# *The Corporation of the City of Windsor*
## *Windsor Public Library*

*Final Internal Audit Report*

**9 September 2015**

# *Contents*

# *Summary of Internal Audit Results*

The Windsor Public Library ("WPL") provides a collection of books, periodicals and other material for reading, viewing, listening, study, or reference to the residents of the City of Windsor and Essex County.  The WPL is governed by the Public Libraries Act, which states that every library must have appropriate oversight from a governing Board.  The Board of Directors is comprised of two Members of Council and four non-publically elected people.  The Board meets on a monthly basis.

The Windsor Public Library, as a registered library in the Province of Ontario, is required to be in compliance with the Public Libraries Act.

Library service and access to library material are available free-of-charge to residents of Essex County, but fees for its services are applied to customers from outside the county.  The library receives several grants to enhance and promote literacy and accessibility to reading and educational materials.  WPL utilizes standard library software, SIRSI, to manage its collections.

The engagement has been performed in accordance with the scope of work per Appendix A.

WPL maintains financial information outside of the City's financial system.  A mandate has been given to bring WPL on board with the City of Windsor's (CoW) existing PeopleSoft Financials system.  Changeover to PeopleSoft Financials will allow for integrated reporting with the City of Windsor, provide support to WPL and ensure that the corporation's financial reporting obligations and requirements are met.  The goal of this project is to facilitate the adoption of and compliance with the City's financial processes that are already documented and deployed and to ensure that special reporting needs of WPL are preserved.  While this change is expected to be completed in January 2016, there does not appear to be a plan to integrate the WPL onto the City's payroll system (PeopleSoft HR) until 2018, after the City's Payroll Business transformation project is completed.

Following a report to Council, dated November 18, 2013 (presented to Council on December 2, 2013), WPL has adopted the "Mississauga Model" of governance, in which the WPL will resemble a City department.  WPL maintains a CEO, Secretary and Treasurer, as well as its Board of Directors.  While the CEO still reports to the Board, the CEO now has a firmer relationship with the City's Corporate Leadership Team as a direct report to the City Clerk/License Commissioner.  In addition, the WPL Board has appointed the position of Treasurer to the City's CFO/Treasurer and the position of Corporate Secretary to the City Clerk.

Furthermore, WPL has adopted selected City policies and procedures, providing the Library with greater access to shared administrative services.  A new Operating Agreement was reached on December 9, 2014 which became effective January 1, 2015 in connection with Council Resolution CR243/2013.  This agreement outlines and defines the responsibilities of the City and the Windsor Public Library ("WPL") across several areas including, but not limited to, Financial, Facilities and Personnel, Shared Services, Purchasing Policies, Provisions for Agendas and Minutes and appointments.  There is also a summary of the City policies and procedures which WPL is to comply with, as attached to Schedule A of the agreement.

The PeopleSoft transition project kicked off in early 2015 with the Project Charter which outlined the project timelines, project risk assessment and stated goals and objectives of the project.  An implementation plan with key tasks broken into process areas was also drafted.  As of the date of this report, the majority of the planned tasks were completed (including tasks within General Ledger, Accounts Receivable and Billing, Purchasing and Accounts Payable etc.).  Specific tasks and training is planned to be completed by the end of 2015.

As part of the new management agreement, the City provided an orientation session to the newly appointed Board of Directors.  In addition, WPL will be piloting a new website to communicate and share information with WPL's Board.  The objectives of the changes in operating and governance model at WPL include, but are not limited to:

- Work towards a more collaborative relationship with City departments;
- Rebuild the Library administrative framework in order to sustain current operations;
- Implement new strategic directions and create organizational stability; and
- Adopt policies that endorse standards/benchmarks for funding, collection and services.

# Report Classification

For the scope period, January 1, 2014 – December 31, 2014, management has designed and implemented controls in many area. Recognizing the changes in leadership in the past few years and the significant merger between WPL and the City in 2015, the future design of management control systems considered as part of this review appear to be reliable for the purpose envisaged.

The changes in the governance model are being embedded into strategic directions and these changes are being communicated to staff and customers. The Board of Directors have met regularly to review strategic plans and the current CEO has been working with the City's leadership team to articulate management's needs and requirements for successful implementation of the strategic plans.

There is an opportunity for WPL and the City to formalize the working relationships and define the level of service to be provided by the City in supporting WPL's strategic and operational plans. Written shared services agreements which describe shared administrative resources that WPL will have access to should be prepared for each administrative area to ensure opportunities to obtain synergies are realized (i.e. reduce duplication of effort if applicable) and reduce potential conflicts in operating decisions/methodologies. Specific City resources that WPL will have access for Financial, Human Resources, Information Technology and Facilities should be defined as well as the specific roles and responsibilities of both parties. For instance, allocation of accounting roles and activities should be formally defined and agreed to by both parties to ensure: a) timely, efficient and accurate preparation of financial reports and, b) the risk of error or fraud as a result of unsegregated duties are reduced to an acceptable level.

As part of the governance changes, WPL has adopted City policies where relevant, however a policy development and review framework applicable to WPL's own policies is currently not implemented. While the WPL team learns City policies and accounting staff learn a new financial system, there is inherently an increased likelihood that controls may not be understood, not applied consistently during transition or have errors in execution. During the review of a sample of purchases by WPL, it was noted that management should strengthen documentation of contracts and quotes from vendors to demonstrate compliance with WPL's Purchasing Policies.

The absence of clearly articulated controls during the transition period may increase the inherent risk of errors or the opportunity for fraud. However, appropriate controls were in place or are currently being developed which contribute to effective management oversight and due diligence practices. For instance, monthly bank reconciliations are performed, as well as weekly cash deposits. Cash on-site is maintained in a safe on-site which is restricted to only a few members of Finance. Management has also improved its cash handling procedures to safeguard assets and protect library staff. These changes were in response to circumstances where management controls appropriately detected a variance between the bank statement and accounting records. Segregation of duties relating to WPL staff was identified as a potential issue. This design deficiency could lead to financial losses for the WPL if not addressed in the short term. Also, more timely and frequent reconciliations bank deposits should be considered. Given the compensating controls in place, such as regular financial reporting to the Board and the City, the opportunity for a potential material financial issue is reduced.

WPL is currently undergoing a review of its policies and policy framework. WPL, in collaboration with the City's Finance and IT department, have established a Steering Committee to oversee the PeopleSoft transition project. The implementation of City's Accounts Payable approval stamp control process will be completed by September 2015.

Based on the controls identified and tested as part of the Internal Audit of the Windsor Public Library's process and controls we have determined that there is reasonable evidence to indicate that:

| | No or limited scope improvement | No Major Concerns Noted | Cause for Concern | Cause for Considerable Concern |
|---|---|---|---|---|
| Controls over the process are designed in such a manner that there is: | | ✓ | | |
| Sample tests indicated that process controls were operating such that there is: | | ✓ | | |

See Appendix C for Basis of Finding Rating and Report Classification. Management has provided comprehensive action plans, which we believe will address the deficiencies noted. Management was cooperative with internal audit in providing supporting documentation and resources to facilitate an effective and efficient internal audit.

## Summary of Positive Themes

**Operational Agreement**
As a result of a recent Operational Agreement between the City and WPL, management has committed to implementing changes to its operations and has taken steps to develop and communicate foundational, governance and operational policies in the past few months. There is a general acknowledgement from Senior Management of the work to be done to improve transparency, due diligence in managing media incidents, develop a policy framework that focuses on governing policies and a sustainable process for reviewing and maintaining operational policies and procedures. In addition to Foundational Policies having been approved by the WPL Board, Treasurer and Secretary roles were assigned and Board Member Orientation was completed in 2015.

**Communication with the City**
There is also regular communication between the City and WPL to monitor the progress of strategic and operational goals during a period of transition for WPL and integration of WPL's and the City's systems and processes (incl. Financial, HR, IT, Communications/media, Governance etc.). Management expects the transition to take a number of years and intends to review potential issues and/or challenges formally on an annual basis in order to apply lessons learned and strengthen the working relationships between WPL and City staff.

**Strategic Planning**
Recognizing the changes in leadership over the last number of years, management has made strides in 2015 aligning its mission and vision statements to its current strategic relationship with City departments. WPL staff have undergone various training since the beginning of 2015 to review mission, vision and strategic direction of WPL as well as to become familiar with select City's policies adopted by WPL.

Furthermore, implementation of the Facilities Master Plan prepared in 2013 to align with strategic goals will commence in the near term. WPL plans to implement the high-priority of its Facility Master Plan with measurable targets to be monitored on an annual basis.

**Project Management**
Project Steering Committee with representation by City and WPL leadership has been established to oversee the PeopleSoft Financial System transition.

**Internal Controls**

During the course of the review, it was determined that appropriate controls are designed and operating to manage the majority of in-scope risks. Examples of these controls include:

- An Annual Report is available to the public by WPL beginning in 2015;
- Management has accountability to an independent Board of Directors ;
- Monthly reporting of financial, operational and media related information to the Board of Directors;
- A structured open budgeting and planning process, aligned to the City's processes, is in place to ensure there is transparency and oversight;
- Reserve funds are reconciled and reviewed quarterly; and
- Regular reporting to City of Windsor with representation from City in WPL Board meetings.

Additional details about the above mentioned controls and other key controls reviewed are discussed in **Appendix B: Summary of Controls Reviewed**.

## Summary of Findings

A summary of the six (6) internal audit findings, corresponding ratings and summary of agreed upon actions by management are provided in the following table. The "Detailed Observations" section of this report provides additional information about each finding and proposed action plans. In addition to the findings noted below, one (1) consideration is improvement was noted on page 16 of the report.

| Finding # | Topic | Rating[1] | | | Management Action |
|---|---|---|---|---|---|
| | | Significant | Moderate | Low | |
| **Governance** | | | | | |
| 1 | Shared Services Agreement | | X | | Complete WPL-City Financial Integration Project – WPL CEO & Manager of Finance – 2016 Q1 |
| 2 | Policy Development Framework & Compliance | | X | | Adopt City's Fraud Policy and train staff – WPL CEO & Manager of Finance – 2015 Q4 |
| **Cash Management** | | | | | |
| 3 | Cheque Signing Policies | | X | | Use City AP Approval Stamps with WPL Cheque Signing Authority until January 1, 2016 – WPL Manager of Finance – 2015 Q3 |
| 4 | Segregation of Duties and Cash Procedures | X | | | Adopt City Cash Handling Procedure & train staff – WPL CEO & Manager of Finance – 2016 Q1 |
| **Other** | | | | | |
| 5 | Compliance with Purchasing Policies | | X | | Adopt City Purchasing Bylaw, rules and procedures & train staff – WPL CEO & Manager of Finance – 2015 Q3 |
| 6 | Month end financial close checklist/schedule | | | X | Add a date field to the month-end sign-off forms – WPL Manager of Finance – 2015 Q3 |
| **Total** | | **1** | **4** | **1** | |

## *Summary of Significant Findings*

Internal audit identified one (1) significant opportunity for improvement related to the design of controls, specifically:

- • **Segregation of Duties**: One individual has both access/custody of cash/cheques and ability to record transactions in ACCPAC accounting system. There is an opportunity for potential material losses if access to cheques/cash is not appropriately segregated. The assignment of accounting roles and responsibilities for WPL are expected to be addressed by January 2016, in connection with the Financial System transition project.

## *Management Comments*

Management is aware that given the limited number of finance staff at WPL that segregation of duties may be an issue. In order to compensate for this there is a significant amount of management review and oversight of all accounting transactions. Currently there are only 2 accounting clerks (both unionized positions), which manage the entries within the sub-ledgers, with all general ledger adjustments being completed by the Manager of Finance.

The bank reconciliations are completed by one clerk and then verified by the other clerk to ensure agreement with the general ledger. The entire bank reconciliation is then reviewed in detail and signed off on by the Manager of Finance. The AP clerk handles the petty cash with sign off on all receipts by the Manager of Finance and the payroll clerk reconciles the petty cash disbursements. The Manager of Finance signs off on the reconciliation, then the AP clerk prepares the petty cash cheque and the payroll clerk goes to the bank to cash the cheque and bring it back to the office. The AP clerk records the deposits coming in, but the payroll clerk prepares the bank deposits and goes to the bank.

In the future, now that the WPL is a City department, the cheques will be prepared by City of Windsor and City procedures for the signing of cheques will be observed. This new process will begin on January 1, 2016 once the financial integration project has been completed. During the intervening period, the cheque stock is now being kept in the vault at WPL which only the HR Manager and Receptionist have access to. Cheques are no longer kept in the accounting office.

Name:     Kathleen Pope
Title:     Chief Executive Officer
Date:     9/09/2015

# Detailed Observations

## Findings & Action Plans

| Finding | Rating[1] | Recommendation & Action Plan |
|---|---|---|
| **1. Shared Services Agreement** | | |
| **Observation**<br>The current Operating Agreement does not include criteria related to core administrative functions such as Finance, HR, Information Technology ("IT"), Communications/media and Facilities. Although various discussions between City and WPL have been held to clarify the vision of the future operations, the agreed upon protocols for shared services have not been formally documented or approved by the Board of Directors or Council. With respect to the SIRSI business application, the support expertise currently resides with WPL personnel and not with City IT personnel or the external vendor (through a service level agreement).<br><br>WPL management has expressed their commitment to monitor progress of the transition, with oversight by City Clerk, and report back to the Board of Directors on an annual basis until details of the working relationship are worked out. The first update to the Board is expected to be delivered in late 2015.<br><br>**Implication**<br>Opportunities to streamline and standardize processes (Finance, HR, IT and Facilities) may not be realized. Undefined levels of service increase the likelihood of inefficiencies or confusion among WPL staff. The absence of clearly articulated controls/processes during the transition period may increase the inherent risk of errors. | **Overall**<br>Moderate<br><br>**Impact**<br>Medium<br><br>**Likelihood**<br>Likely | **Recommendation**<br>WPL Management should work with City leadership in identifying shared services opportunities, and specify the skills and expertise for core administrative function required to sustain WPL's strategic goals. Activities that are currently performed at WPL and can potentially be transitioned to the City should be identified. Once such exercise has been performed for Finance and Human Resources, efforts should be made to specify shared services provided to WPL by the City's IT department and Facilities. A shared services agreement between City and WPL should outline shared finance services and billing terms and conditions.<br><br>Management should also consider increasing the frequency (i.e. Quarterly) of status reporting relating to the transition of the core shared services, to ensure that issues or questions from management or stakeholders are addressed in a timely manner.<br><br>**Management Action Plan**<br>Management agrees with the observation and the recommendation. Management will implement the recommendations.<br><br>**Responsibility**<br>WPL Chief Executive Officer, WPL Manager of Finance and City Clerk<br><br>**Due Date**<br>2016 Q1 |

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[1] See Appendix C for Basis of Finding Rating and Report Classification

| Finding | Rating[1] | Recommendation & Action Plan |
|---|---|---|
| **Root Cause**<br>The merger of WPL as a City Department is a significant change and the working relationships are being developed over a transition period expected to take a number of years. | | Additional Context From Management<br>Management agrees particularly as it pertains to financial services support.  As a consequence of the Service Agreement signed with the City, the Windsor Public Library has been receiving full department-equivalent level support from the City in the areas of Human Resources, Information Technology, Legal, Communications and Facilities.<br><br>Since the WPL is using different financial software, full support from the City's Finance Department will only be possible once the WPL has transitioned to the City's PeopleSoft Financials system.<br><br>Consequently, the main focus of City and WPL management since the Services Agreement was signed has been on completing the Financial Integration Project.<br><br>No equivalent project has been required for the other service areas since there were no software or other significant barriers to transitioning to full support within a short period of time.<br><br>The Financial Integration project has a steering committee which includes the City Clerk, the City Treasurer and the WPL CEO.  This steering committee meets to discuss the integration quarterly.  The regular committee meets bi-weekly to ensure that the project continues to move along at a pace that will result in WPL being on the PeopleSoft system as of January 1, 2016 for all accounting related items except payroll, which is estimated to be completed by January 1, 2018. |

| Finding | Rating | Recommendation & Action Plan |
|---|---|---|
| **2. Policy Development Framework & Compliance** | | |
| **Observation**<br>While the WPL's Purchasing Policy includes a review cycle of three (3) years, it has not been reviewed since 2011. During the period subject to review, no new policies were implemented, thus approval from the Board was not required. It was also noted that a review cycle for policies has been defined by management and approved by the Board subsequent to the review period.<br><br>A framework for developing policies was not present during the period subject to review. However, management has committed to developing a framework for policy development by late 2015, with provisions to update one third of WPL policies each year for the next three years.<br><br>WPL is working with the City to review WPL policies and comparing with City policies and adapting the City polices as well as instances where the WPL policy needs to be retained. In addition, a plan to report the results of this review to Council and the WPL Board is scheduled for early 2016.<br><br>Based on inspection of Appendix A from the Agreement between the City and WPL, it is unclear whether the WPL will adopt the City's Fraud Policy. Currently the WPL does not have fraud protocols and procedures formalized in the form of a Policy. A fraud risk assessment is not currently formalized/implemented. However, WPL management has informed internal audit that subsequent to the completion of fieldwork, the WPL will receive training from the City on the City's Fraud Policy and Procedures. | **Overall**<br>Moderate<br><br>**Impact**<br>Medium<br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br>**Likelihood**<br>Likely | **Recommendation**<br>WPL is currently undergoing a review of its policies and policy framework in light of the recent management agreement with the City. WPL management may want to adopt the City's Policy on Policy (approved on June 29).<br><br>When preparing a plan to update WPL policies, criteria should be developed to prioritize the policy update efforts. Criteria may include, but are not limited to:<br><br>- a WPL policy which may not be as stringent as a City policy and adopted;<br>- policies that have not been updated in more than 5 years; and<br>- policies that are tied to WPL's foundational policies or strategic objectives.<br><br>For City policies that are adopted by WPL, management should ensure appropriate training is offered and policies are communicated to Library staff in a timely manner. Where City policies require employees to sign-off, WPL staff should also be required to sign-off in a timely manner. WPL has already provided its staff with online access to City Policies & Procedures.<br><br>The City's Code of Ethics and Conflict of Interest should be applied as of January 1, 2015 and any potential conflicts known by WPL staff should be disclosed and documentation retained. Key policies should also be accompanied by a sign-off from each WPL employee acknowledging that they understand and are in compliance with City policies (i.e. Purchasing, Code of Ethics etc.).<br><br>WPL may also want to update the agreement (or appendix A to agreement) to specifically list the Fraud Policy as one that WPL fully adopts or make reference to the City's Fraud Policy it the WPL Governance Policies. |

| Finding | Rating | Recommendation & Action Plan |
|---|---|---|
| **Implication**<br>Policies may not be consistent, complete or current, increasing the risk of loss by WPL in regards to issues that may have arisen since the last update.<br><br>Policies are more likely to contain errors or omissions. | | **Management Action Plan**<br>Management agrees with the observation and the recommendation. Management will implement the recommendations.<br><br>**Responsibility**<br>WPL Chief Executive Officer<br><br>**Due Date**<br>2015 Q4 |
| **Root Cause**<br>Guidance and oversight of the development of policy components is not currently defined for the organization to enable a consolidated and comprehensive policy governance approach. | | Additional Context From Management<br>In regards to the Fraud Policy, management will be using the City's Fraud Policy. The training has been set for September 24th, 2015. All management staff and the 2 accounting clerks will be present for the training by the City's Finance staff. There will also be sign off for this training as there was on July 28th for the Purchasing Policy training which was done by the City with WPL staff. All training during 2015 in regards to City Policies being adopted by WPL have had sign off by staff. |

| Finding | Rating | Recommendation & Action Plan |
|---|---|---|
| **3. Cheque Signing Policies** | | |
| **Observation**<br>Upon review of a sample of disbursement cheques, it was noted that all had two signatures from manager level or above, which based on discussions with management is the accepted practice. As part of obtaining an understanding of the cheque signing authorities, it was noted that signing limits have not been formalized in the form of a policy or procedure.<br><br>Effective January 2016, the WPL's bank accounts (expect for Payroll) will be moved to the City's bank and cheque processing will be processed from the City's PeopleSoft system.<br><br>**Implication**<br>The lack of approved cheque signing policies cause a perception of management implementing financial controls without approval by the Board.<br><br>**Root Cause**<br>Two signatures are required by design however limits have not been formally established. | **Overall**<br>Moderate<br><br>**Impact**<br>High<br><br>**Likelihood**<br>Unlikely | **Recommendation**<br>Management should consider formalizing the cheque signing limits until such time that the library adopts the City's accounts payable processes and procedures.<br><br>WPL's Governance Policies should be updated to reflect the future cheque signatories and should align with the City's policies, post transition.<br><br>**Management Action Plan**<br>Management agrees with the observation and the recommendation. Management will implement the recommendations.<br><br>**Responsibility**<br>WPL Chief Executive Officer & WPL Manager of Finance<br><br>**Due Date**<br>2015 Q3<br><br>Additional Context From Management<br>As cheques will be produced by the City through the PeopleSoft financial system starting Jan 1, 2015 and since there are only a few months left in 2015 to write a policy and have it approved by the Board of Directors and implemented – management has been decided that we will continue with the 2 signatures as is current practice; with the added control of using the City's AP control stamps on all invoices prior to payment.<br><br>WPL expects to have the assigned AP control stamps from the City by the end of September. WPL staff have already received training on the proper use of the A/P stamps from the City. This training was provided at the same time as the Purchasing Policy training. There will only be 3 management staff with access to the AP stamps – this includes the CEO, the Director and the Manager of Finance. It should be noted that the current practice is such that when management is signing cheques full documentation of invoices, purchase orders and packing slips if applicable are attached to the cheques for the cheque signers to review prior to signing the actual cheques. |

| Finding | Rating | Recommendation & Action Plan |
|---|---|---|
| **4. Segregation of Duties and Cash Procedures** | | |
| **Observation**<br>Cash handling responsibilities are limited to specific positions (i.e. Circulation desk staff). Although formal cash handling and reconciliation procedures are documented in the form of Procedures and Policies, there is no requirement for employees with access to cash to sign and acknowledge the procedures. As a compensating control, staff responsible for handling cash undergo one-week training of the cash procedures and other policies relevant to customer service.<br><br>When obtaining an understanding of the bank deposit and reconciliation process and related internal controls, it was noted that bank statements are reconciled to financial accounting records on a monthly basis. However, bank deposits containing cash are collected from each branch and deposited to the Bank on a weekly basis.<br><br>During the course of the review, Internal Audit was made aware of a circumstance where a variance existed between the bank statement and record of deposit bags for a particular month that was outside of the period under review. The variance appeared to be caused by a deposit bag that was not appropriately deposited in the bank and had been identified during a routine bank reconciliation process more than one month after the deposit bag was collected from one of the branches. The variance, although immaterial, was not subsequently accounted for. Subsequent to this incident, management has updated their process to ensure that deposit bags are safeguarded at all times.<br><br>Effective July 2015, WPL has engaged an armoured truck service to transport deposit bags to the Bank on a weekly basis.<br><br>Currently, one of the Accounting Support Clerks has the ability to prepare cheques (not sign cheques), mail signed cheques, edit vendor master file, identify/investigate discrepancies when reconciling physical cash to recorded cash, access to cash (and access to the key to safe) and to initiate and post manual journal | **Overall**<br>Significant<br><br><br><br><br><br>**Impact**<br>High | **Recommendation**<br>Management should consider performing a spot check on a weekly basis to ensure that the amount recorded on deposit slips agree to what is received/deposited by the Bank. Once all deposit bags are returned, management should reconcile the number of deposit bags to the weekly bank deposit log, which is currently signed and dated by two individuals prior to transporting deposit bags. Management should consider performing a reconciliation of the total number of deposit bags collected across all branches to the number of deposit bags attained by the Armour Car Service Provider. Management should update their cash handling procedures to reflect the changes to the processes and ensure that staff are made aware of the changes.<br><br>Staff with access to cash should be required to read, understand and acknowledge compliance with safe and secure cash handling protocols.<br><br>Access to cash should be restricted from those that have ability to record general journal entries and reconcile accounting records to bank statements. The preparation of the bank reconciliation should be performed by someone without ability to prepare cheques. As an interim solution, blank cheque stock should be maintained by someone without access to ACCPAC. A log should be maintained to track cheque stock usage which may be reconciled to accounting records.<br><br>Segregation of incompatible duties should be reviewed in conjunction with the ongoing transition of WPL accounting system to the City's PeopleSoft system and related finance shared services provided to WPL by the City.<br><br>As noted in Observation #1, WPL will maintain payroll and related data in their current system. Management should perform a segregation of duties analysis in regards to the payroll process at the appropriate time.<br><br>Where it is expected that City staff will apply WPL specific policies/procedures (i.e. Bank Deposits or Bank Reconciliations), appropriate training should be delivered to ensure consistency in application of procedures. |

| Finding | Rating | Recommendation & Action Plan |
|---|---|---|
| entries.<br><br>Furthermore, WPL will process payroll using its existing ACCPAC accounting system. Currently, one of the key detective controls over payroll processing is management review (CEO) of payroll registers.<br><br>The risk is further reduced by detective controls such as an independent review of monthly bank statements and the requirement for two signatures on non-payroll disbursements. | **Likelihood**<br>Likely | **Management Action Plan**<br>Management agrees with the observation and the recommendation. Management will implement the recommendations.<br><br>**Responsibility**<br>WPL Chief Executive Officer & WPL Manager of Finance<br><br>**Due Date**<br>2016 Q1<br><br>Additional Context From Management<br>Management has implemented several internal control improvements relating to the reconciliation of deposit bags and bank deposits. These changes include regular reconciliation of deposit bags, storage of all pending deposits now in main office vault and restricted truck safe key access via sign-out.<br><br>Management would like to clarify that any manual entries to the GL are only posted by the Manager of Finance and not the accounting clerks.<br><br>Management has agreed to have all staff handling cash to be retrained in the near future and to have them all sign off on that training. WPL will be making changes to the Cash procedures in 2016 as WPL moves over to the City's Amanda cashiering system. These changes are required in order to follow the processes adopted by the City for cash controls.<br><br>The changes will be such that no cash disbursements will be allowed at any of the circulations desks – all refunds will require management approval before a refund cheque can be processed. WPL expects this new procedure to be re-written and training to be completed by the end of 2015. This will allow for sufficient time for the changes to occur prior to the PeopleSoft system rollout in January 2016. The ability to achieve proper segregation of duties will be corrected upon moving to the City of Windsor systems as of Jan 2016. |
| **Implication**<br>There is a risk that variances between cash deposited to the bank and the cash recorded on daily and weekly deposit bags are not detected in a timely manner, increasing the risk that the WPL would be unable to recover potential losses. Incompatible duties performed by one individual may increase the risk of inappropriate payments or release of funds. | | |
| **Root Cause**<br>Given the relatively small size of WPL's accounting group, management relies on detective monitoring controls to ensure appropriate levels of oversight are in place over financial reporting and cash management practices. | | |

| Finding | Rating | Recommendation & Action Plan |
|---|---|---|
| **5. Compliance with Purchasing Policies** | | |
| **Observation**<br>Compliance exceptions were noted with the purchasing process related to: 1) up to date contracts for consultative services and 2) at least 3 quotations for purchases over $10,000 or a documentation as to deviation rationale and acceptance.<br><br>During the review of the month end financial close checklist, it was noted that an independent third party accountant is often engaged to assist with year-end close procedures and preparation for the year-end financial statement audit.  Internal Audit inspected a contract dated February 2013 which outlined the responsibilities for the independent consultant for the 2012 Audit Year.  Although services were provided in later years, the original contract was not updated or a new contract did not appear to be initiated.  It was also noted that in 2015 the independent contractor was engaged to cover for the Finance Manager during vacation period, however the contract was not updated.  As per the WPL Purchasing Policy, consulting services must be supported with a written submission outlining the specifics of the project and the consulting service to be provided.<br><br>Based on a review of a sample of miscellaneous purchase orders over $10,000, it was determined that in several cases, a written quote was only requested from one vendor (instead of minimum of 3), as required by the Purchasing Policy, with no documented reason.  Upon follow up with management, it was noted that some of these purchases related to expanding/continuing current levels of service from vendors that have been working with WPL for a number of years.<br><br>Note: The WPL intends to follow the City's Purchasing Procedures and By-Law.  WPL staff have received training on this policy and AP Stamp procedures as of the date of this report.  The City's policy excludes the purchase of books, magazines, periodicals and the like from the City's Policy.  WPL is responsible for negotiating prices discounts with distributors for books, periodicals etc.  WPL has also participated in the City's P-Card program since 2012. | **Overall**<br>Moderate<br><br><br>**Impact**<br>Medium<br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br>**Likelihood** | **Recommendation**<br>Refer to finding #2.  WPL staff should disclose any known potential conflicts of interest in accordance with the City's Code of Ethics and Conflict of Interest Policy, as it pertains to vendors that WPL does business with.<br><br>Management should ensure that: 1) purchasing polices and processes are complied with, 2) that all exceptions are identified, rationalized and approved and, 3) that any known deviations are reported in a timely manner.<br><br>With respect to managing contracts for consulting services, WPL management should consider maintaining a log of contracts with third parties.  The log should be reviewed periodically and updated for new contracts or new terms to ensure that services or goods obtained relate to a valid contract or agreement.  Although the cost for engaging a consultant to assist with finance activities is below the threshold for written quotations, there is an opportunity to integrate finance functions (such as reviewing AP and Payroll) in with the City's finance department as a short term solution to prepare for year end.<br><br>Management should ensure that staff responsible for purchasing at WPL are sufficiently trained on City's purchasing by-law and documentation of purchasing decisions meets the requirements of these policies.  For instance, if less than three vendors are contacted, there should be an explanation/rationale (i.e. Single Source) of the exception and evidence of approval thereof.<br><br>The Purchasing Policy should be updated once a guideline or practice has been determined for handling purchases initiated in SIRSI.  WPL should work with the City's Purchasing department in order to develop acceptable and consistent practices (for example documentation standards/forms) in the interim until such date that WPL adopts City's Purchasing By-Law.<br><br>**Management Action Plan**<br>Management agrees with the observation and the recommendation. |

| Finding | Rating | Recommendation & Action Plan |
|---|---|---|
| **Implication**<br>Undocumented or out dated contract terms or conditions may exist.<br><br>Risk of not obtaining a competitive price or the lowest price available for the services being sought. | Likely | Management will implement the recommendations.<br><br>**Responsibility**<br>WPL Chief Executive Officer & WPL Manager of Finance<br><br>**Due Date**<br>2015 Q3<br><br>Additional Context From Management<br>The purchasing training from the City to our entire Management staff and the two accounting clerks took place on July 28th, 2015. All in attendance were required to sign off on the training and all were instructed that we were to follow the City's Purchasing policy effective immediately. A copy of said policy is printed and on the AP clerks desk to ensure we are all complying as we get used with the new rules. The AP stamps should be in place as well it is hoped by the end of September and the training and sign off on the AP stamps was done at the same time as the purchasing policy.<br><br>In regards to a contract listing, any contracts in an amount over $500 are recorded on a monthly spreadsheet which includes name of vendor; purpose of contract; amount of contract; expense account to be allocated to and start and end date of contract. This same list is used monthly to determine prepaid expenses account allocations. This list has been maintained monthly since January of 2006. This was put into place at the same time as the month end close procedure. |
| **Root Cause**<br>Formal record keeping of contractual agreements has not been implemented. Furthermore, a review of procurements is not carried out by staff who are trained to understand the Purchasing Policy. | | |

| Finding | Rating | Recommendation & Action Plan |
|---|---|---|
| **6. Month end financial close checklist/schedule** | | |
| **Observation**<br>Prior to board meetings, a month end file is prepared, including key schedules and reports, which is accompanied by a lead sheet. The lead sheet serves as a checklist of monthly and quarterly financial close activities.<br><br>The month end file, which contains an updated month end activities checklist, key reconciliations and schedules is reviewed for completeness by the CEO (or delegate) on a monthly basis prior to the scheduled Board of Director's meeting, as evidenced by signature on the checklist.<br><br>However, there currently is no indication of when the date of the review took place. | **Overall**<br>Low<br><br>**Impact**<br>Low<br><br>**Likelihood**<br>Unlikely | **Recommendation**<br>In addition to signing the monthly financial close checklist/schedule, the CEO should evidence the timeliness of the review with the date the review was performed. The review should be performed prior to release of financial results to the City or the WPL Board. |
| **Implication**<br>There may not be a mechanism to validate timeliness of review of financial reporting/close activities prior to a board meeting. | | **Management Action Plan**<br>Management agrees with the observation and the recommendation. Management will implement the recommendations.<br><br>**Responsibility**<br>WPL Manager of Finance<br><br>**Due Date**<br>2015 Q3<br><br>Additional Context From Management<br>The sign off forms within the month end close procedure have now had a "date filed" added beside the signature field. |
| **Root Cause**<br>Month end close checklist does not have a place to document the date of review. | | |

# *Considerations for Improvement*

The observations noted below are intended for management's consideration to further improve or strengthen current controls or processes. These considerations were identified as opportunities to improve areas where the level of risk associated with achieving the control objective is lowered by controls already operating effectively.

| 1 | Key Performance Measures and Monitoring of Additional Revenue Sources |
|---|---|

**Observation**: Upon obtaining an understanding of Board reporting and long term objective setting and monitoring processes, it was noted that in addition to financial reporting, some operational statistics (i.e. cost per square foot, circulation by branch) are reported by the CEO to the Board of Director's periodically. Based on inspection of a sample of board reports from 2014 there did not appear to be detail in terms of rental space utilization or availability statistics. Based on discussions with management there were several areas that had not historically been reported on. These include, but are not limited to, facility usage, room rental utilization/availability, attendance per branch.

In connection with facility room rental revenue, the monitoring has been limited to tracking total revenue collected in recent years. In regards to the Facilities Master Plan, in light of the changes in leadership over the last 18 months, progress towards goals in Facilities Master Plans has been hindered and therefore performance metrics not defined.

Subsequent to the review and since the Operating agreement with the City was completed, management has noted a gap in the reporting of certain statistical reporting and key performance metrics. Accordingly, management has been through an exercise, which is intended to be reoccurring on an annual basis, to identify additional sources of revenue and review current room rental rates. Management intends to track its performance against the 2016 budget to validate the revenue generating opportunities and take appropriate actions based on the results.

**Recommendation:** To align with WPL's current reporting processes, management should consider incorporating key performance indicators aligned to its strategic plan, operational goals as well as the Facilities Master Plan.

Processes should be implemented to support tracking of number of meeting rooms, study spaces, and community spaces throughout the system, and their usage. It is encouraged that management continue to establish metrics which help monitor progress of long term initiatives and implement repeatable processes for obtaining required data and assembling it in a meaningful way that improve decision making processes. Information and assumptions should also be validated prior to setting targets or reporting on actual performance. This validation may include benchmarking with other regions.

It is recommended that WPL monitor the utilization of its rentable space on an ongoing basis to determine whether there are opportunities for increased rental utilization. Information should be collected periodically and reported at least annually (possibly quarterly). WPL should determine a strategy to promote rentable meeting space for those locations which have the capacity to accommodate increased utilization. Furthermore, it is recommended that WPL perform a review of its meeting room space to assess whether upgrades in levels of service or amenities (i.e. projectors) are required prior to promoting rental of the space. Subsequent to the review, management has highlighted several opportunities to increase revenue from other sources such as facility rentals to external organizations and community groups. It was noted through discussions with management that the 2016 Operating Budget for WPL reflect management's best estimate for the levels of additional revenue opportunities. Since historical information/data has not been collected (for example on room rental utilization and incremental cost to operate) management should ensure that the information collected to track performance is sufficient to facilitate more accurate forecasting. Management should also formalize the process for setting rental rates that considers market rates as well as costs to provide rental space. In addition, WPL may want to perform analysis to determine whether current room rental rates are set to recover the operating costs (utilities, cleaning etc.). Management has expressed commitment to monitoring operating costs to identify cost saving opportunities relating to facilities.

**Management Comments**: Our management team has been a part of OMBI since its inception. WPL sits on the Expert Panel for Libraries across Ontario annually. In 2015 the expert panel consists of the following staff; CEO, Manager of Collections and Manager of Finance. The CEO shares many of these statistics with our Board at various monthly meetings.

# *Appendix A: Background & Scope*

*Linkage to the internal audit plan*

As part of the Council approved 2014/15 Internal Audit Plan, Internal Audit performed a "Targeted Review" of Specified Objectives which will focus on predetermined key City business objectives where the Agencies, Boards, Commissions ("ABCs") have a direct impact. In many instances the issues and risks of both the City and the ABCs are similar in their inherent nature.

As part of the internal audit plan development, this business process area has processes and controls associated with mitigating and managing the following corporate risks:

*Operational oversight, Funding oversight, Program delivery, Governance, Structure/culture, Legislative & regulatory, Public reaction/expectation, Governance, Planning & resource allocation, Reputation, Service Delivery, material resources, Information for decision making, Security and privacy, Inter-departmental co-ordination, Asset protection, Value creation, Structure/culture, Labour relations, Accountability, Scalability, Treasury/liquidity, Fraud & corruption, Loss/theft of assets, Compliance, Sourcing/cessation, Program delivery, Benefits realization/sustainability, Compliance, Transition/implementation.*

Given the City's relationship with ABC's and the significant oversight for ABC's funding and operations, it was determined that an internal audit to review these areas was necessary to ensure that the current processes in place are sufficient and appropriately address the risks facing the City of Windsor and to ensure there is a consistent understanding of what is important.

## *Scope*

*Overview of the business/process to be reviewed*

As part of internal audit of the business processes and controls in effect internal audit will be considering:

1. City Reporting relationship & agreement;
2. Compliance with city reporting relationship and Tone at the top;
3. Policy framework and evidence of compliance;
4. Regular reporting to the City;
5. Integrity of management information;
6. Fraud risk management protocols;
7. Cash management process; and
8. Media monitoring and escalation.

During the course of performing the "Targeted Review", an emphasis was placed on key business processes, controls and systems.

Our scope period covered up to the most recent completed year (January 1, 2014 to December 31, 2014).

*Specific Scope Limitation*

Consistent with commonly accepted practices, our work was dependent on the following management activities which are excluded from the scope of this review:

1. The effective design, implementation and operation of the Information and Technology (IT) environment and IT general controls;
2. The effective design, implementation and operation of business system and application controls related to the capture, processing, storage, reporting/presentation and exporting of information and data;
3. Controls over the completeness, accuracy, reliability and validity of the evidence, information and data provided by management during the course of this review;
4. The Windsor Public Library Foundation is to be excluded from our scope; and
5. Our review was limited to the operations of the Windsor Public Library's Central Branch.

# *Appendix B: Summary of Controls Reviewed*

The objective of this internal audit is to assess the selected internal control objectives in place within the Windsor Public Library ("WPL").

## *Controls identified and mapped to Control Objectives*

The following table summarizes the control objectives which were subject to review and the associated sixteen (16) controls identified to achieve each control objective.  This table also provides a reference to the summary of findings and considerations for improvements noted in the body of the report.  Based on the defined operating and governance structure noted above, controls where City's policies and procedures are fully or partially adopted by WPL were considered from a "Design" perspective for control objectives 3.1, 6.1 and 8.1 in the table below.

| Control Objectives | # | Control Title | Control Description | Reference to Finding |
|---|---|---|---|---|
| **1.1 Clear accountabilities, expectations and reporting relationships and protocols are established for the City/WPL relationship.  Both parties are aware of those agreed to expectations.** | 1 | Operating Agreement | An Operating Agreement between the City of Windsor and the Windsor Public Library (formally implemented in December 2014) describes the responsibilities, expectations and reporting relationships of both parties.  Key clauses include:<br><br>– Reporting structure whereby the CEO of WPL reports directly the City Clerk;<br>– The City is responsible for appointing the Board of Directors;<br>– WPL is responsible for determining mission, purpose and strategic goals;<br>– WPL is to determine policies; and<br>– City is to provide personnel to WPL services such as: Legal, Financial, Internal Audit, Facilities, Purchasing, IT, Communication and Human Resources. | **Finding #1** |

| Control Objectives | # | Control Title | Control Description | Reference to Finding |
|---|---|---|---|---|
| **2.1 Management has mechanisms in effect to ensure that agreed to reporting relationships and expectations are adhered to, that appropriately scaled governance is in effect and that information is protected from disclosure outside of this relationship.** | 2 | Oversight by WPL Board of Directors ("BoD") | On a monthly basis, the Board of Directors meet to ensure the vision of the WPL are aligned to the daily operations and to ensure appropriate reporting mechanisms, feedback activities and metrics are implemented.<br><br>The Board in consultation with the City of Windsor approves policies and employs a Chief Executive Officer, who administers the library under the guidance of those policies. The BoD is also responsible for recommending to Council the Library's operating budget and capital forecast.<br><br>Copies of BoD's minutes, reports and supplemental material are provided to the City of Windsor including, the CAO and City Clerk. Board meeting agendas and other material are also available to the public on the Library's website. The City Clerk (or delegate) attends board meetings as the secretary and the City Treasurer (or delegate) attends as the Treasurer. | |
| **3.1 WPL has key policies related to confidentiality, conflict of interest, employees' responsibilities, privacy, cash handling, reporting, etc. and mechanisms to assess compliance.** | 3 | Policy Manual | WPL has a library of all current policies by functional area. The policy library is reviewed periodically to identify gaps or the need for revisions.<br><br>Policies are generally categorized into three groups:<br><br>1) Foundational - set overall direction for WPL in the form of a vision statement, mission statement and pledge to customer service. These policies are reviewed on an as-needed basis.<br><br>2) Governance - set overall guidelines for how WPL is governed including provisions for BoD composition, duties etc. These guidelines are reviewed periodically. These policies details board members in general and their conduct with the CEO including executive limitations.<br><br>3) Operational Procedures - set of operating procedures for WPL management and staff in relation to Human Resources, Finance and Information Technology.<br><br>Policies are reviewed and approved by the BoD. Policies are communicated to employees and training is offered where appropriate. | **Finding #2**<br><br>See note 1 below |

| Control Objectives | # | Control Title | Control Description | Reference to Finding |
|---|---|---|---|---|
| **4.1 Two way communications between the City and WPL occurs and defined/required information is exchanged in a timely manner.** | 4 | Facilities Master Plan (with City) | The Windsor Public Library has implemented a Facilities Master Plan (dated March 2013) which is designed to be aligned with their 5 year strategic plan (2010-2015). The Facilities Master Plan was developed with insights from the community as well as City of Windsor Council and municipal departments. Consideration was given to current state of facilities and future requirements of citizens and administration. | **Consideration for Improvement #1** |
| | 5 | Performance Reports | Financial Variance reports are prepared by the Manager Finance on a monthly basis and presented to the BoD (and submitted to the City's Finance department effective September 2014). | **Consideration for Improvement #1** |
| | 6 | Monthly Administration Meetings | Effective December 2014: On a monthly basis, WPL administration meet to discuss important matters, upcoming events as well as prepare for the BoD meeting. These meetings are a forum to raise issues or resolve challenges that are facing WPL or staff. Prior to submitting board reports to board members, the CEO reviews board material, particularly for areas such as supply expenditures, budget issues and whether content is meaningful and accurate. Action items arising from Board Meetings are discussed and tracked at the next Admin meeting. Where applicable, actions pertaining to branch staff are communicated at monthly Branch meetings. | |

| Control Objectives | # | Control Title | Control Description | Reference to Finding |
|---|---|---|---|---|
| | 7 | Month end close checklists | Prior to board meetings a month-end file is prepared with key schedules and reports which are accompanied by a lead sheet which serves as a checklist of monthly and quarterly activities.<br><br>Some of the key activities listed on the checklist include:<br><br>– Prepare adjustments for prepaid expenses/review various expense accounts;<br>– Adjust Municipal transfers and other Provincial grants to actual at month end;<br>– Review restricted reserve entries for accuracy and completeness - prepare schedules for CEO and Director;<br>– Prepare investment entries and reserve continuity schedules – Quarterly; and<br>– Reconcile Balance Sheet accounts for accuracy.<br><br>The month end file, which contains an updated month end activities checklist and key reconciliations and schedules is reviewed for completeness by the CEO (or delegate) on a monthly basis prior to the scheduled BoD's meeting, as evidenced by signature and date on the checklist. | **Finding # 6** |
| **6.1 WPL has a policy and position on fraud risk management and mechanisms for enabling compliance.** | 8 | Fraud Protocols | WPL investigates cases when there is a concern or suspicion for wrongdoing within the entity, with City support if applicable. | **Finding # 2**<br><br>See note 2 below |
| **7.1 Management ensures that there are appropriate controls over cash** | 9 | Bank reconciliations | Bank reconciliations are performed on a monthly basis for the chequing account by the Accounting Admin Assistant and reviewed by the Manager of Finance, as evidenced by initials. | |

| Control Objectives | # | Control Title | Control Description | Reference to Finding |
|---|---|---|---|---|
| **collection, deposits and payments to mitigate losses and optimize cash flow.** | 10 | Cash Procedures | As required by the Cash Procedures implemented at WPL, daily cash reconciliations are performed against Sirsi and cash collected is counted at least weekly.  Reconciliation reports are submitted by each branch to the central office for review and retention.  Bank deposits are processed centrally and deposits are logged on a weekly basis.<br><br>Cash procedures are reviewed periodically.  A daily cash float limit was introduced during the last revision of the cash procedures in 2013.<br><br>Daily cash float limit are enforced and the amounts were altered in 2013 per a review of usage at each location. | **Finding #4** |
| | 11 | Cheque Signing | Cheques processed require two signatures from authorized personnel (CEO, Director, Finance Manager, Public Services Manager, and/or Manager of Board Operations. | **Finding #3** |
| | 12 | Procurement and Purchasing Thresholds | WPL's purchasing policy outlines processes and protocols for purchasing goods and services at established thresholds.  A verbal quotation shall be obtained by telephone or in-person, documented in writing and kept on file with the purchase orders between $300 and $10,000.  Three written quotations shall be obtained on vendor letterhead when purchase is between $10,001 and $50,000.  Purchases over $50,000 require invitational competitive process where a minimum of three formal quotes are required.  Purchases over $100,000 require an open competitive process and generally an evaluation panel reviews submissions from Vendors.  The policy also provides for single/sole source as well as emergency purchases.  All quotes or proposals must be maintained on file.<br><br>Note: WPL will follow the City's Purchasing By-Law in January 2016 once the WPL's financial system is integrated in with the City's PeopleSoft system.  The current WPL purchasing policy has been and will continue to be in effect until the transition.<br><br>WPL started using the City's Purchasing Policy directly after training on July 28th, 2015 and will start using the AP stamps by end of September, 2015. | **Finding #5** |

| Control Objectives | # | Control Title | Control Description | Reference to Finding |
|---|---|---|---|---|
| | 13 | Reserve Funds | WPL monitors reserve funds and donations made. On a quarterly basis, the Manager of Finance prepares a reconciliation of reserve fund accounts and discusses changes to reserve funds at board meetings.<br><br>Annually, WPL will submit to the City for approval, together with the annual operating budget, an annual expenditure plan for Windsor Public Library reserve funds, and all bequests and donations made to the Windsor Public Library. | See note 3 below |
| | 14 | Segregation of Duties | The finance function is made up of a Manager and two (2) Financial clerks/Accounting Support. The Finance Manager reviews bank reconciliations on a monthly basis. Financial Clerks/Accounting Support staff are not authorized to approve disbursements/cheques.<br>– Individuals who approve invoices do not prepare cheques;<br>– Individuals who collect cash do not reconcile bank statements or post journal entries to the general ledger; and<br>– Daily deposits are verified (and cash counted) by someone other than the cashier.<br>– A staff member verifies the cash count and desk fund report each day other than the staff member that prepares the report. | **Finding #4** |
| **8.1 A mechanism for maintaining awareness as to media mechanisms and potential items of disclosure. A mechanism for identifying and informing stakeholders of critical media content impacting brand/reputation exists and is used.** | 15 | Media Inquiries and Press Releases | The chair of the board is the official representative of the library and speaks on behalf of the library for the purpose of conducting, promoting or completing the business of the board.<br><br>Press releases and public addresses are reviewed by the CEO (prepared by Director of Strategic Planning) before releasing to public. The Director of Strategic Planning, is identified as media contact.<br><br>WPL adopted the City's Media and Communication Policy effective January 2015. | **Finding #1**<br><br>See note 4 below |
| | 16 | Informing BoD of Media Content | On a monthly basis, a media package is prepared and provided to the Board with relevant news articles, letters etc. that pertain to or mention the Windsor Public Library or its customers. | |

**Additional Notes related to Appendix B – Summary of Controls Reviewed**

Note 1: Certain governing policies are developed and maintained by WPL as defined in Appendix A of the new operating agreement effective Jan 1, 2015. For instance, the processes and policies relating to purchasing Library Books through SIRSI system will continue to follow WPL procedures; whereas, general purchasing will follow the City's Purchasing By-Law. The Governance Policies were available for review as DRAFT as of the date of this report.

Note 2: It is expected that WPL will fully adopt the City's revised Fraud Policy. Therefore, Internal Audit considered this review area from future design perspective.

Note 3: WPL's Reserve funds will be transferred to and monitored by the City sometime before Jan 1 2016 (using PeopleSoft).

Note 4: This review area will be considered from a future process design perspective given the new management agreement (effective Jan 1, 2015) states that the City will oversee and manage Media policies and procedures on behalf of WPL.

# *Appendix C: Basis of Finding Rating and Report Classification*

**Findings Rating Matrix**

| Audit Findings Rating | | Impact | | |
|---|---|---|---|---|
| | | **Low** | **Medium** | **High** |
| **Likelihood** | **Highly Likely** | Moderate | Significant | Significant |
| | **Likely** | Low | Moderate | Significant |
| | **Unlikely** | Low | Low | Moderate |

**Likelihood Consideration**

| Rating | Description |
|---|---|
| **Highly Likely** | • History of regular occurrence of the event.<br>• The event is expected to occur in most circumstances. |
| **Likely** | • History of occasional occurrence of the event.<br>• The event could occur at some time. |
| **Unlikely** | • History of no or seldom occurrence of the event.<br>• The event may occur only in exceptional circumstances. |

## Impact Consideration

| Rating | Basis | Description |
|---|---|---|
| **HIGH** | Dollar Value[2] | Financial impact likely to exceed $250,000 in terms of direct loss or opportunity cost. |
| | Judgemental Assessment | **Internal Control**<br>Significant control weaknesses, which would lead to financial or fraud loss.<br><br>**An issue that requires a significant amount of senior management/Board effort to manage such as:**<br>• Failure to meet key strategic objectives/major impact on strategy and objectives.<br>• Loss of ability to sustain ongoing operations:<br>   - Loss of key competitive advantage / opportunity<br>   - Loss of supply of key process inputs<br>• A major reputational sensitivity e.g., Market share, earnings per share, credibility with stakeholders and brand name/reputation building.<br><br>**Legal / Regulatory**<br>Large scale action, major breach of legislation with very significant financial or reputational consequences. |
| **MEDIUM** | Dollar Value | Financial impact likely to be between $75,000 to $250,000 in terms of direct loss or opportunity cost. |
| | Judgemental Assessment | **Internal Control**<br>Control weaknesses, which could result in potential loss resulting from inefficiencies, wastage, and cumbersome workflow procedures.<br><br>**An issue that requires some amount of senior management/Board effort to manage such as**:<br>• No material or moderate impact on strategy and objectives.<br>• Disruption to normal operation with a limited effect on achievement of corporate strategy and objectives<br>• Moderate reputational sensitivity.<br><br>**Legal / Regulatory**<br>Regulatory breach with material financial consequences including fines. |
| **LOW** | Dollar Value | Financial impact likely to be less than $75,000 in terms of direct loss or opportunity cost. |
| | Judgemental Assessment | **Internal Control**<br>Control weaknesses, which could result in potential insignificant loss resulting from workflow and operational inefficiencies.<br><br>**An issue that requires no or minimal amount of senior management/Board effort to manage such as:**<br>• Minimal impact on strategy<br>• Disruption to normal operations with no effect on achievement of corporate strategy and objectives<br>• Minimal reputational sensitivity.<br><br>**Legal / Regulatory**<br>Regulatory breach with minimal consequences. |

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[2] Dollar value amounts are agreed with the client prior to execution of fieldwork.

## Audit Report Classification

| Report Classification | The internal audit identified one or more of the following: |
|---|---|
| **Cause for considerable concern** | • Significant control design improvements identified to ensure that risk of material loss is minimized and functional objectives are met.<br>• An unacceptable number of controls (including a selection of both significant and minor) identified as not operating for which sufficient mitigating back-up controls could not be identified.<br>• Material losses have occurred as a result of control environment deficiencies.<br>• Instances of fraud or significant contravention of corporate policy detected.<br>• No action taken on previous significant audit findings to resolve the item on a timely basis. |
| **Cause for concern** | • Control design improvements identified to ensure that risk of material loss is minimized and functional objectives are met.<br>• A number of significant controls identified as not operating for which sufficient mitigating back-up controls could not be identified.<br>• Losses have occurred as a result of control environment deficiencies.<br>• Little action taken on previous significant audit findings to resolve the item on a timely basis. |
| **No major concerns noted** | • Control design improvements identified, however, the risk of loss is immaterial.<br>• Isolated or "one-off" significant controls identified as not operating for which sufficient mitigating back-up controls could not be identified.<br>• Numerous instances of minor controls not operating for which sufficient mitigating back-up controls could not be identified.<br>• Some previous significant audit action items have not been resolved on a timely basis. |
| **No or limited scope for improvement** | • No control design improvements identified.<br>• Only minor instances of controls identified as not operating which have mitigating back-up controls, or the risk of loss is immaterial.<br>• All previous significant audit action items have been closed. |