



INTERNAL AUDIT TEAM

Toronto and Area Region

Accounts Payable and Expense Data Analytics Review

Toronto District School Board

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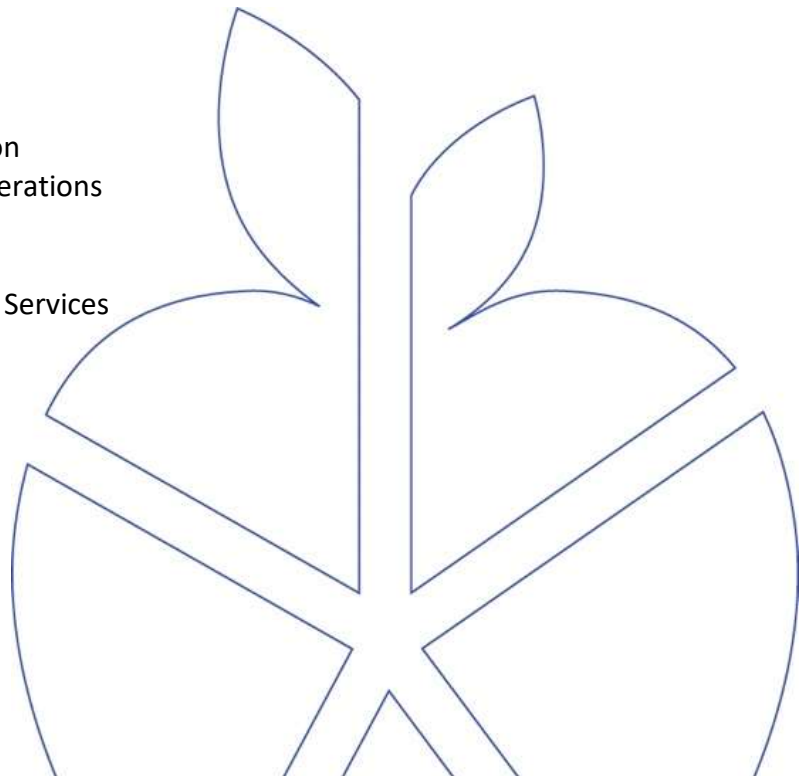


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Introduction

As part of the 2020-21 Regional Internal Audit plan, the Toronto and Area Regional Internal Audit Team (RIAT) conducted an Accounts Payable and Expense engagement for the Toronto District School Board (TDSB or “the Board”).

Engagement Objective and Scope

The objectives of this engagement were to test selected controls and to use data analytics¹ to identify potential unusual transactions, duplicates, outliers, trends and other observations derived from data.

The engagement focused on the following key areas:

- Vendor Master File and Records
- SAP Approval Authorities and Purchasing Limits for Purchase Orders (PO) / Expenses

Data in scope included expenses and vendors at the central Board and school level as agreed upon with Management. Excluded from the review were capital, renewal, and repairs and maintenance expenditures as these areas have been covered in previous or ongoing RIAT engagements. Data was primarily gathered from SAP. This data has not been audited by the RIAT.

Conclusion

Overall, the controls reviewed for vendor management and purchase orders were effective. Note that we only tested selected key controls and are therefore not concluding on the effectiveness of all vendor and purchasing controls. We noted some opportunities to improve current processes, mainly around the setup of new vendors and clearing of old and outdated vendor records. The data analysis performed did not reveal any significant issues.

Due to the COVID-19 pandemic, audit evidence was obtained virtually. Meetings were conducted using virtual meeting platforms and documents were obtained through email. This did not affect the overall audit approach.

The RIAT would like to thank management and staff for their support and assistance during this engagement.

Limitations on use of Report

This report is intended primarily for the information and use of the individuals on the distribution list on the cover page of this report and should not be provided to any other party without the consent of the Senior Manager, Regional Internal Audit, Toronto and Area Region.

¹ Analytical procedures were conducted on the full population of the area being tested. Data was extracted by the SAP System Specialist and provided to the RIAT for testing.

Observations

This section presents the results of the controls testing and data analysis.

A – CONTROLS TESTING

A.1. Vendor Master File Controls

Testing covered the controls in place for the setup of new vendors in the SAP system. Controls should ensure that only valid and authorized vendors are approved.

Process Overview

Schools or individual departments request the addition of new vendors and the Procurement Contract Specialists set up the new vendor in the database. In some cases, a supplier or consultant questionnaire is sent to the vendor to be completed. In other cases, if it is for a one-time payment, the vendor is not set up in the database.

Control Testing

- Based on a review of vendor data for the FY2019/20 period, there were four individual user IDs that had input new vendors in the database over the period. Two were the Contract Specialists from the Purchasing department and the other two were Senior AP Administrators. One Senior AP Administrator retired on June 30, 2020 and is no longer active.
- However, based on a review of user rights in SAP for the creation or change of vendors, there are multiple individuals with access rights (i.e. from Purchasing, IT, Accounts Payable, Facilities, etc.).
- RIAT selected a random sample of five new vendors input in the database in FY2019/20 to confirm whether these vendors were valid and had documentation to support the new vendor setup. In one case, supporting documentation included a completed supplier questionnaire². In three samples, a Memorandum of Understanding (MOU) was entered into between TDSB and the vendor. In the last sample, the vendor was set up through direction from Toronto Lands Corporation.
- The Board explained that due diligence is often performed by external departments and the contract specialists enter these vendors into the system. The Contract Specialists may check the vendors (i.e. through an online search) prior to adding them to the database but are not required to save supporting backup or complete a new vendor setup form.

Conclusion

Based on testing performed, there are multiple individuals with the ability to input new vendors to the database. We also noted that there were varying levels of supporting documentation for new vendors.

² The supplier questionnaire is sent to the supplier and includes key information such as key contact information, products offered, and banking information.

Finding #1 – Document and Review New Vendor Addition Processes

Rating: Medium

The process to request and add new vendors to the vendor database is not formally documented. Testing showed that new supplier forms are not always completed or required, and there are varying levels of supporting documentation. There are also multiple individuals (outside Purchasing) with SAP access rights to make changes to the vendor database.

Risk: Adequate due diligence may not be conducted or supporting documentation obtained before new vendors are set up in SAP. This may result in different levels of support when approving and entering new vendors. The risk is that the Board is not using optimal or authorized vendors based on established policies within defined parameters. It was noted at another Board that all new vendors were supported by a new vendor checklist and approved by a Manager prior to entry into the SAP database. Unauthorized changes may be made to the vendor database as there are a large number of users with access rights within SAP.

Recommendation: The Board should review the current process to set up and approve new vendors, as there may be opportunities to simplify the process and achieve greater consistency. Although there are SAP training documents and modules, these are for the entry of a new vendor. The vendor requirements (whether vendor is new, one-time, etc.) and related support (i.e. when a supplier form is or is not required) should also be documented and available for staff. Requirements could include guidelines for schools and/or standard input forms.

The Board should also review current SAP access rights to the vendor database to determine if all current users require access to make additions and changes.

Management Response and Action Plan

A new template for new vendor requests is currently being reviewed and will be implemented and all new vendors prior to being created will be approved by Purchasing management.

In August, the Purchasing department has reviewed the list of staff with Vendor master access and has removed this access from individuals who are no longer authorized or in the role.

The SAP create vendor access was provided to two Senior Accounts Payable Administrators as they are responsible for setting up employees as payees for employee reimbursements, and petty cash accounts for the petty cash reimbursements. They are not permitted to create or change other vendors in the system. Please note the employee reimbursement and petty cash processes will be phased out beginning in 2021-22 as TDSB is implementing the SAP Concur employee reimbursement system and will also be gradually closing all petty cash bank accounts. After the new process is in place, their access to creating vendors will no longer be necessary, but will be retained only for emergency use, such as when the automatic import to SAP Concur fails.

Currently there is a report generated weekly of all new vendors created or changed in the system. This report is reviewed by the Manager of Accounts Payable and Manager of Purchasing on a weekly basis, and also automatically sent to the Senior Manager of Administrative services and Comptroller of Finance. This is a preventative and detective control measure to mitigate against any risk of unauthorized creation or changes to vendors.

Position Responsible: Assistant Manager and/or Manager of Purchasing

Target Implementation Date: End of September 2021

A.2. Purchasing and Procurement Controls

Testing covered the approval thresholds in place for the creation of POs. Dollar thresholds should be in place to control expenditures and minimize unauthorized purchases.

Process Overview

There are three main types of POs:

1) Local Purchase Orders (LPO) for vendors that are not on contract:

- POs up to \$3.5k can be released by the school or issuing department.
- When POs exceed \$3.5k, a purchase requisition (PR) is required that needs to be released by the Purchasing department (automated control).

2) Standard POs

- Standard POs are used when there are no contracts in place, the needs are unique, and the dollar value is relatively low. They are created by purchasing staff for orders over \$3.5k.
- Competitive bids (3 or more quotes) are required for standard POs exceeding \$10k³.
- Purchases over \$10K with competitive quotes do not require approval. Orders over \$10K where no competitive quotes have been obtained require a Single/Sole Source form which is signed by the requesting department, Executive office, Contract Specialist, the Purchasing Manager and Associate Director. This process is outside of SAP.
- Standard POs created by Purchasing Staff have a \$27.5k threshold. They only require release over this amount.
 - o Assistant Manager, Purchasing, releases up to \$50k
 - o Manager of Purchasing releases over \$50k
 - o POs over \$27.5k but under \$100k require the one approval (designated signer).
 - o POs over \$100k are approved by the Manager of Purchasing first and require a second approval by the Comptroller.

3) Contract release orders (CRO) where a contract with the vendor is in place:

- The Board uses many contract vendors that have been approved for inclusion in the vendor database. Most contracts have established pricing with the vendor.
- The system will flag purchases if they exceed a school's total budget. This is an automated control in SAP where a warning is provided to the school placing the order if their budget is reaching their limit. If the budget is exceeded the order will be stopped.
- Outline agreements are established through a competitive bid process which allows schools to issue CROs against them.
- POs with contract vendors up to \$27.5k can be released by the school or issuing department.

³ Supplies, equipment, and services must be acquired through a competitive process that ensures the best value for the funds expended to meet the specific needs and promote fair dealings and equitable relationships.



- For CROs over \$27.5k, the system requires additional approval (manual control that requires the issuer of the PO to email the designated approver based on the dollar value). The Purchasing Department requires the following approvals based on dollar value:
 - Assistant Manager of Purchasing can approve up to \$50k
 - Manager of Purchasing can approve up to \$100k
 - Senior Manager, Administrative Services must approve any amount over \$100k

Control Testing

- We reviewed a screenshot from SAP for a PO entry greater than \$3.5K. A flag that read "PO over limit - Please create PR instead of LPO" was displayed. Therefore, the automated control was operating effectively.
- We selected three POs based on the dollar thresholds above (i.e. \$27.k - \$50k, \$50k - \$100k, and over \$100k) and reviewed screenshots of the SAP approvals. It was noted that approvals were consistent with approval authorities.
- We selected a random sample of five standard POs greater than \$10k in FY2019/20 to review whether there was a competitive bid process and supporting documentation.
 - In two cases, Board approval was required and received, one was competitively bid and the other was sole-sourced.
 - One PO was an input error and was under \$10k.
 - In the two other samples, explanations were provided as to why purchases were exempt from this process. One PO was for legal services already rendered prior to the request being sent to Purchasing, and therefore could not be competitively bid. The other PO had a sole source form submitted in a previous year for a similar purchase.

Conclusion

The Purchasing department plays a key role in approving purchase orders over \$3.5K and CROs over \$27.5k. Controls exist within the system to ensure LPOs are unable to bypass approval authorities. The Purchasing Policy establishes the competitive bid process for POs over \$10k, as well as other approval thresholds.

Finding #2 – Ensure Consistency of Approval Authorities in SAP and in Board Policies and Procedures

Rating: Medium

- The SAP approval authority matrix does not align with the internally developed threshold of \$50k as there was no \$50k limit in SAP.
- "Purchasing Policy and Administrative Procedures (rev. June 13, 2013)" did not have CRO release limits of \$27.5k documented specifically. The Purchasing Policy also does not align with current process as it only includes broader approvals between \$50k - \$175k.
- Exceptions to the competitive bid requirements were noted with explanations from the Board for two of the five samples selected.

Risk: There is a misalignment between departmental guidelines and Board approved policies. SAP user rights also do not align with departmental procedure, specifically the \$50k threshold. This could lead to potential deviation from approved processes.

If exceptions to the competitive bid process are made, there should be sufficient approvals or support for the vendor selected.

Recommendation: There should be consistency between Board standard practices, SAP and Board approved policies. Consider updating policies to reflect current practice and include these as part of the next update.

For competitive bids, consider documenting the process and when exceptions may be permitted with specific criteria.

Management Response and Action Plan

The Manager of Purchasing receives notifications to approve transactions above \$50K. Although the Assistant Manager has access to approve above \$50K, any unauthorized approvals will not go undetected by the Manager. The Assistant Manager and the Manager also act as each other's designate during absences. And any approvals above \$100K can only be processed by the Senior Manager of Administrative services. Both Purchasing Policy and Delegation of Authority are being reviewed and will be updated in the near future and will be consistent regarding approval thresholds

Position Responsible: Purchasing and Finance Depts.

Target Implementation Date: Early implementation 2022

A.3. Monitoring Controls

Testing was conducted to ensure that both manual (i.e. exception reporting) and system controls have been designed and implemented to prevent or detect unusual transactions or potential errors in relation to the setup of new vendors and POs.

Process Overview

Purchasing and Accounts Payable staff noted that exceptions reported are minimal because of system controls in SAP. For example, approval thresholds and limit flags exist based on dollar amounts. When an invoice is received, payments can only be issued against it if there is a PO in the system. Invoices received without a PO number (direct invoices) are referred to as "FI Invoices". Follow-up is done with the school/department and the correct G/L coding and cost centre is noted on the invoice in order to process payment. The number of FI invoices is limited and usually for services, not goods. Payment may initially be denied pending supporting documentation/PO, however payment will be issued once the Board is satisfied that it has been duly authorized according to policy.

POs at the local level must be approved by the budget manager for that department or school (i.e. Principal or delegated Vice Principal). To aid departments in monitoring expenditures against budget, an expenditure report is sent out weekly starting in the spring. Departmental budgets are in the system and discretionary purchases may have to be placed on hold if no funds are available. A department that is experiencing a budget issue must speak with their Superintendent and the Budget Department to review their spending in order to resolve the issue.

Controls Testing

- We selected a monthly FI report from March 2021 to review. The balance of unmatched invoices was approximately \$85K, which was not considered significant for any further testing.
- To ensure budget owners approve local purchases, a sample of two POs were selected and reviewed for evidence of approval. The Board provided two screenshots of the system to show approval by the budget owners (a Principal and Vice-principal).
- We also reviewed a weekly sample of the "Budget Control" report sent by email to budget owners. It indicated in red any budgets that have been exceeded, by department, and where follow up is required.

Conclusion

Most of the controls reliance for purchasing and procurement is on automated controls within SAP; however, there are some monitoring controls in place. For example, invoices are required to have matching POs and management reviews the summary of those that are unmatched (FI invoices). POs go to budget managers for final approval before review by the central purchasing group. Although not a formalized control, weekly reports are sent to departments to communicate any budgets that have been exceeded.

Finding #3 – Consider Additional Monitoring Controls to Enhance the Control Environment

Rating: Low

There are limited monitoring controls in place (automated or manual) to identify potential errors, outliers, unusual or unauthorized transactions.

Risk: Based on the results of various tests performed, there are cases where exceptions may not be detected by automated controls. Some examples may include sole sourced vendors above the \$10k limit or additions of new vendors without independent review.

Recommendation: Consider if there are any gaps in automated controls and implement detective or monitoring controls to detect unusual or unauthorized transactions. Document these additional processes as part of departmental procedures.

Management Response and Action Plan

Risk is low due to Contract Specialists being well versed in their Procurement guidelines regarding expenditures exceeding \$10,000 and will follow approved processes.

Management is satisfied with the control environment that is currently in place and do not feel that additional monitoring controls are required.

Position Responsible: N/A

Target Implementation Date: N/A

B – DATA ANALYSIS AND RESULTS

B.1. SAP Delegations

Board staff noted that it is possible for SAP users to “delegate” their Purchase Order approval authority to another user(s) in SAP. For example, a Principal can delegate their approval authority to a School Secretary. We requested a list of all SAP delegations as of February 2021 and identified the following SAP delegations:

# of users in SAP that delegated their authority	3 Delegates	2 Delegates	1 Delegate
212	7	38	166

There were 212 users that delegated their authority. Based on discussion with management and review of user IDs, most of the delegations are for facilities and non-school based administrative staff. Given the large number of SAP users, the number of delegations is not considered significant.

B.2. Purchase Order Approval Limits

As noted in section A, the following Purchase Order approval limits were identified by the Board:

- A) Local POs over \$3,500 require a purchase requisition.
- B) Approved Vendor (or CROs) POs over \$27,500 require additional approval.

In order to identify potential efforts to issue POs just under the approval limits (i.e. issuing two or more POs in close proximity to circumvent approval limits), we identified transactions just under the thresholds by vendor and date (LPOs between \$3k - \$3.5k and CROs between \$25k - \$27.5k). Results were provided to management for further investigation, which yielded no concerns with the transactions identified.

B.3. Top 20 Contract Vendors by Purchase Order Value

Since a majority of POs are issued with contract vendors, we reviewed the top 20 contract vendors by purchase order value for FY2019/20. The top 20 vendors accounted for approximately 24% (\$37M/\$154M) of all contract purchase orders for the period. Board staff noted that the spend for the year was higher than usual due to fire related replacement costs for York Memorial and Jones Avenue schools.

B.4. GR/IR Account Balance

The GR/IR account records differences between the invoice amount and the PO. Controls are in place to monitor balances in this account and write-off any balances after a review is completed. The GR/IR account balance as at March 11, 2021 was \$13.9M. The cumulative balance at the end of the fiscal year is recorded as a liability in the financial statements. We did not perform control testing or data analytics on this balance. The Manager, Accounts Payable noted that the Board is taking steps to review and clear this account of items such POs created in error, duplicate POs, etc. This section has been provided for the Audit Committee’s information.

B.5. Vendor Master File Analysis

A. New Vendors Created

There were only 36 new vendors added to the vendor database between September 1, 2020 and December 31, 2020. This was not considered to be a large or unusual amount given the total number of vendors in the database (see below).

B. Old and Outdated Vendors

There is a large number of vendors in the vendor database. Excluding inactive vendors (which cannot be selected by a user), there were approximately 7,200 vendors in the database. Board staff noted that old vendors that are not being used are slowly being removed from the list of active vendors. We noted approximately 1,400 legacy vendors in the active SAP vendor database that appear to have been batch migrated to SAP in 1999. The last in depth review was conducted in September 2019, where vendors without activity in the past five years were marked for deletion.

Finding #4 – Review and Clear Old and Outdated Vendors from the Database

Rating: Low

There are many legacy vendors that exist in the vendor master file. Some are still being used, while others have been blocked or marked for deletion. Some of these active and inactive vendors have been in the system for over 20 years. Board staff noted that the Board's policy is not to archive vendor records. The reason some old or inactive vendors are not completely deleted is because they have payment history in the system or may be used again in the future (therefore blocked but not deleted).

Risk: Although the risk of unauthorized access to the vendor database is low, the large number of vendors in the database may require review and clean up in order to ensure that only current, approved vendors are being used.

Recommendation: The Board should evaluate how effectively the department maintains vendor records and determine if retention requirements are met (and if disposal of any records beyond the retention period is required). Scheduled times to clean up the vendor database should be considered, as the last review was conducted in September 2019.

The Board should consider running data over the prior 2-year period to determine the percentage of active vendors being used.

Management Response and Action Plan

Vendor review will be done annually based on a previous 5-year activity and those vendors that have not had activity will be reviewed for deletion.

Position Responsible: Vendor Master Controller

Target Implementation Date: July/August 2022

C. Vendor Database

RIAT conducted a search for vendors in the database that were missing key fields such as an address (street name) or phone number. We identified 24 records with no street name and 581 records with no phone number. The results were shared with the Board for review. They noted that vendors without a proper address were the result of a system glitch but were not active and could not be accessed in SAP. These items were flagged for deletion. It was also noted that the phone number is not a required field and many of the vendors included in the results were “accounting based” – i.e. tax remittances and other statutory payments.

D. Vendor Database – Duplicate Vendor Search

A search for duplicate vendors was conducted based on vendor name and postal code. The results were as follows:

a) A “fuzzy match” search was conducted on the vendor name field. The fuzzy match search is a tool within the data analytic software that can search for fields based on a defined degree of similarity. Based on a 90% similarity criteria, there were 168 vendors appearing in the results of the fuzzy match search.

b) The duplicate postal code search resulted in 1,193 instances of duplicates (i.e. 2 or more vendor names with the same postal code). There were 5 postal codes that were attached to 10 or more vendors, as follows:

Postal Code*	# of Vendor Records
M5* 5**	24
M5* 1**	20
M5* 0**	15
M5* 4**	13
L0* 1**	10

**Parts of the Postal Code were redacted for the report but the information was provided in full to management for review.*

The results were shared with Board staff to review. Nothing came to their attention that would indicate potentially invalid or unusual vendors in the database. Board staff noted that these instances of multiple vendors with the same postal code are due to large office towers or PO boxes.

Appendix A: Audit Observation Priority Ranking Definitions

A priority rating has been assigned to individual audit observations outlined within the audit report.

Ranking	Definition
HIGH	<p>Control weaknesses have been identified, requiring immediate management attention:</p> <ul style="list-style-type: none"> • Significant or direct impact on the activities within the process under review, impacting the school board's goals and objectives • Significant or direct financial impact • Failure to comply with legal/regulatory requirements and/or school board's approved policies and standards on a systemic basis • Breach of security, confidentiality and/or privacy of information • Significant impact on reputation and public perception, leading to loss of public confidence • Significant impact or inability to conduct operations and deliver service throughout the school board • Evidence of potential fraudulent activity • Observation represents a high risk to the control environment of the school board
MEDIUM	<p>Control weaknesses have been identified, requiring management's timely consideration:</p> <ul style="list-style-type: none"> • Moderate or direct impact on the activities within the process under review, impacting the department's goals and objectives • Moderate or direct financial impact • Potential for breach of security, confidentiality and/or privacy of information • Failure to comply with legal/regulatory requirements and/or school board's approved policies and standards in isolated cases • Potential for fraudulent activity • Potential impact on reputation and public perception • Isolated cases of temporary disruption to operations and delivery of service throughout the school board • Absence of internal controls in isolated cases • Observation represents a moderate to high risk to the control environment of the area reviewed
LOW	<p>Issues or inefficiencies that, although do not require immediate management action, may become weaknesses if not continuously monitored or eventually addressed:</p> <ul style="list-style-type: none"> • Indirect or no impact on the activities within the process under review, with no impact on the department's goals and objectives • Low financial impact • Failure to comply with legal/regulatory requirements and/or school board's approved policies and standards in isolated cases • Low or no impact on reputation and public perception • Some deficiencies in internal controls in isolated cases • Observation represents a low risk to the control environment of the area reviewed