviewed as part of the Auditor General's 2016 follow-up review process to assess the status of prior audit recommendations.

Management advised that due to current limited reporting capabilities relating to duplicate payments, they will review the possibility of using the data analysis tool used by the Auditor General's Office to improve their existing payment monitoring process to detect and minimize duplicate or erroneous payments.

COMMENTS

The City processed over 500,000 invoices totalling \$5.8 billion during the period from January 1 to September 30, 2015. Payment transaction data for these invoices was obtained directly from the City's financial system.

Our tests were designed to identify potential duplicate invoices that were paid by the City. After some data analysis, we selected a sample of 40 payments for further investigation because these 20 pairs of invoices (with the same invoice number and amount) appeared to be at high risk for duplication. Detailed analysis confirmed that 11 of 40 payments were made in error:

- Two payments were made for duplicate invoices (total value \$4,570).
- Nine payments were made to the incorrect vendor (total value \$42,438)

The overpayments were detected through a combination of the new continuous controls monitoring work that the Auditor General is conducting in relation to accounts payable, and the identification of overpayments by vendors and the Accounts Payable unit. The Accounts Payable unit has recovered \$43,379 of the duplicate or incorrect payments. The remaining transaction is still being investigated.

While we expand our continuous controls monitoring work in this area to other years and other corporations and agencies, we thought that it was timely to reinforce the importance

of the City implementing controls to detect and prevent such occurrences as recommended by the Auditor General in 2013.

Management has advised that they will review the possibility of using the data analysis tool that the Auditor General's Office uses to improve their existing payment monitoring process to detect and minimize duplicate or erroneous payments.

CONCLUSION

Data analysis of City payments will be performed periodically with results reported to Audit Committee on an annual basis.

Going forward, the continuous controls monitoring program of the City's payment transactions will be expanded to include analyses of additional criteria to identify potential duplicate payments. In addition, future analyses of payment transactions will include monitoring of:

- Purchasing card (PCard) transactions
- Splitting of invoices and/or purchase orders
- Other analysis deemed appropriate (such as, analysis of loss of potential discounts, vendor credits, inactive vendors)

In addition, in 2016, the continuous monitoring of accounts payable will be expanded to the Toronto Transit Commission.

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SIGNATURE

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