



CITY OF VANCOUVER INTERNAL AUDIT REPORT Treasury Controls Review

Distribution:

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EXECUTIVE SUMMARY

June 1, 2023

The Treasury Controls Review assessed the City's treasury function's key controls and processes, including wire transfer payment processing, debt management, cash management, investment purchases and physical security. The objective was to assess compliance to applicable policies and procedures, and verify the effectiveness and efficiency of internal controls and processes.

In our opinion, internal controls related to treasury key business processes are generally sufficient, with opportunities for improvement. While we found that the system controls related to authorized signatories are adequate, we noted areas where review of policies is required as well as instances where review and sign-off procedures should be strengthened. By addressing the identified improvement areas, the treasury function's key controls and processes will be enhanced to better meet the service objectives in an effective and efficient manner.

The more significant findings and recommendations are:

E.1 Ensure monthly bank reconciliations are completed and reviewed on a timely basis

The review of the monthly reconciliations for the bank accounts involving treasury transactions revealed some timeliness issues, which management has been working to address. Additionally, monthly reconciliations should be conducted with documented sign-off in a timely manner to mitigate the risk of financial discrepancies or inaccuracies.

E.2 Review employment check requirements for all Treasury staff positions

Given that Treasury staff positions hold significant responsibility for managing investments and conducting financial transactions on behalf of the City, management should consider requiring credit record checks when hiring for Treasury staff positions to assure the credibility and integrity of potential candidates.

E.3 Establish review and sign-off procedures for investment reconciliation

Implementing review and sign-off procedures for investment reconciliation will minimize the risk of potential accounting errors and fraud.

These and other findings and recommendations are detailed in the following report. Management from the Treasury Services Department, Financial Reporting Department and Accounts Payable Department have agreed to address the findings noted and have committed to implement the recommended action items.

Carmen Fuellbrandt, CPA, CMA, CIA
Chief of Internal Audit

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Senior Internal Auditor

A. BACKGROUND

The Treasury Services Department plays a crucial role in ensuring the efficient and effective management of financial activities and resources. The department is responsible for various treasury critical functions, including payment processing, investment management, debt management and cash and liquidity management.

In addition to the Treasury Services Department, there are other departments actively engaged in treasury related processes. The Financial Reporting Department is accountable for recording investment entries, conducting investment account reconciliations, and ensuring the accuracy and reliability of investment data in SAP. Similarly, the Accounts Payable Department is responsible for recording bank entries and performing bank reconciliations for the accounts involving wire transfer payments to ensure the accuracy and reliability of financial records.

B. SCOPE

The Treasury Controls Review audit was initiated to assess compliance to applicable policies and procedures, and verify the effectiveness and efficiency of internal controls and processes.

The scope of the audit included a review of key treasury function controls and processes related to payment processing, investment management, debt management, cash and liquidity management and physical security controls. Additionally, the audit scope included an assessment of authorized signatories management as well as controls related to entries booking and reconciliation. The audit procedures included:

- Interviews with key management and staff within the Treasury Services Department, Financial Reporting Department and Accounts Payable Department;
- Review of relevant policy and procedure documentation; and
- Sample review of transactions and examination of supporting documentation.

The audit is not designed to detect fraud. Accordingly there should be no such reliance.

C. CONCLUSION

In our opinion, internal controls related to treasury key business processes are generally sufficient, with opportunities for improvement. While we found that the system controls related to authorized signatories are adequate, we noted areas where review of policies is required as well as instances where review and sign-off procedures should be strengthened. By addressing the identified improvement areas, the treasury function's key controls and processes will be enhanced to better meet the service objectives in an effective and efficient manner.

Findings and recommendations have been discussed with appropriate management and responses incorporated in this report.

D. RISK ANALYSIS

The potential significant risks considered if controls were not in place are:

- Insufficient policies and guidelines for staff or lack of adherence to those that are in place could lead to poor controls around managing operational risks and/or funds;
- Payments processed may be unauthorized, inaccurate, or not appropriately recorded;
- Investment purchases may not comply with policies and regulations, may not be properly assessed, may be unauthorized, or not appropriately recorded;
- Insufficient cash management processes may lead to inaccurate financial forecasting or inefficient use of cash resources;
- Valuable assets that are not properly safeguarded may result in loss or misappropriation.

E. AUDIT ISSUES, RECOMMENDATIONS AND MANAGEMENT RESPONSES

E.1 Ensure monthly bank reconciliations are completed and reviewed on a timely basis

Monthly bank reconciliations for the accounts involving wire transfer payments are performed by the Accounts Payable accountant, and reviewed and signed off monthly by the Accounts Payable manager. There are four accounts involved: the Main account, Tempest account, and two USD accounts.

Timeliness issues in reconciliation processes

Following review of a reconciliation sample from 2023 for the Main and Tempest accounts, it was observed that the selected reconciliation samples were outstanding and not conducted in a timely manner. Upon inquiry with management, it was noted that the issues observed above were attributed to human resource and staff transitioning issues within the department during 2021 and 2022. As a result, there were backlogs of bank account reconciliations that carried over into 2023.

Management reports that they are actively clearing the backlog of reconciliations to address the timeliness issue, and only the reconciliations for April and May 2023 remain outstanding.

Lack of reviewer's sign-off

Upon reviewing samples of bank reconciliations, it was observed that the three reconciliation samples of the main account, tempest account and the two USD accounts from the years 2021, 2022 and 2023 lacked documented sign-off. However, management reported that despite the absence of documented sign-off, all reconciliations were properly reviewed.

Timely completion of bank reconciliations with thorough review and appropriate sign-off on a monthly basis is essential for effectively identifying and resolving discrepancies.

Recommendations:

E.1.1 The Accounts Payable Manager should ensure the outstanding bank reconciliations for the main and tempest accounts are completed, reviewed and signed-off, and ensure the ongoing continuity of the reconciliation process on a monthly basis. This should be completed by September 30, 2023.

E.1.2 The Accounts Payable Manager should establish an official monthly sign-off procedure by the preparer and reviewer for the two USD accounts for the ongoing reconciliation process. This should be completed by September 30, 2023.

Management Response:

- | | |
|---|--|
| <input checked="" type="checkbox"/> Agree with the findings | <input checked="" type="checkbox"/> Agree with the recommendations |
| <input type="checkbox"/> Disagree with the findings | <input type="checkbox"/> Disagree with the recommendations |

E.2 Review employment check requirements for all Treasury staff positions

The City conducts employment checks for various positions depending on an employee's role and responsibilities. Credit record checks are used to determine whether potential employees may be under financial pressure thereby increasing the risk of potential fraud.

Not all Treasury staff positions are included in the Human Resources Department's list of positions requiring credit record checks; only the Treasury Senior Manager position is included. As Treasury staff are responsible for managing investments and conducting financial transactions on behalf of the City, credit record checks are a reasonable condition of employment.

Recommendation:

E.2.1 The Treasury Manager should work with the Human Resources department to assess which positions within Treasury require credit record checks for new hires. Those positions should then be included in Human Resource's list of positions requiring these checks. This should be completed by September 30, 2023.

Management Response:

- | | |
|---|--|
| <input checked="" type="checkbox"/> Agree with the findings | <input checked="" type="checkbox"/> Agree with the recommendations |
| <input type="checkbox"/> Disagree with the findings | <input type="checkbox"/> Disagree with the recommendations |

Management Action Plan:

The Treasury Manager will work with Human Resources to identify position(s) requiring credit check(s).

E.3 Establish review and sign-off procedures for investment reconciliation

The responsibility of investment entries booking and reconciliation was transferred from the Treasury department to the Financial Reporting Department in 2019 as an improvement to strengthen segregation of duties.

Under the current process, an accountant from the Financial Reporting Department retrieves a report from the City's Treasury Management System (GTreasury). This report is used to post entries into SAP and a three-way reconciliation is performed to ensure there is alignment between SAP, bank statements and GTreasury reports. However, there is currently no formal review and sign-off procedure incorporated into the reconciliation process to minimize the risk of accounting errors.

Establishing a comprehensive review and sign-off procedure is essential for effectively identifying and resolving discrepancies.

Recommendation:

E.3.1 The Financial Reporting Manager should establish an official, documented review and sign-off procedure by the reviewer for investment reconciliations. This should be completed by September 30, 2023.

Management Response:

Agree with the findings

Agree with the recommendations

Disagree with the findings

Disagree with the recommendations

Management Action Plan:

The entries being posted by the Financial Reporting accountant are done to ensure SAP aligns to third party source documents (Bank investment statements) based on the reconciliation exercise performed. The day-to-day treasury transactions are managed within GTreasury and used as the source to post treasury transactions by Financial Reporting. The activity of posting of investment entries is separate from the daily operations existing within treasury department, it is an extension of the reconciliation process to catch all inaccuracies and share that feedback with Treasury department to align internal documents e.g. GTreasury report to source documents.

We agree that the Financial Reporting Manager should establish an official review and sign-off procedure for investment reconciliations. This will serve to detect any potential misstatements in the journal entries posted by the Accountant to true up SAP to source documents. Furthermore, in the investment reconciliation process, we will ensure internal alignment if there are any adjusting entries posted. This will ensure three-way match between SAP, third party external source documents as well as Treasury reports as there should be no outstanding reconciling items in Investments.

For January to May 2023 monthly reconciliations, the Financial Reporting team will retrospectively review all the adjusting entries posted and ensure to maintain this process to detect any potential inaccuracies.

E.4 Review and finalize the Investment Policy and Debt Management Policy

In reviewing the Treasury department's policies and procedures, the following findings were noted.

Delay in periodic review of Investment Policy

The Investment Policy underwent its most recent review in 2019, with a stipulation that the policy should be reviewed every three years or sooner as deemed necessary. However, the latest updates to the policy are awaiting review and approval.

Management noted that the delay of the Investment Policy review was a result of staff turnover challenge in 2022. Consequently, the review of the Investment Policy was rescheduled from 2022 to 2023 Treasury Work Plan. Management is diligently working on the review to minimize any further delay.

Failure to update the Investment Policy in a timely manner may result in outdated guidelines, non-compliance with regulations and outdated risk management practice.

Finalization of Debt Management Policy

A Debt Management Policy has been drafted to establish authority and provide guidance for the general practice, objectives, risk and compliance for the City's debt issuance; however, this document has not yet been finalized. The absence of a Debt Management Policy could lead to unclear guidelines for general practice, improper risk management and non-compliance with regulations related to debt management.

Recommendations:

E.4.1 The Treasury Manager should ensure that the Investment Policy is reviewed, updated and approved. This should be completed by December 31, 2023.

E.4.2 The Treasury Manager should ensure that the Debt Management Policy is reviewed, finalized and approved. This should be completed by March 31, 2024.

Management Response:

Agree with the findings

Agree with the recommendations

Disagree with the findings

Disagree with the recommendations

Management Action Plan:

The Treasury Manager will ensure the Investment Policy is reviewed, updated and approved by December 31, 2023.

The Treasury Manager will ensure the Debt Management Policy is reviewed, finalized and approved by Q1 2024.

E.5 Revise list of staff members with card reader access to Treasury area

To maintain security and prevent unauthorized access, the Treasury office area is restricted by a card reader access control system for authorized personnel only. Four staff members in the Treasury Department require daily access to the Treasury office area for conducting essential operational tasks.

However, upon reviewing the card reader access list, it was discovered that there are over 400 accounts associated with access to the Treasury office area. Various groups, such as Security Staff, Building Maintenance Staff and Cleaning Staff (BSW), have 24-hour access to the Treasury office area instead of just during working hours. Additionally, some staff members possess multiple credentials, such as multiple access cards or tools, to enter the Treasury office area.

While some of the above groups of staff may have a valid business reason for access to the Treasury office area, it is important to minimize the number of people with card reader access as much as practical. Potential unauthorized access could compromise physical security to the staff and other valuable assets within the Treasury office area.

Recommendations:

E.5.1 The Treasury Manager should work with the Corporate Protective Services Team to revise and appropriately restrict those with card reader access to the Treasury office area. This should be completed by December 31, 2023.

Management Response:

Agree with the findings

Agree with the recommendations

Disagree with the findings

Disagree with the recommendations

Management Action Plan:

Treasury Manager will review card reader access to the Treasury area with Corporate Protective Services by December 31, 2023.