The Corporation of the City of Windsor
Procurement, Purchasing & Payables

Final Internal Audit Report

3 September 2014

Distribution List

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Limitations & Responsibilities

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Summary of Internal Audit Results

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

Report Classification

In general, management controls in the Procurement process are sufficiently reliable for the purpose envisaged. Overall, there is a guiding bylaw which provides guidance and direction for all who participate in the process. Staff understand their roles and responsibilities, which are often documented. Projects with a value above a prescribed threshold are publically advertised, while multiple bidders are required for most other projects. While the bylaw is strictly enforced, it provides enough flexibility to consider the day-to-day activities and occurrences of the City.

Control Environment

There is a governing bylaw which provides guidance and direction for all participants in the process.   Authority and structures required are defined in the Bylaw, Procedures and Signing Authorities. Projects with a value above the prescribed thresholds are publically advertised, while multiple bidders are required for smaller projects. While the bylaw is enforced, it provides flexibility to consider the day-to-day activities and occurrences of the City.

We considered the Purchasing Bylaw and Procedure Manual and applied it to our testing of Procurement processes by determining whether senior members of the department were enforcing its rules and applicability. We also considered how processes were standardized such as determining what templates were in place to determine the level of consistency throughout the department. We found that the bylaw is enforced by the Purchasing Department throughout the Procurement process through its participation in seeking vendor services and through various training sessions. We also noted templates that were created which have been used in each project tested.

Risk Assessment

The individual risks of each requested project were reviewed and analyzed by Purchasing, with the involvement of senior staff members in the department, to determine whether to use an RFT or RFP approach.

The requesting department considers the risks of each project to determine whether supplemental or preparatory work is required before the work begins.

Control Activities

The Purchasing Bylaw contains specific control expectations and is supplemented by the Procedure Manual and management templates.

Control activities are applied based on the nature and value of the purchase. While some controls are system enabled there is limited integration of systems and the use of application controls could be increased. Segregation of duty controls were noted, with some exceptions.

The effectiveness of IT general controls, application controls and reporting integrity controls was beyond the scope of this review but have a direct relation to the effectiveness of the controls and information we tested.

Information & Communication

There are internal training methods and communication mechanisms to ensure that personnel remain aware of their responsibilities and changes to the process (these were evaluated in the 2014 Governance Review). Staff understand their roles and responsibilities (which are often documented).

Transparency and fairness: by taking the perspective of an independent third party, we considered whether there were enough procedures and mechanisms in place to ensure whether vendors who submitted a bid were given an equal opportunity to win the contract. No issues were noted during any of our testing for this element.

Monitoring

The Purchasing Manager and Purchasing Supervisor roles exist with responsibilities defined throughout the Procurement process in the Purchasing Bylaw. They oversee the function and day-to-day operations of the Purchasing Department, ensuring that tender receipting and opening process is fair and transparent and that evaluations are fair, unbiased and accurate.

The following table summarizes the breakdown of spending by the City and is based on a review of Accounts Payable vouchers from the period of January 1, 2012 to April 30, 2014:

Range	PO Transactions		Non PO Transactions	
	# of Transactions	Total $ Value	# of Transactions	Total $ Value
$0 - $5,000	89%	12%	92%	12%
$5,001 - $25,000	8%	27%	5%	12%
$25,001 - $50,000	2%	19%	2%	9%
Exceeds $50,000	1%	42%	1%	67%

Regarding the amounts exceeding $50,000, for the period of January 1, 2013 to April 30, 2014, 98 transactions pertained to Request for Tenders (contract values of $66,361,960.56) and 34 pertained to Request for Proposals (contract values of $5,969,098.57).

Significant Findings:

Internal audit identified one specific improvements related to the design of controls, specifically:

- While having access to both modify vendor master records and approve payments is a required segregation of duties, this was not enforced in three cases to mitigate the risk of misappropriation of assets.

These design deficiencies could lead to material losses for the City if not addressed in the short term. When considered in aggregate there is the opportunity for a potential material issue to occur. It is important to note that no evidence of the occurrence of a material loss was detected during our testing.

This is based on aggregation of some of the significant findings which have the ability to permit the following circumstances:

- Three personnel have the ability to create a vendor, process an invoice and approve a payment and could have payments issued.
- While a payment cannot be made until approved by Finance, 150 personnel have the independent authority to change vendor master information and redirect mailings and payment information.
- Employees have used their control stamps to approve invoices for which the amount is beyond their limit.

In addition to fiduciary responsibility, any financial loss has the ability to directly impact reputational risks for the City.

While individual residual risks noted earlier may be low, their combined effect reduces the ability to rely on controls.

Based on the controls identified and tested as part of the Internal Audit of the City's Procurement 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:		✓		

Management has provided comprehensive action plans, which we believe will address the deficiencies noted.

Summary of Positive Themes

During the review of the processes and controls, the following areas were noted as positive themes. The City promotes governance, transparency and fairness, while considering risk management and segregation of duties through the use of the existing procurement policy.

Entity-Level

Consistency of Controls: Several controls were noted to be appropriately designed and appropriately implemented throughout the organization. The Purchasing bylaw was applied consistently in terms of levels of approval noted for projects of various sizes, type of request for service process utilized, as well as when special cases needed to be made. Furthermore, a questionnaire was issued to five departments across the City, where it was noted that in most cases, they are observing the same processes and controls in regards to service provider/contract delivery management.

Segregation of Duties: Incompatible duties were appropriately segregated in the Purchasing Department to reduce the risk of misappropriation of assets and access to physical assets and systems/applications are valid and appropriately restricted.

Procure to Pay Governance

Purchasing Bylaw: The City promotes an established Purchasing Bylaw, which was designed and implemented based on good practices providing guidance and direction for all who participate in the process. It provides clear thresholds for the different methods of procurement available, clearly defines the levels of approval required, and considers unique situations which would require a deviation from the normal requirements. It provides clear direction on its application and exceptions/provisions and how these are to be managed.

Procurement Process

Transparency: Processes and controls to reduce the risk of conflicts of interests and favouritism exist and are consistently applied. By carrying out the requirements of the Purchasing bylaw, the Purchasing Department provides consistent treatment for all projects and all potential vendors by using a firm deadline for submissions, requiring that all submissions be reviewed at the same time, and an evaluation process which requires assessment by multiple individuals before a decision is rendered. Debriefs are offered for losing vendors to help them understand why they did not win to ensure fairness and transparency in the procurement process.

Tiered System: Purchasing is able to accommodate the large number of requests from throughout the City by implementing different methods of obtaining goods and services based on the price level requested. Furthermore, a preferred vendor listing (or "roster list") is in place for engineering firms for certain services, allowing for a faster means to meet the needs of the City.

Roles and responsibilities: Purchasing Manager and Purchasing Supervisor roles exist with responsibilities defined throughout the Procurement process in the Purchasing Bylaw. They oversee the function and day-to-day operations of the Purchasing Department, ensuring that tender receipting and opening process is fair and transparent and that evaluations are fair, unbiased and accurate.

Pre-Approved Contractor Master List: Purchasing has created a preferred contractor master list consisting of Engineering firms, referred to as "the roster", which allows departments in need of engineering services to directly contract a pre-qualified firm that has been through a prior review process by the City up to a specified limit. This creates efficiencies in the process while providing the department the opportunity to work with a preferred vendor while adhering to good practices and the Purchasing bylaw. This list is periodically reviewed to ensure that only appropriate and viable contractors are engaged.

Contract Approval & Renewal: Larger projects which require a legal contract are created by the Legal Department using an approved template. The contract is reviewed by another member of the department before being reviewed by Finance and the requesting department, who ensures that all technical requirements are covered by the contract. While their review is evident through the use of initials on the contract, these are required to be signed by the Chief Administrative Officer and the City Clerk before they can be issued to the supplier. Contract renewals can only be approved when the original contract allows for the possibility, and requires the approval of the same signing authorities who approved the initial contract.

Purchasing and Payables

Automated Accounts Payable review: For invoices associated with a purchase order, an automated three-way match is in place through PeopleSoft, allowing for an efficient use of time and resources for Finance. This allows for valid payments due to be paid accurately once and to the correct vendor.

Use of Accounts Payable Control Stamps: Control stamps are used throughout the City, which are provided by, and maintained by Accounts Payable. The control stamps include a unique number for each individual which corresponds to an approval limit. Use of these stamps is not to be delegated to anyone else in the organization.

Invoice Verification Process: Invoices are put through a verification process before being paid. For invoices without an associated purchase order, the details entered by the department are checked against the invoice using set checklists by an AP Clerk before being approved. For those with a PO, an automated matching tool through PeopleSoft is utilized with the details of the purchase order, invoice and receiving slip entered by separate departments.

Service Provider/Contract Delivery Management

Use of standard progress certificate templates and forms: For payments involving progress certificates, a uniform template is used, with supporting documentation attached. All departments tested use the approved uniform template. The supporting documentation includes details of all materials and equipment used, as well as labour time. The progress certificates include the total contract amount, indicating that information about negotiated contracts is readily available and shared with the appropriate departments.

Thorough reviews before payment: Before a payment is approved, there are several levels of review in regards to time spent and materials used in the project to date, ensuring the accurate amount is paid. This allows for payments to be made after the work is performed.

Summary of Findings

The following table provides a summary of the internal audit findings and management actions:

Finding	Topic	Rating[1]			Management Action
		Significant	Moderate	Low	
Procurement					
Supplier Qualification					
1	Clarity & Requirements for Roster Application Process			X	Update Purchasing Procedure Manual to reflect current processes. City Solicitor & Manager of Purchasing – 2014 Q4
Receipt of Quotes					
2	Clarity of Informal RFQ Validity Dates			X	Update Purchasing Procedure Manual to require inclusion of validity period for informal RFQs. City Solicitor & Manager of Purchasing – 2014 Q4
Independence and Transparency					
3	Evidence & Transparency of Vendor Conflict of Interest		X		Amend Purchasing Bylaw to address management of conflict of interest in procurement processes. City Solicitor – Bylaw was amended 26 August 2014.
Purchasing & Payables					
Master Data					
4	Vendor Payments Control Exposures	X			1. Consider implementing automated A/P controls (2017 Q1) 2. Review all system access requests to eliminate conflicting access (2014 Q4) 3. Create an access management practice (2014 Q4) 4. a) Review access for vendor creation and modification and voucher input (2015 Q1) b) Evaluate alternative controls over vendor creation and modification (2015 Q2) Chief Financial Officer/City Treasurer & Deputy Treasurer – Financial Accounting
Service Provider/Contract Delivery Management					
Contract Monitoring					
5	Clarity & Consistency of the Dispute Resolution Process			X	Develop & maintain log of disputes rising to the Executive Director level. City Engineer – 2014 Q4
6	Authority to Approve Change Orders		X		Establish change order authorization limits City Engineer – 2014 Q4

Finding	Topic	Rating[1]			Management Action
		Significant	Moderate	Low	
Service Delivery Monitoring					
7	Vendor Performance Evaluation & Consideration		X		Develop Vendor Evaluation system. City Solicitor & Manager of Purchasing – 2015 Q1
Concerned Citizen Hotline					
8	Conflict of Interest re: Employee Relations with Vendors		X		Amend Code of Ethics & Conflict of Interest Policy CAO & Manager of Corporate Administration – 2015 Q1
Total Audit Findings		1	4	3	

Summary of Significant Findings

As noted above in the Summary of Audit Findings, Internal Audit has classified a total of 1 finding as "significant" which require management action in the immediate short term. Here is a brief summary of the significant area where the City's Procurement, Purchasing and Payables processes should be improved:

Purchasing & Payables

- A few items were noted with regard to payable processing such as: (1) high reliance on manual payment approvals, (2) segregation of duties conflicts, and (3) lack of evidence of vendor master record change validation and approval.

Management Comments

Payment Approval Manual Controls
There are a number of key controls currently in place over this process to ensure that invoice payments are properly authorized and approved by an appropriate approving authority prior to issuance of any payments. Accounts payable approval stamps are pre-numbered and now include clear authorization dollar limits for each approver directly on the stamp. All authorized approvers must confirm compliance with Purchasing Bylaw and A/P Stamp Procedure for each payment that is approved. Prior to any payment, all non-PO invoice payments must also be verified by Finance staff prior to release of the invoice for payment. Amongst various other items examined, verifiers ensure that the A/P stamp approval is evident within the appropriate limit for each approver. Signature cards are maintained within Finance for each approver and verifiers may examine the signature cards as needed to ensure that the stamp approvals and signatures are appropriate. Additionally, any payments greater than $250,000 require additional review and approval by the CFO or one of his Deputy Treasurers before payment is released. Finance also conducts a monthly sampling and review of invoices processed for payment, which includes a review of the A/P control stamp used, the signature is compared to the one on file, and the invoice amount is compared to the authorized dollar limit. Normally, an annual review is also conducted to identify any approvals exceeding authorized dollar limits, with follow up on identified exceptions. Moreover, there are checks built into the A/P system which detect and prevent potential duplicate payments. Finally, both the Finance and all operating departments monitor and analyze budget variances quite closely – such analysis would likely detect improper payments.

Segregation of Duties
Management agrees that a segregation of duties conflict did exist for a small, isolated number of approvers. This was essentially the result of system security setup and the A/P control stamp approvals being conducted by different operating units. The very small number of conflicts have been removed. A multi-year review of the A/P voucher input and approval history for these isolated cases was also undertaken and no evidence of improper payments was noted.

Vendor Master Record Changes
In order to ensure the efficient and timely processing of invoices in the current decentralized environment, the A/P system has been structured in a manner to allow the functions of voucher input and vendor changes to be input by the various staff that process invoices. When a vendor addition or change is made within the system the vendor status is classified as "unapproved" within the A/P system and no payments may be made until such time as centralized Finance staff review and approve the vendor change. Management agrees that the current review and approval process is primarily administrative in nature and does not constitute a formalized approval process which is authorized by a senior business leader within the organization. The current corporate business processes have been established with consideration of the mainly decentralized environment and on the basis of strong backend internal controls via the A/P stamp approval Finance verification and the additional required review and approval for the release of high dollar payments.

Name: Onorio Colucci
Title: Chief Financial Officer & City Treasurer
Date: 5/09/2014

Detailed Observations

Findings & Action Plans

Finding	Rating[1]	Recommendation & Action Plan
1. Clarity & Requirements for Roster Application Process		

Observation
During our review of the roster application process and the maintenance of the roster lists, it was noted that the specific procedures pertaining to the roster application process (such as the roster approval process) in the Procedure Manual are not clearly or completely described. In addition, the requirement to sign a "Master Contract" upon selection to be on the Roster list is not described.
 	
Additional details for the period between Jan 1, 2012 to April 30, 2014 as follow:
     # of vendors on the roster: 48
     # of roster members used: 29
     # of roster transactions: 1,078
     $ value of roster transactions: $9,289,917
	Overall
	Low
		Recommendation
		The Purchasing Manual should be updated to include a description of the master contract template used for projects which are awarded to vendors on the roster. Furthermore, clarification in the Purchasing By-Law should be considered with respect to whether the roster list applies to non-engineering projects.
		
		Management Action Plan
		Management agrees with the finding and the recommendation. Efficiencies were realized in the contracting process that are not reflected in the procedure manual. Management will amend the Procedure Manual and take steps to ensure the changes are communicated to staff.

Implication Without clear guidelines in place, the likelihood of confusion or a misunderstanding by the users of the bylaw increases, creating potential disputes during the roster addition and maintenance processes.	**Impact** Low	
Root Cause The roster process has developed beyond the description in the procedure manual.	**Likelihood** Likely	**Responsibility** City Solicitor & Manager of Purchasing **Due Date** 2014 Q4

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

Finding	Rating	Recommendation & Action Plan
2. Clarity of Informal RFQ Validity Dates		
Observation During our testing of purchases made through the Informal Request for Quotation process, it was noted that quotes received from potential vendors do not have a timeframe for which the Quote will remain open.	**Overall** Low	**Recommendation** All requests for quotation documents should state a default timeframe, unless otherwise specified by the vendor, for which the same quantity of goods or services are available at the quoted price.
Implication Departments may not be aware of the number of days that a quote from a vendor will remain open. If the quote becomes invalid before the City approves the purchase, there may be additional effort in requesting another quote and potentially, the City may not be able to get the same price as originally quoted.	**Impact** Medium	**Management Action Plan** Management agrees with the finding and the recommendation. It is noted that formal RFQs already include stated validity periods, as do tenders and proposals. Management will amend the Procedure Manual to include the requirement for a validity date on all informal RFQs and will add language to this effect to the existing informal RFQ template available on the intranet, and will take steps to ensure that changes are communicated to staff.
Root Cause Quotes forms do not require vendors to provide a timeframe.	**Likelihood** Unlikely	**Responsibility** City Solicitor & Manager of Purchasing **Due Date** 2014 Q4

Finding	Rating	Recommendation & Action Plan
3. Evidence and Transparency of Vendor Conflict of Interests		
Observation Before anyone can participate as an evaluator, they are required to disclose any potential conflicts they may have. The potential conflict is reviewed by Legal before the individual is allowed to participate as an evaluator. Independent testing of the adherence to this management control was not possible as the nature of the potential conflict, the associated risks, the rationale for the final approach/decision and approval thereof are not documented. Assessment of adherence to this management control can only be tested based on discussion.	**Overall** Moderate	**Recommendation** The bylaw should be updated to require that all disclosed/potential conflicts be forwarded to the Legal department for review and that appropriate management levels approve the decision prior to evaluators participating in the evaluation process. In addition, management should design, implement and monitor a process which documents evidence of (1) the nature of the potential conflict, (2) the associated risks, (3) the rationale for the final approach/decision and (4) approval of the assessment and decision.
Implication The lack of documentation relating to decisions on handling conflicts of interest may potentially create a perception of a biased evaluation, thus reducing the overall transparency of the process. Independent assessment of adherence to or application of the controls is not possible without evidentiary matter.	**Impact** Medium	**Management Action Plan** Management agrees with the findings and the recommendation. Management has already amended the Purchasing By-law to require that all conflicts or perceived conflicts be directed to the City Solicitor for determination, and that the results be documented in the procurement file.
Root Cause A conflict of interest management process is in place however the context, risks, decisions and approvals are not documented.	**Likelihood** Likely	**Responsibility** City Solicitor **Due Date** 2014 Q3

Finding	Rating	Recommendation & Action Plan
4. Vendor Payments Control Exposures		
Observation While several controls associated with the accounts payable process were tested with regards to the issuance of vendor payments Internal Audit noted that: 1. The approval to pay control is significantly manual and not automated: Control over the payment authorization stamps is based on individual staff custody and responsibility, which is eventually verified centrally in Finance. It was noted in 4 cases that the employee who approved the selected invoice did so outside of their approval limits. 2. Segregation of duties conflicts exist: 3 (out of 194) personnel with an Invoice Approval Stamp (approval to pay) also have access to create a voucher and add a new vendor in PeopleSoft. 3. Changes to vendor master records have no evidence of independent approval: Approximately 150 employees throughout the City have access to add and modify vendor master records without any formal authorization or approval. While modifications are put through a central verification process before they are approved, data input accuracy is the only item independently checked.	**Overall** Significant	**Recommendation** Management should: 1. Consider leveraging the automated control functions for approval to pay within PeopleSoft. For more information, refer to Considerations for Improvement #3. 2. Review access privileges to ensure that all key duties are segregated. 3. Develop and implement an access management practice designed to identify requests for incompatible duties and acquire rationale with executive approval as required. 4. Develop and implement a process to ensure that all modifications to vendor master records are (1) valid, (2) approved and (3) accurately made in the system. For example, good practices in other organizations, public sector entities and municipalities often have a modification request completed by a requestor, authorized by an appropriate business leader and then processed by a small select group of designated individuals who manage data entry and data integrity to ensure the enforcement of the control. Should a form be implemented, it is recommended that approval be documented via the AP control stamp, and be restricted to personnel with an approval limit greater than a set amount. It is suggested that the number of approvers be limited in order to protect confidential vendor information. Using email notification instead of a form may also be an alternative, where by the person requesting a change to vendor records would have to email AP and copy the approver.
Implication There is a potential for the misappropriation of funds and/or increased fraud risk due to (1) unauthorized or invalid modifications to vendor master records, (2) circumvention of segregation of duties and (3) creation of fictitious vendors, vouchers and approvals to pay. Inaccurate or erroneous changes to vendor master records resulting in impaired vendor relations.	**Impact** High	

Finding	Rating	Recommendation & Action Plan
Root Cause Reliance on manual controls. Provision of conflicting functional privileges. Lack of independent validation/approval of vendor record modifications by someone who is aware of business operations and vendors as they are not able to enter the changes themselves	**Likelihood** Likely	**Management Action Plan** Management appreciates the objective review of the accounts payable process by PwC. Management is pleased at the very small number of minor issues being reported, particularly considering that approximately 128,000 non-PO invoices were approved for payment during the audit period. Management is also pleased that no evidence of improper payments or other loss to the Corporation was found during the course of this audit. Management is always pleased to consider ways to improve the effectiveness and efficiency of its internal controls. Management's proposed action plans for each of the corresponding points from above are as follows: 1. Management agrees with the recommendation to consider and implement additional automated control functions relative to payment approval within the PeopleSoft Financial system. This has already been identified as a planned project in the upcoming queue of PeopleSoft enhancement projects. However, corporate resources to complete this project are limited, particularly when considering the ongoing Payroll Business Process Review project. The project to enhance A/P automation in PeopleSoft could not begin until the Payroll project is complete (estimated to be 2017 Q1). 2. Management agrees with the recommendation. All instances of conflicting access were removed. In the future, to ensure proper segregation of this function, PeopleSoft Support will be provided access to view the master list of authorized approvers so they may ensure that no voucher input access is granted to any approved A/P approval stamp holder. Also, prior to issuing a new A/P stamp, Finance will confirm that an employee does not have voucher input access. Finally, Finance will review the listing annually to ensure that no conflicts exist. 3. PeopleSoft Support in the Information Technology Department already ensures that conflicting duties within the PeopleSoft system are not provided to individual users. The case of voucher input and A/P approval is one of a system function and a manual function being in conflict. The management action plan outlined in #2 above will address this potential system/manual functional conflict in the future.

Finding	Rating	Recommendation & Action Plan
		4. Management will complete a review of those employees with voucher input and vendor modification access within the system in order to limit such access to those employees that are absolutely required within each operating area. Based on a preliminary review, 56 of the 150 employees are to have their access removed immediately, leaving 94 employees with access. Additional reductions are being considered in order to bring the number down further, while at the same time ensuring that adequate administrative resources are in place within the various operating areas for the timely and efficient processing of invoices. Management believes that, in the interim, the extensive backend controls (detailed in the Management Comments on page 8) significantly mitigate the potential risks identified. However, management will, in conjunction with the IT Department's business process review group, study and evaluate additional and/or alternative methods of verifying and approving vendor creation and modification.
		Responsibility Chief Financial Officer/City Treasurer & Deputy Treasurer – Financial Accounting **Due Date** 1. 2017 Q1 (Subject to completion of the Payroll Business Process Review) 2. 2014 Q4 3. 2014 Q4 4. a) 2015 Q1 (Review of 94 remaining employees with access – may be subsequently impacted by part 5. b); and b) 2015 Q2 (Evaluation of additional vendor modification controls)

Finding	Rating	Recommendation & Action Plan
5. Clarity & Consistency of the Dispute Resolution Process		
Observation During our review of the Contract Management process, Internal Audit did not detect any guidelines or mechanisms in effect to identify, manage and monitor disputes and/or issues with vendors throughout the project life cycle. We also did not detect a contract issue resolution process (a process which outlines what steps are to be taken in the event of an issue and who is to be consulted), which has led to inconsistent means of handling conflicts.	**Overall** Low	**Recommendation** The City should consider implementing a formal process that describes how disputes should be handled (identification, escalation, resolution and reporting). For example, the responsibilities, ways to resolve the conflict and when it is appropriate to involve a third party in the resolution process. This process should be formalized in the form of a procedure or guidance that applies throughout the City, with reference made to it in RFS documents. Such a process should only be superseded in the event that there is another process specific to the project included in the contract. The procedure/guidance should consider, but is not limited to, the following elements: • Maintenance of records and documents relating to dispute. • A centralized log of all disputes by project by department. • Responsibilities for managing and reporting disputes to the CLT/ED levels • A frequent review of the status of open disputes. • Summary of disputes resolution based on appropriate elevation of issue by project and vendor upon project completion for future work evaluation and development of lessons learned.
Implication Without a dispute resolution process, issues that arise during projects are not likely to be handled on a consistent basis, leading to less effective and efficient outcomes, which could lead to project delays. Project issues many not be resolved in a timely manner or a manner that is optimal for the City and interested parties.	**Impact** Medium	**Management Action Plan** Management is in agreement with formalizing the dispute resolution process within the specifications for all RFT's and RFP's. However, only those disputes that rise to the level of the Executive Director should have written decisions logged and kept on file. Disputes not rising to the level of the Executive Director are generally differences of opinion and a normal part of most construction contracts. **Responsibility** City Engineer
Root Cause Minimum criteria for the dispute resolution process is not defined.	**Likelihood** Unlikely	**Due Date** 2014 Q4

Finding	Rating	Recommendation & Action Plan
6. Authority to Approve Change Orders		
Observation Outsourced projects usually include a contingency allowance built into the contract, allowing for the department to authorize changes to the project, which are the result of unforeseen circumstances. A department may approve a change up to the amount of the unique project allowance before having to consider whether additional approval is required. The Purchasing bylaw is silent in regards to who has the authority to approve change orders that fall within the contingency allowance. In 4 out of 15 samples tested approval by the department head was not evidenced where the changes were authorized by departmental or project managers.	**Overall** Moderate	**Recommendation** A policy or procedure should be drafted to outline authorization limits of change orders for which funds are provided by the contingency allowance. All change orders above a certain level should be approved by an appropriate member of the project before the work is commenced, which can be verified by documenting the date of approval and the date of work. All change orders should not be approved by an employee if the request exceeds their control stamp limit. Finally, for any changes made, these should require the approval of a member of the project team as permitted by the Bylaw.
Implication Unnecessary work and costs may be incurred which the City would absorb. Lines of accountability and authority to approve work efforts and the incurrence of City costs may not be clear and create unnecessary effort.	**Impact** Medium	**Management Action Plan** Management is in agreement with the recommendation but would like to note that all change orders are included in Payment Certificates for tenders and that the approval is signed by those members of administration having the proper accounts payable approval stamp authorization limit. Management agrees that all change orders within budget tolerance be initialled by the proper staff subject to the following: • Change orders of less than $100,000 should be initialled by the Senior Manager or Manager of the affected department/division; and • All change orders valued at $100,000 or more should be initialled by the Executive Director of the affected department; and • Projects that have a project charter as required by the Project Management Policy shall still observe the approval processes established by those project charters.
Root Cause Change orders are approved by employees other than the department head or approval is often verbal due to a lack of clarity on the authority to make these approvals.	**Likelihood** Likely	**Responsibility** City Engineer **Due Date** 2014 Q4

Finding	Rating	Recommendation & Action Plan
7. Vendor Performance Evaluation & Consideration		
Observation A vendor evaluation/feedback mechanism has not been formally developed or documented to assess vendor performance at project completion and therefore centralized awareness of vendor performance is difficult to establish. Additionally, there typically are more RFT's than RFP's processed where RFT's award contracts to vendors with the lowest bid submitted. There are no other factors, such as past vendor performance, considered in the evaluation of RFT bids. Compensating controls were noted, in that a pre-qualification process can be utilized to ensure that vendors have the capability to carry out the work required, though this is not a mandatory process. Furthermore, Section 143 of the Purchasing bylaw allows the City to levy sanctions against vendors for various issues, including performance. A formal vendor evaluation mechanism can be an additional tool to what is currently in place.	**Overall** Significant	**Recommendation** Management should implement a process to collect vendor performance on a given project and centralize the storage of the results. Debriefs with vendors as to the project outcomes and performance assessment should be conducted. Management should consider revising the vendor/service provider selection process to include consideration of past performance and known recurring issues to enable reasonable fiduciary responsibility. Management should investigate a process to deal with consistently recurring vendor service delivery issues. Additional details follow: Through experience with other organizations, public sector entities and municipalities, it was noted that they leverage a formal evaluation process to document evidence of the issues encountered, warnings given to the vendor, remedial actions taken and actions to be taken by the City when the issues cannot be remediated. The City should consider implementing a formal vendor evaluation form or template created by Purchasing, which could be applied consistently throughout the City. Purchasing should track the completion of projects to ensure that a quality survey is administered in a timely manner.
Implication The City may select or engage with vendors with poor track records or issues in particular areas that could have been avoided resulting in excessive costs, delays or service delivery issues. Given that the majority of major projects are awarded via RFT, without a formal evaluation in place, the City may be forced to engage with vendors with a poor performance record or history of recurring issues.	**Impact** High	The form should address concerns relating to contractor relations as well as service quality. This would aid in ensuring that vendors with a good performance record receive a better score in proposal evaluations and pre-qualification processes. In contrast, a process for reviewing vendors with poor performance ensures that appropriate actions are taken to prevent quality issues in the future. The City may want to consider outlining disciplinary actions, depending on the severity of issues, which can be taken against vendors that are determined to have poor performance, as well as including provisions as to when other parties need to be involved. Furthermore, it is recommended that completed vendor evaluation forms be returned to Purchasing for oversight and monitoring purposes. The completed forms should be kept in the procurement files for future reference and vendor/bid evaluations

Finding	Rating	Recommendation & Action Plan
Root Cause Vendor evaluations are currently done informally or inconsistently.	**Likelihood** Likely	**Management Action Plan** Management agrees with the finding and the recommendations. Management will develop and implement a vendor review and evaluation system that will be designed to document and manage vendor performance and centralizes this information for use by all staff. This will complement the existing By-law provisions dealing with sanctions for under-performing vendors. Management will take steps to ensure to educate affected to participate in the evaluation programme. **Responsibility** City Solicitor & Manager of Purchasing **Due Date** 2015 Q1

Finding	Rating	Recommendation & Action Plan
8. Conflict of Interest re: Employee Relations with Vendors		
Observation The Code of Ethics and Conflict of Interest policy does not explicitly require that employees disclose where they have personal or close relationships with vendors where the employee is a participant, influencer or decision maker in a vendor selection/award process. When obtaining an understanding of how potential vendor employee conflicts are handled at the City, an instance was noted where a retired employee was providing services to the City through their company while still employed and no evidence of a conflict of interest disclosure was detected.	**Overall** Moderate	**Recommendation** The City should amend the Conflict of Interest policy to require staff and volunteers to disclose any known close or personal relationship or friendships with vendors the City is doing business with where the individual is involved in the process. Vendors should also be required to disclose where they have family members employed by the City that could impact the decision or where an employee has a significant interest in the vendor. The City should consider detective measures to determine whether such relations exist through the use of data analytics or additional process controls.
Implication Undue influence may be applied to vendor selection and awards arising from unnecessary conflicts of interest.	**Impact** High	**Management Action Plan** Management agrees with the finding and the need for additional clarity in the City's Code of Conduct and Conflict of Interest Policy and will amend the policy to require disclosure from employees who are also vendors or who are related (as defined in the policy) to a vendor. We would further encourage employees to evaluate their personal friendships as it relates to vendors and disclose any potential perceived conflicts through the usual process as described in the policy and procedures. Management will also investigate possible means of running periodic analyses of vendor and other data as a detective control. The City's Code of Conduct and Conflict of Interest policy applies to its employees and although not a confidential document, it is generally an internal staff policy. It would not be appropriate to address vendor disclosures within this policy. The Purchasing By-law requires vendors to disclose conflicts of interest. Therefore we do not agree that a further amendment to the Purchasing By-law is required.
Root Cause The conflict of interest policy does not require that close or personal employee-vendor relations be disclosed and no correlating detective control exists	**Likelihood** Unlikely	**Responsibility** Chief Administrative Officer and Manager of Corporate Administration **Due Date** 2015 Q1

Considerations for Improvement

<div style="background:red;color:white">1 – De-Activation of Former Employees</div>

Observation: Former employees are categorized as active in the Vendor Master File

It was noted that terminated employees are listed in the vendor master file as "active" despite no longer working for the City. While the possibility exists that they could perform further contract work for the City, it is recommended that their classification be changed from "Employee" to "Regular Vendor".

In order to reduce the number of former employees listed as "active", it is recommended that Human Resources provide a listing of terminated employees in the month to Finance. Finance would then search the vendor master file to see if any need to be deactivated.

It was also noted that active employees are sometimes categorized as regular vendors. It is recommended that Finance review the vendor master file to ensure that their vendors are properly categorized and ensure that future additions to the master file are properly categorized.

<div style="background:red;color:white">2 – Reliance on Paper Forms</div>

Observation: There are various forms used throughout the Purchasing process which are used for multiple purposes including monitoring compliance with purchasing procedures.

In order to reduce the amount of paper, consideration should be given towards the use of online forms to submit special purpose requests such as tender call forms, sole source requests, small purchase orders and emergency purchase order forms. The completed forms can then be maintained in a database for review and monitoring by Purchasing. Paper-less forms may increase the speed of the various processes and may also result in a cost savings by not having to print the forms, distribute them and store them in the departments

Given the current investment in PeopleSoft, the City should consider what paper forms could be brought online for a more efficient and cost-effective means to provide these to the users of the forms, as well as receiving them for quicker processing.

3– Accounts Payable Control Stamps

Observation: While there are defined guidelines and procedures relating to the use of A/P Authorization Stamps, given that the approval process is manual, there is an inherent limitation with authenticating who actually stamps invoices with Authorization Stamps.

Though no occurrences of this were noted, as stamps can be given to another staff member, there is an inherent risk that approval of source documents for payment can be delegated by the person intended to be approving. There is also the risk that someone could approve above their limit, circumventing the purpose of approval limits.

The City should consider as part of future business process/system changes relative to Accounts Payable, using PeopleSoft's Workflow functionality to ensure only those individuals with the appropriate access can approve invoices for payment. It was noted that the City has tentative plans to consider this as part of its long-term IT plans.

Should the City choose to implement this recommendation, it would save on the cost of future stamp purchases and ink refills. After taxes, the purchase price of 345 stamps is approximately $10,000.

4– Deficiency Evaluation Forms

Observation: Prior to the release of the holdback for substantial completion, project staff will document the deficiencies; however the information documented is not consistent across projects or departments.

Without a consistent approach to documenting the deficiency checks, pertinent information may not documented.

A standardized form should be considered in each department to ensure that all key information is documented. A standardized process may allow the project managers to verify that all pertinent information is documented and reviewed in an efficient manner.

5– Three-Way Match Tolerance

Observation: As part of the AP 3-Way matching process, the system applies match controls against vouchers, purchase orders, and receipts. PeopleSoft is currently configured with pre-defined match rules based on an Extended Price % and $ tolerance which is set as NIL by default.

A tolerance of NIL can lead to a higher number of exceptions which need to be manually cleared by an authorised user. The City may want to consider the possibility for configuring these tolerance's with an acceptable tolerance in order to decrease the number of exceptions which require an override. Under the current tolerance settings, excessive time is spent on clearing exceptions, increasing the costs involved in this process, delaying other Finance priorities. Should the tolerance levels be expanded, it would allow staff more time to assist in other areas of need.

6– Duplicate Invoices

Observation: PeopleSoft's duplicate invoice checking functionality allows the City to define key fields to be checked, to limit the risk of duplicate invoices being entered into the system. The following fields are currently used for duplicate invoice checking within PeopleSoft: Vendor ID, Invoice Number.

The duplicate invoice checking function relies on a user to accurately enter the invoice number in the system and therefore having multiple fields included in the checking process may reduce the risk of unintentionally entering the same invoice twice. The City may want to consider enabling one or more of these additional field checks on a trial basis as there are some vendor invoices (i.e. utilities, telecommunication) which do not have an invoice number. Under the current settings, an invoice from one vendor with an incorrectly entered invoice number could result in duplicate payments, resulting in wasted funds, or time spent attempting to reconcile the issue.

7– Vendor Early Payment Discount Terms

Observation: There appears to be an opportunity to review vendors that provide early payment discount terms.

Between the 28 month period January 1, 2012 and April 30, 2014, it was noted that a total of about $135,000 (2% on purchases totaling about $6,800,000) was claimed from about 140 vendors for early payment discounts.

Generally, the City's purchasing department does include language in the Request for Quotation templates with standard payment terms of 2% - 10 days, net 30 days and where the vendors agree to terms, Purchasing will include such terms in purchase orders (including Small Purchase Orders).

It is recommended that the Purchasing Department negotiate early payment discounts into all RFT and RFP templates, and include the terms in all final agreement documents (i.e. legal contracts, contract orders). It is further recommended that individual departments develop a strategy in order to approve their progress certificates in time to realize these discounts.

Management may also want to consider reviewing, on a periodic basis, transactions from vendors that currently offer early payment discounts currently, to ensure that the maximum available discounts are being claimed.

Appendix A: Background & Scope

Background

Linkage to the internal audit plan

As part of the Council approved revised 2013/14 Internal Audit Plan, Internal Audit will review processes surrounding procurement, purchasing and payables at The Corporation of the City of Windsor (the "City") and the associated processes and controls to ensure that City policies are implemented.

The objective of this internal audit is to assess the design and operating effectiveness of the internal controls in place within procure to pay governance practices as well as the procurement, purchasing, payables and third party/contract delivery management process at the City enterprise level. In addition, selected activities have been incorporated into the scope of work to support investigation of a specific hotline allegation. Refer to Appendix B and Appendix C for more information.

Scope

Overview of the business/process to be reviewed

The City's Purchasing Department reports to the Office of the City Solicitor and is responsible for enforcing the Purchasing Bylaw, administering the search for and selecting a vendor to supply a good or provide a service which the City is seeking. The department is led by a Purchasing Manager and a Purchasing Supervisor, and is comprised of two Senior Buyers and several Buyers. Their main role is to ensure that the Purchasing bylaw is adhered to, its procedures are followed and that fairness is maintained throughout the Procurement process.

Many of the City's projects, programs and processes involve the use of external contractors, third parties and purchased goods/services. Given this dependence, it is imperative that the processes in place surrounding tendering, procurement and third party performance management are sufficient and appropriate in assisting the City with meeting its goals and objectives.

Given the importance of the Procurement process, it was determined that an internal audit to review this area was necessary to ensure that the current processes in place are sufficient and appropriate to help the City meet the objectives of the Purchasing bylaw and its strategic plan.

Specific Scope Limitation

During the audit, certain tests involved scope limitations in that complete sample lists could not be produced for testing purposes. This pertained to tests of details for emergency purchases and vendor debriefs.

PricewaterhouseCoopers, who serves in the Internal Audit function for the Corporation of the City of Windsor, entered into a Service Level Agreement dated April 11, 2013. In order to maintain our independence and objectivity, this contract was not subject to testing during this review.

Specific Scope Exclusions

While our engagement may involve the analysis of financial information and accounting records, it does not constitute an audit or an audit related service in accordance with Canadian generally accepted accounting standards, and accordingly no such assurance will be provided in our report.

Appendix B: Specified Procedures to Address Hotline Allegations

Background and Approach

The objective of this internal audit was to assess the design and operating effectiveness of the internal controls in place **within procure to pay governance practices as well as the procurement, purchasing, payables and third party/contract delivery management** process at the City enterprise level. For details relating to this review, refer to the separate Internal Audit Report dated August 21, 2014.

The Internal Audit Function, led by PwC, has established a procedure in order to track and take necessary actions in regard to all calls and respective voice mails left on the Concerned Citizen/Employee Hotline. During the fall of 2013, Internal Audit logged a call which made allegations of which could be categorized as suspected fraud, waste and/or abuse of City assets specifically, the allegation referred to tendering/procurement non-compliance and favoritism.

The caller alleged the following nine (9) concerns relating to a specific area/department of the City:

1. Non-compliance with the Purchasing By-law;
2. Non-compliance with the established RFP process and related requirements;
3. Selected/ad-hoc jobs and some routine/maintenance services that do not adhere to the Purchasing By-law and tendering process;
4. Work that is to be "found" for preferred contractors when their business is slow;
5. Favouritism of existing contractors in the selection process;
6. Overstatement of rates and total hours being charged by contractors as compared to the actual effort worked and appropriate rate;
7. Classification of expenses to incorrect line item on the budget;
8. Conflict of interest: selection of contractors who are family and friends; and
9. Conflict of interest: entertainment of and socialization with contractors by City Managers and Supervisors using City funds.

In considering how to approach the investigation of these allegations, we noted that the majority of the issues alleged would be addressed as part of the "Sourcing/Tendering" and "Third Party Performance Management" Internal Audits. In addition to the coverage obtained by performing these audits, Internal Audit will also perform additional specified procedures and quantitative analysis related to the specific area/department referenced in the hotline call. Furthermore, selected activities were incorporated into the scope of work to support the investigation of a specific hotline allegation. To achieve this, we picked a sample from the selected department and a subsequent sample from the rest of the population.

Internal Audit's work was limited to the specific procedures and analysis described in the detailed results below and was based only on the information made available through April 30, 2014. Accordingly, changes in circumstances after this date could affect the findings outlined in this Report.

Internal Audit prepared **fifteen (15) procedures/objectives** as part of the planning stage of the procurement, purchasing and payables review, to address the hotline allegations. The Project Sponsor agreed to the procedures proposed prior to the execution phase of testing. Internal Audit considered the results of applying the agreed to procedures and prepared the following summary of the procedures performed, factual outcomes, and recommendations for the Management to consider. All data analytic procedures tested the entire population for each test and covered the period of January 1, 2012 - April 30, 2014. However all control and/or substantive testing was done on a sample basis and covered the period of January 1, 2013 - April 30, 2014.

Appendix C: Summary of Results to Address Hotline Allegations

A report detailing the results of performing these specified procedures is available in a separate report titled "Appendix C: Detailed Results to Address Hotline Allegations". For each of the 9 concerns referenced above, Internal Audit performed 15 procedures which are summarized as follows:

#	Description	Test Objective	Results	Associated Finding #	Evidence Detected to Support Allegation?
1.1	Application of the Purchasing By-Law	Understand the approved Purchasing By-law, identify the control mechanisms management has in effect to enable compliance with the By-law, and select a sample of purchases on which to conduct compliance testing.	No exceptions noted.		No
1.2	Levels of Authorization	Use tests of controls and data analytics to identify payments under various Delegation of Authority and purchasing levels to identify potential items for analysis.	We noted exceptions during the course of our testing for this section. Documented as Finding 4 in our internal audit report

Scope limitation: Internal Audit was provided with a listing of non-PO vouchers with 148,350 records for the testing period from IT. Of these, 18,265 did not have "stamp ID" entered in the voucher comments | 4 | No |

#	Description	Test Objective	Results	Associated Finding #	Evidence Detected to Support Allegation?
1.3	Totals paid to specific vendors	Investigate the totals paid to specific contracts to conduct an analysis as to how the total payments to vendors aligns with approved tender select results and investigate discrepancies.	No exceptions noted. Scope exclusion: For ditch and sewer repairs, the City regularly contracts to two vendors. These vendors are selected for their history of quality of work as well as availability given that they are a small operation. These statements cannot be tested as quality of work is outside the scope of this review and availability cannot be determined.		No
2.1	Compliance with RFT/RFP Process	Understand the RFP/tendering process/requirements, identify the control mechanisms management has in effect to enable compliance with the By-law, and select a sample of purchases on which to conduct compliance	No exceptions noted.		No
3.1	Small Value and Cumulative Impact	Review reasonability of procurement provisions for small value and cumulative impact amounts.	No exceptions noted.		No

#	Description	Test Objective	Results	Associated Finding #	Evidence Detected to Support Allegation?
4.1	Low Contracts/Payments	Use data analytics to identify low value contracts/payments and select a sample to review for compliance with procurement process and to determine whether activity is associated with approved City initiatives.	No exceptions noted.		No
5.1	Third Party Management Oversight	Where current or prior history with a provider is an input into the tendering process, test whether the input/value and determine whether this is aligned with the recent third party management oversight assessment(s).	No exceptions noted. Scope limitation: There is currently no mechanism in place to formally evaluate vendors at the conclusion of projects and therefore no means to assess past vendor performance and include it as a bid evaluation consideration. Given the absence of the controls, no testing could be completed.	7	N/A – given the absence of the controls, it is not possible to arrive at a sample or review-based conclusion. Significant additional substantive effort or re-performance would be required. Refer to finding 7 in our internal audit report
5.2	Purchasing Trends	Perform trending by each vendor by period over last two years and identify any abnormal trends for further analysis. Perform trending for purchases of similar items from various suppliers and identify any abnormal trends.	No exceptions noted.		No

#	Description	Test Objective	Results	Associated Finding #	Evidence Detected to Support Allegation?
5.3	Favouritism in the Procurement Process	Review Purchasing By-law, RFP process and tendering process/requirements to identify if there are appropriate controls to mitigate the risk of favouritism.	No exceptions noted.		No
6.1	Service Time and Cost Validation	Understand the process and controls in effect to oversee tactical service delivery by providers and validate the effort, service delivery and value of the service provided. Identify the control mechanisms management has to affect this oversight and select a sample of purchases on which to conduct compliance testing.	No exceptions noted.		No
7.1	Budget Line Analysis	Review a random sample of transactions coded to selected budget line items to determine if the coding is appropriate.	No exceptions noted.		No
8.1	Employee Matches in Vendor Master File	Use data analytics to compare the Master Employee File to the Master Vendor File to detect potential matches for investigation.	We noted exceptions during the course of our testing for this section.	8	No
8.2	Duplicates in Vendor Master File	Use data analytics to identify Vendor Master records with duplicate or similar fields for analysis.	Small number of exceptions noted, not considered significant.		No

#	Description	Test Objective	Results	Associated Finding #	Evidence Detected to Support Allegation?
8.3	Conflict of Interest	Understand the City's conflict of interest requirements/protocols, identify the control mechanisms management has in effect to enable compliance with the By-law and select a sample of purchases on which to conduct compliance testing.	No exceptions noted.		No
9.1	Conflict of Interest	Review conflict of interest, expense, petty cash and other payment related process controls to understand required management practices, reasonability, and select a sample to review.	No exceptions noted. Scope limitation: We were unable to select a sample pertaining to petty cash as the reimbursement forms do not always include a description of what the cost pertains to. Thus, we are unable to validate the purpose of the expenses incurred.		No

Appendix D: Basis of Finding Rating and Report Classification

Findings Rating Matrix

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

Likelihood Consideration

Rating	Description
Highly Likely	• History of regular occurrence of the event. • The event is expected to occur in most circumstances.
Likely	• History of occasional occurrence of the event. • The event could occur at some time.
Unlikely	• History of no or seldom occurrence of the event. • 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**
		Significant control weaknesses, which would lead to financial or fraud loss.
		
		An issue that requires a significant amount of senior management/Board effort to manage such as:
		• Failure to meet key strategic objectives/major impact on strategy and objectives.
		• Loss of ability to sustain ongoing operations:
		  - Loss of key competitive advantage / opportunity
		  - Loss of supply of key process inputs
		• A major reputational sensitivity e.g., Market share, earnings per share, credibility with stakeholders and brand name/reputation building.
		
		Legal / Regulatory
		Large scale action, major breach of legislation with very significant financial or reputational consequences.

MODERATE	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** Control weaknesses, which could result in potential loss resulting from inefficiencies, wastage, and cumbersome workflow procedures. **An issue that requires some amount of senior management/Board effort to manage such as:** • No material or moderate impact on strategy and objectives. • Disruption to normal operation with a limited effect on achievement of corporate strategy and objectives • Moderate reputational sensitivity. **Legal / Regulatory** 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** Control weaknesses, which could result in potential insignificant loss resulting from workflow and operational inefficiencies. **An issue that requires no or minimal amount of senior management/Board effort to manage such as:** • Minimal impact on strategy • Disruption to normal operations with no effect on achievement of corporate strategy and objectives • Minimal reputational sensitivity. **Legal / Regulatory** 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. • 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. • Material losses have occurred as a result of control environment deficiencies. • Instances of fraud or significant contravention of corporate policy detected. • 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. • A number of significant controls identified as not operating for which sufficient mitigating back-up controls could not be identified. • Losses have occurred as a result of control environment deficiencies. • 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. • Isolated or "one-off" significant controls identified as not operating for which sufficient mitigating back-up controls could not be identified. • Numerous instances of minor controls not operating for which sufficient mitigating back-up controls could not be identified. • 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. • Only minor instances of controls identified as not operating which have mitigating back-up controls, or the risk of loss is immaterial. • All previous significant audit action items have been closed.