

## Administration Response - Project Audits

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### Recommendation

That the September 18, 2020, Integrated Infrastructure Services report CR\_8342, be received for information.

### Previous Council/Committee Action

At the July 6/8, 2020, City Council meeting, the following motion was passed:

That the June 25, 2020, Office of the City Auditor report CR\_8363 and the June 25, 2020, Integrated Infrastructure Services report CR\_8342 be made public subject to section 29 (information that is available for purchase or will be available to the public within 60 days) of the *Freedom of Information and Protection of Privacy Act* and pending notification from the City Solicitor and that the reports be scheduled at the September 18, 2020, Audit Committee meeting.

### Executive Summary

Administration has worked with the Office of the City Auditor during this audit and accepts all of the auditor's recommendations. Work began to implement recommendations as soon as the auditor had completed the internal review in 2019. Further mitigations will continue in order to meet the recommended timelines on all items.

It is recommended this report remain private pursuant to section 20 (disclosure harmful to law enforcement) and section 25 (disclosure harmful to economic and other interests of a public body) of the *Freedom of Information and Protection of Privacy Act*. The disclosure of the reported information prior to civil legal steps being concluded could harm the City's economic interests and compromise legal proceedings.

### Report

Administration accepts and agrees with Recommendations 1 and 2 of the Auditor's report.

### Audit Recommendation 1 - Strengthen Project Oversight

Strengthen project oversight processes by:

- a. Increasing the controls related to the authorization of cheque requisitions.
- b. Verifying the delivery of all goods and services from external parties.
- c. Improving variance analysis between budget and actual costs

**Administration Response: Recommendation 1a.**

Administration accepts this recommendation and has revised the cheque requisition process for the Building Great Neighbourhoods and Open Spaces Branch as well as more broadly within the Integrated Infrastructure Services Department.

To ensure the process for approving cheque requisitions has proper controls in place, the Department implemented the following changes as of March 11, 2020:

Segregation of Duty - Ensure all cheque requisitions are approved with a minimum of two Expenditure Authority delegates: the requester and their supervisor, in accordance with the transaction limit they are authorized to approve under the City's Expenditure Accountability Framework.

Single Submission Stream - All cheque requisitions are submitted to Accounts Payable via a single approved channel within Administration. This ensures that all submissions are tracked, and mitigates the ability of business areas to use the cheque requisition process where it may not be appropriate.

Since implementing these changes, Administration has had approximately 30 payments authorized using the cheque requisition process. This accounts for less than 1 percent of all associated payments on a monthly basis with the majority being completed through purchase order payment processes.

For all non-cheque requisition payments, the process has been enhanced for financial transactions in 2019. Controls through this process include the following:

- Segregation of Duty - all purchase orders are approved with a minimum of two Expenditure Authority delegates: the requester and their supervisor, in accordance with the transaction value they are authorized to approve under the City's Expenditure Accountability Framework.
- Standardized Tracking of Payments - detailed tracking sheets were created for each project to improve oversight of financial transactions made against purchase orders to identify anomalies that would require additional review.

This process was documented and published within the Project Management Reference Guide site which is a centralized repository detailing processes and procedures that staff must follow. In-person training was also provided for approximately 150 employees.

In addition to the recommendations and controls outlined, a review of project transactions beyond the audit scope was conducted for all Building Great Neighbourhoods Infrastructure Delivery projects undertaken within the past five years. This review was intended to identify any potential transactions similar to those found as part of the audit findings. There were no such transactions found as part of this review.

Implementation Date: Completed

**Administration Response: Recommendation 1b.**

Administration accepts this recommendation of verifying the delivery of all goods and services from external parties. The majority of services provided within a project are performed by prime contractors and consultants where dual party verification is used to validate receipt and delivery of goods and services. Administration is committed to ensuring that the necessary due diligence is performed to validate the goods and services received from all providers, including other third party providers beyond prime contractors and consultants.

Where third parties are used to provide services to a project, more robust and standard goods receipt verification processes will be implemented to align with those mentioned above. This verification process will also be used to verify any goods or services provided internally by Administration.

Administration will also explore the opportunity of including more additional services as part of the prime contractor's responsibilities to allow for better oversight of deliverables and streamlined verification of goods and services on the projects.

Implementation Date: December 15, 2020

**Administration Response: Recommendation 1c.**

Administration accepts the recommendation to improve variance analysis and oversight between budget and actual costs. Administration is committed to reviewing current practices to ensure the oversight of the overall project budget variance monitoring is improved allowing for project budget issues to be identified and escalated appropriately.

Through the implementation of the Project Management Information System, Administration now has a more robust budget allocation process. The greater detail of information allows for more detailed variance analysis of costs within a project and supports project cost variances at a more granular level to flag any notable discrepancies between budgeted amounts and actual costs. Through this process, significant variances of budgeted amounts within a project will be more transparent,

allowing management to be made aware of these variances and more effectively allow for ongoing monitoring for these.

Implementation Date: December 15, 2020

### **Audit Recommendation 2 - Review Cheque Requisitions**

Review the corporate cheque requisition process:

- a. Determine if the additional controls are required related to expenditure authority. Implement necessary controls.
- b. Clearly define the responsibilities of Accounts Payable and business areas for cheque requisitions including, but not limited to, the controls around receipt of goods and services.
- c. Implement regular monitoring of cheque requisitions for the proper use and to identify issues with repeat expenditures, invoice splitting, and duplicate invoices.

#### **Administration Response: Recommendation 2a.**

Administration accepts this recommendation and will review the corporate cheque requisition process to determine if additional controls are required. The controls surrounding expenditure authority as well as any other required controls will also be reviewed.

Administration has implemented the following to address compliance with controls:

- On March 11, 2020, distributed a corporate-wide communication reminding employees of the intended use of payment requisitions (non-purchase order).
- Payment requisitions that are not in accordance with the intended use of the payment stream will be returned to business areas.

#### **Administration Response: Recommendation 2b.**

Administration accepts this recommendation and will define the roles and responsibilities of the Accounts Payable process for cheque requisitions and controls around receipt of goods and services.

Administration has implemented and continues to monitor the following controls:

- All Senior Expenditure Officers, Expenditure Officers, and Proxies including all credit card statement approvers have been trained in accordance with the City's Expenditure Authority Framework guidance.
- To ensure segregation of duties, Expenditure Officers who are responsible for receiving the goods and/or services must not in any circumstances approve payments or in the commitment of funds.

Administration is looking at enhancing detective and protective controls, including the following:

- For non-purchase order transactions, proof of receipt of goods and/or services may be required.
- The number of individuals permitted to authorize non-purchase order transactions may be reduced.

**Administration Response: Recommendation 2c.**

Administration accepts this recommendation. Risks associated with the non-purchase order stream have been identified as follows:

- The large volume of transactions
- Manual payment processes involving multiple staff
- Potential invoice splitting for transactions over a period of time
- Invoices established with a purchase requisition reference number instead of an invoice number

The following will be implemented to enhance the identification of non-compliance instances:

- Reporting to monitor cheque requisitions for the proper use and to identify issues with repeat expenditures, invoice splitting, and duplicate invoices.
- Adoption of continuous-monitoring tools that reviews non-purchase order transaction trends, percentage of invoices paid to terms, nature, and types of transactions being processed by payment requisition.
- Review of analytics for compliance on a regular basis.

Implementation Date: September 30, 2020

**Corporate Outcomes and Performance Management**

<b>Corporate Outcome(s): The City of Edmonton has a resilient financial position</b>			
<b>Outcome(s)</b>	<b>Measure(s)</b>	<b>Result(s)</b>	<b>Target(s)</b>
The City of Edmonton has a Resilient Financial Position	City Asset Sustainability (actual expenditure on capital infrastructure divided by required expenditure)	0.94 (2017)	1.00 (2018)

**Others Reviewing this Report**

- B. Andriachuk, City Solicitor