EP15.3 Appendix B

TORONTO

Memorandum

Stuart Campbell
Director Internal Audit

City Hall
100 Queen Street West
14 floor West Tower
Toronto, Ontario M5H 2N2

Tel: 416-392-8034
Fax: 416-338-2167
Stuart.Campbell@toronto.ca

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To: Hardat Persaud, CFO & Corporate Secretary, Exhibition Place

cc: Don Boyle, Chief Executive Officer, Exhibition Place
Heather Taylor, Chief Financial Officer, City of Toronto
Steven Nushis, Director, Accounting Services, Exhibition Place

From: Stuart Campbell, Director, Internal Audit, City of Toronto

Re: **Purchasing and Expenditures Review**

Attached is the draft report pertaining to our Purchasing and Expenditures Review for Exhibition Place. The report outlines our findings and recommendations and includes your responses to address each recommendation.

The Internal Audit Division reports to the Enterprise Risk Assurance Committee (ERAC) on the adequacy and effectiveness of City processes, including recommendations for improvement, on a quarterly basis. All memos and reports issued by Internal Audit will be tabled at these quarterly meetings.

Please extend our thanks to your staff for their assistance and cooperation throughout the review.

If you have any questions, please contact Gifford Chu at 416-397-0301.

Stuart Campbell

Stuart Campbell
Director, Internal Audit

Internal Audit Report:
Purchasing and Expenditures Review

Exhibition Place

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Background

The Board of Governors of Exhibition Place (the "Board") operates, manages and maintains Exhibition Place on behalf of the City of Toronto through a Relationship Framework Agreement. The City is entitled to any surplus resulting from the Board's activities and is responsible for any deficit the Board incurs. In addition, in accordance with the decision of City Council in 2007, the surplus over the budget target is to be deposited into the Exhibition Place Conference Centre Reserve Fund (CCRF). This reserve is held by the City of Toronto to provide a source of funding for any cash shortfalls with respect to the Beanfield Centre operations, for the purpose of guaranteeing the $35.6 million City loan in 2008 and 2009 for the renovations of the conference centre.

In a report to Exhibition Place's Finance & Audit Committee, dated July 31, 2016, entitled *Proposed Three-Year Key Business/Operational Audit Review Cycle*, the Chief Executive Officer of Exhibition Place proposed implementing a continuous review process of key business processes in support of its financial goal to effectively monitor costs and revenues.

Exhibition Place requested Internal Audit include in its 2019 work plan, a review of its purchasing, payables and expenditures processes pertaining to its operations at Exhibition Place, the Enercare Centre and the Beanfield Centre.

Exhibition Place performs most of their own procurement, with approximately 10% - 15% of the procurement administered by the City Purchasing Materials Management Division (PMMD). As per the financial statements of the Board of Governors of Exhibition Place as at December 31, 2018, expenditures for the year totaled $50.6 million.

Objectives

The objectives of this review were to assess whether:

1. Adequate controls and procedures exist and are working effectively to ensure compliance with procurement processes, and ensure accuracy and completeness of payment processes;
2. Potential opportunities for operational improvements and process efficiencies exist.

The review covered purchasing and payment transactions for the period from March 1, 2018 to April 30, 2019 (14 months).

Methodology

The review consisted of:

- An assessment of the purchasing, payables and expenditures processes and procedures;
- An examination on a sample basis, and data analysis of purchasing and payment transactions, including but not limited to issuance and evaluation of call documents and bid submissions, vendor management, vendor invoice processing and authorizations of such transactions;
- Discussions with Exhibition Place staff responsible for purchasing, payables and expenditure processes; and
- A review and examination of other relevant documents and records as required.

Conclusion

There are controls in place over Procurement and Accounts Payable to mitigate any significant risks. Our review did however, identify opportunities to further strengthen controls related to Segregation of Duties/Access Control, Vendor Masterfile maintenance, tracking and monitoring of purchase orders, and the three-way matching process. Our findings along with recommendations are outlined below.

Findings and Recommendations

1. Access Controls and Segregation of Duties

Adequate access controls and segregation of duties within the Accounts Payable (AP) function and the AP module in the financial system, Great Plains (GP) financial system limits the possibility to create fraudulent vendors and make unauthorized payments.

Given the relatively small size of the Finance Unit, segregation of duties within the AP function, and GP access controls is limited. Currently, the same individual is responsible for: maintenance of the Vendor Masterfile, processing of invoices, custody of cheques and processing of payments. There is currently no exception reporting in GP to act as a compensating control.

Recommendation 1:

To minimize the risk of potential unauthorized payments, the CFO & Corporate Secretary, should develop exception reports to track and monitor changes made to the Vendor Masterfile. These changes should be reviewed on a quarterly basis to ensure that they are valid.

2. Vendor Masterfile

Vendor Masterfile records should be valid and current to prevent any inaccurate or unauthorized payments.

It was noted that 7 vendors had incomplete addresses, and 6 duplicate vendor records were identified. In addition, we noted several vendor records in which there was no activity for 3 years or longer.

There is no formal process in place to ensure that the vendor master file is current, valid and complete. This could potentially result in:

- payments made to vendors that no longer exist or are no longer authorized
- inaccurate and/or incomplete vendor information, resulting in payment processing errors

Recommendation 2:

To ensure that vendor records are current, valid and complete the CFO & Corporate Secretary should conduct an annual review of the Vendor Masterfile to identify any incomplete, inactive or duplicate vendor records.

3. Procurement Process – Tracking and Monitoring of Purchase Orders

Although there is no formalized process in place to track and monitor open purchase orders, there are some compensating controls that rest with the end user department, such as monitoring the goods/services fulfilled against the PO's. In order to prevent overspend, the procurement team periodically follows up on open purchase orders when requested, or if notified about a problem.

However, because the procurement system is not interfaced with the Accounts Payable system, tracking of spending against purchase orders is a very manual process performed with Excel by the end user department, and when required by the Purchasing Manager.

Also, it is challenging to track total spending against a specific purchase order in instances where, the organization has multiple purchase orders with the same vendor.

Recommendation 3:

To ensure that spending against purchase orders is adequately tracked and monitored, the CFO & Corporate Secretary should:

i. Implement a formalized process for the review of purchase orders, and ensure that the results of the review are documented and followed up on appropriately.
ii. Generate quarterly reports to track payments made to vendors.

4. Invoicing and Payment Process –Three-way Matching

Prior to processing payments, a three-way match must be performed between the invoice, receiving documents, Purchase Requisition (PR) and Purchase Order (PO) or Contract.

Although a three-way match is performed, our review noted inefficiencies due to the manual nature of the process. Some blanket POs or PRs do not provide sufficient details itemizing the goods and/or services to be provided and the associated unit prices, making it difficult to determine whether the amounts billed are in accordance with the terms and conditions.

There were two instances noted where the PO/PR created by Exhibition Place contained a lump-sum total amount, the total value being approximately $8,500. This could expose the organization to potential risk of invalid or inaccurate payments.

Recommendation 4:

To ensure that invoice billings are valid, the CFO & Corporate Secretary should ensure that sufficient details are included in the Exhibition Place issued Purchase Orders. Purchase orders should outline the goods/services being procured as well as the quantity and price. This should be considered going forward when implementing the new Request for Purchasing Goods & Services ("RPGS") system in early 2020 between the City and Exhibition Place.

Approved by:

Stuart Campbell
Director, Internal Audit

Gifford Chu
Manager, Internal Audit

Appendix A: Management Action Plan

Recommendation	Management Response and Action Plan	Responsibility	Timeline for Implementation
Recommendation #1: To minimize the risk of potential unauthorized payments, the CFO & Corporate Secretary, should develop exception reports to track and monitor changes made to the Vendor Masterfile. These changes should be reviewed on a quarterly basis to ensure that they are valid.	**Management Response #1:** The risk of unauthorized payments is low as the Board utilizes a three (3) way matching before approvals of invoices. Staff do agree that monthly exception reports can be utilized. Staff will work with Endeavour our Financial system provider and the Exhibition Place I/T group to develop exception reporting commencing in 2020.	Finance & IT	June 2020
Recommendation #2: To ensure that vendor records are current, valid and complete the CFO & Corporate Secretary should conduct an annual review of the Vendor Masterfile to identify any incomplete, inactive or duplicate vendor records.	**Management Response #2:** On a semi-annual basis staff reconcile the top 5 suppliers as well as City of Toronto and during this process all suppliers paid are reviewed. During this review the amounts spent for all suppliers is reviewed although not specifically to identify any inactive accounts but will identify duplicate vendor records. As well, staff utilize a three way match before authorizing an invoice for payment. These processes form an effective control environment. Although staff believe that by adding this control to our semi-annual reconciliation process will further enhance our control environment.	Finance	December 2019

Recommendation	Management Response and Action Plan	Responsibility	Timeline for Implementation
Recommendation #3: To ensure that spending against purchase orders is adequately tracked and monitored, the CFO & Corporate Secretary should: i. Implement a formalized process for the review of purchase orders, and ensure that the results of the review are documented and followed up on appropriately.	**Management Response #3:** i. There are compensating controls. End user departments monitor spend against PO's. As well, on a monthly basis there is a review of all spend for all departments with the senior management team. Currently though in an effort to improve efficiency surrounding our purchasing of goods and services staff are implementing RPGS (Request to Purchase Goods & Services system) in collaboration with the City of Toronto. The benefits of implementing a system such as RPGS is that it will increase the efficiency of Exhibition Place staff and simplify the experience for the end users. RPGS will improve the controls environment surrounding the purchasing of products and services from external suppliers to ensure they are authorized, accurate and that the service received or goods purchased are complete. Although RPGS does not have any formal reporting for PO's, during our implementation we will investigate with the City to see if they can assist in developing adhoc PO reporting in collaboration with our I/T department. As well in the accounts payable module of GP, staff currently cross reference the requisition # with the invoice. GP financial reporting system has a field for either a PO or Requisition # but not both. In 2020 staff will	Purchasing & Finance	June 2020

Recommendation	Management Response and Action Plan	Responsibility	Timeline for Implementation
	populate this field in the accounts payable module with the PO number and investigate with our GP provider Endeavour to see if there is PO reporting functionality.		
ii. Generate quarterly reports to track payments made to vendors.	ii. Our efforts are focused around developing quarterly reporting through working with the City and Endeavour.	Finance	June 2020
Recommendation #4: To ensure that invoice billings are valid, the CFO & Corporate Secretary should ensure that sufficient details are included in the Exhibition Place issued Purchase Orders. Purchase orders should outline the goods/services being procured as well as the quantity and price. This should be considered going forward when implementing the new Request for Purchasing Goods & Services (RPGS) system in early 2020 between the City and Exhibition Place.	**Management Response #4:** Our current approval process includes a 3 way match. This would be invoice, requisition and purchase order. Staff also utilize the packing slip where applicable to acknowledge good received. All the information on each should agree. With open PO's through the City there is no details provided on the PO. The City as well does not follow this recommended practice of having detail info on the PO. EP staff do make an effort to provide as much detail on the requisition when goods and or services are ordered. With the implementation RPGS information there will be an effort from our Purchasing Manager to ensure that that there are adequate details provided and included on both the PO and the Requisition. Staff agree that by moving to RPGS will improve documentation.	Purchasing & Finance	January 2020