

The Corporation of the City of Windsor

Fraud risk mitigation enhancements - Sprint 1 & 2
Internal audit report
November 13, 2020

Limitations and responsibilities

This report was developed in accordance with our engagement letter addendum dated January 24, 2020 and is subject to the terms and conditions included therein.

Our work was limited to the specific procedures and analysis described herein and was based only on the information made available at the time we prepared the report. Accordingly, changes in circumstances after the date of this Report could affect the findings outlined herein. We are providing no opinion, attestation or other form of assurance with respect to our work and we did not verify or audit any information provided to us. This information has been prepared solely for the use and benefit of and pursuant to a client relationship exclusively with the Corporation of the City of Windsor. PwC disclaims any responsibility to others based on its use and accordingly this information may not be relied upon by anyone other than the Corporation of the City of Windsor.



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Point of View - Sprint 1 & 2



Project POV: The changing landscape may require modifications in business processes and create opportunities for unwanted behaviours giving rise to fraud risks.

01

Sprint 1 POV

Management performed necessary fraud investigation steps and isolated the root cause to inform enhancements to cheque reconciliation controls.

02

Sprint 2 POV

Management previously implemented enhanced vendor change management workflows. However, due to the volume of rush vendor change requests there is a possible higher risk of fictitious vendor change requests.

Strategic impact

Fraud risks connect with the City's commitment to a fair and transparent municipal government.

Status of considerations for management

Consideration for management	Impact	Management status
Conduct independent spot checks of positive pay exceptions to ensure the preventative controls operate as intended given the nature of access privileges and approval evidence	Fraud detection	Completed
Explore automating repeatable task elements (RPA - robotic process automation) related to AP query and payment release activities to improve efficiency	Fraud prevention	Risk accepted, will be a future consideration
Enhance fraud investigation minimum guidelines and summary adherence therewith for individual investigation efforts	Fraud response	Completed – future investigations to use PwC guidelines
Ensure alignment of unique record identifier for vendor change records and implement a detective/monitoring control over the process	Fraud prevention	In progress – will develop process to include where possible

Overall management comments

Management is confident with internal controls regarding fraud and vendor change management. PwC considerations for further enhancements will be considered and are in progress, as stated above.

Internal Audit Project Canvas - Sprint 1 & 2

<p>Risks / concerns</p> <ul style="list-style-type: none"> • The changing landscape/environment may create opportunities for unwanted behaviours giving rise to fraud risks. • In a COVID benchmarking report published by the Association of Certified Fraud Examiners, participants in a survey reported an increase in fraud across all categories. Including fraud by vendors and payment fraud. • Strain may affect internal controls while staff work from home or remotely. • Management identified a vendor cheque which was fraudulently cashed. The City notified Windsor Police at the time when the fraud was discovered, and also received full reimbursement from the financial institution. • Due to the volume of rush vendor change requests a possible higher risk of fictitious vendors exists if the controls are not operating effectively. 	<p>Project drivers</p> <ul style="list-style-type: none"> • Internal audit worked with management to provide input into Covid-19 initiated fraud risk identification and mitigation plans in place. • Internal auditors should consider the probability of significant errors, fraud, noncompliance, and other exposures. • A framework for managing / mitigating fraud risks is available as a basis for the input internal audit provides to management. • Finance management obtains feedback surrounding the design and implementation of new internal controls (e.g. positive pay). 	<p>Value proposition</p> <ul style="list-style-type: none"> • Provided input to management on components or domains of a “Fraud Risk Management Framework” namely, a) Risk Assessment and Response 2) Investigation and Remediation. • Used an Agile internal audit to provide answers against targeted risk based questions and conducted work across 1-2 sprints offering flexibility and real-time recommendations or insights. <p>Key stakeholders</p> <ul style="list-style-type: none"> • CFO, Treasurer and Deputy Treasurer • Deputy Treasurer, Taxation • Deputy Treasurer, Financial Accounting • Manager of Financial Accounting • Manager of Accounting Services • Manager of Purchasing
<p>Key questions considered</p> <ul style="list-style-type: none"> • How does management identify or detect cheque fraud attempts and are investigations carried out (as appropriate)? (Fraud Detection) • Which other/new AP monitoring controls are in place to detect fraudulent cheques and have there been internal control issues? • Were the new positive pay controls over cheque disbursements designed and implemented? Are controls documented and communicated? For example, were: <ul style="list-style-type: none"> - Positive pay interface of cheque file to Bank is secured, complete and accurate? - Approval of exceptions are documented and required controls are communicated? • How does management process additions/changes (specifically rush vendor requests) to the peoplesoft vendor database? • Which other/new bylaw were passed for purchases related to COVID supplies, and the committee set it in place to authorise such transactions? 		<p>Project outcomes</p> <ul style="list-style-type: none"> • Memos with Internal Audit’s Points of View (POV) to Deputy Treasurer, and Purchasing Manager. • Identify considerations for improvement to management • Escalate significant process areas resulting in impairment within 24 hours (none noted)

Limitations inherent to the internal auditor's work

Internal control

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future periods

Our assessment of controls is for the period specified only. Historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- the degree of compliance with policies and procedures may deteriorate.

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses, and if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.

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