

**Disbursements Process - Phase II  
Final Audit Report  
Report Nr. 5/10  
March 26, 2010**

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## Introduction

In accordance with our FY 2010 Audit Plan, EDC Internal Audit performed an audit of the Disbursements Process. Disbursements are processed in various currencies to customers, counterparties, vendors, and employees by way of wire transfers, cheques and electronic funds transfers (EFTs). The Disbursement Process Audit has been conducted in two phases. Phase I of the audit was completed in Q1 2009 and focused on whether the controls were effectively designed. This involved an assessment of what Enterprise Risk Management (ERM) risks could materialize and how, identifying the controls in place to mitigate these risks and performing walkthroughs to evaluate their design effectiveness. Phase II of the audit has now been completed and involved detailed testing of the controls to ensure they are operating as intended and thereby mitigating the relevant ERM risks.

## Audit Objectives & Scope

The overall objective of the Phase II audit was to evaluate whether controls, including those implemented to address control deficiencies noted in Phase I, are operating as intended. The scope of the audit included the following activities within the disbursement process:

- Authorization of payment requests within upstream processes (Loans Services, CARD, employee expenses, and team accounts);
- Verification of DOA approvals;
- Recording of payments in the Corporate Financial Management System;
- Processing of payments - Cheques, EFTs and wire transfers; and
- Completion of bank reconciliations.

Controls to verify DOA authorization of Treasury related payments are not included in the disbursement process. Instead, reliance is placed on upstream process controls with Treasury to verify DOA when transactions are affirmed in UFS. Accordingly, verification of DOA approvals for Treasury transactions was excluded from the scope of this audit.

In examining the Disbursements process, the audit addressed the following risk elements of EDC's ERM framework: compliance, transaction processing, system, financial management and reporting risk.

Audit fieldwork was performed during February and March 2010.

## Internal Audit Opinion

In our opinion, the Disbursement Process is **Well Controlled**<sup>1</sup>. Key controls within the disbursement process are effectively designed and are operating as intended including those controls recently implemented to address the deficiencies found in Phase I of this audit. Some moderate issues were noted and are described in the following section.

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<sup>1</sup> Our standard audit opinions are as follows:

- **Strong Controls:** Key controls are effectively designed and operating as intended. Best in class internal controls exist. Objectives of the audited process are most likely to be achieved.
- **Well Controlled:** Key controls are effectively designed and operating as intended. Objectives of the audited process are likely to be achieved.
- **Opportunities Exist to Improve Controls:** One or more key controls do not exist, are not designed properly or are not operating as intended. Objectives of the process may not be achieved. The financial and/or reputation impact to the audited process is more than inconsequential. Timely action is required.
- **Not Controlled:** Multiple key controls do not exist, are not designed properly or are not operating as intended. Objectives of the process are unlikely to be achieved. The financial and/or reputation impact to the audited process is material. Action must follow immediately.

## Audit Findings & Recommendations

### 1. Access to the ACBS DOA Table

Testing of changes to the DOA tables in ACBS included a review of users with access to modify the table to ensure this access had been granted on an as needed basis. We found that user access to the DOA table was appropriately restricted. However, there are powerful generic accounts in ACBS which can be used to modify the DOA tables. Changes made through generic user accounts cannot be traced to a specific user and there is currently no logging of the changes made to the table through these generic accounts. We recommend that removal of generic accounts and/or logging of their activity be investigated as part of the ACBS upgrade project.

Rating of Audit Finding - Moderate<sup>2</sup>

Action Owner - Loans System: Business Information Analyst, Loans Services COE, Project Business Lead  
Loan Services  
Due Date - Q4 2010

### 2. Bank Reconciliation Controls

Testing of a sample of bank reconciliations during the audit found that they were not consistently prepared on a timely basis. In addition, we noted that certain bank reconciliations were not appropriately documented and reviewed. Specifically, there was an inconsistent level of supporting documentation provided to the reviewer and some reconciliations did not contain evidence of independent review. Timely and properly completed bank reconciliations decreases the likelihood of timing errors in the financial statements, helps to detect fraud or errors relating to cash and allows management to promptly resolve any issues. As result, we have recommended that management establish and communicate a standard timeline for all employees who are responsible for completing bank reconciliations. In addition, all bank reconciliations should contain supporting documentation including a copy of the bank statement, a copy of the general ledger balance, and support for any reconciling items. All supporting documents should be provided to the reviewer. The independent review should be evidenced by the reviewer's signature and date on the reconciliation.

Rating of Audit Finding - Moderate

Action Owner - Manager Corporate Banking, Manager Accounts Payable, & Manager Financial Reporting  
Due Date - Q2 2010

### 3. Payee Master Controls

The payee master file within Corporate Financial Management System is a duplicate store of customer and employee data and is also the source of vendor master data. Controls surrounding the maintenance of the payee master file in the financial system are critical to ensuring accuracy and authorization of payments. Since the completion of the Phase I disbursements audit, significant efforts have been made to reduce the number of payees in the master file and to categorize them. A large number of old and unused payees however, continue to be available for payment (i.e. have a status of "active") in the master file. These old and unused payees increase the risk that funds will be disbursed in error. PeopleSoft allows payees to be classified as "inactive" which would prevent subsequent payments from being processed. Accordingly, we recommend that a periodic review of payees whose status is "active" be performed and any old and unused payees be marked as "inactive". We also recommend archiving information such as banking information for all payees marked as "inactive". Since the payees in the master file have been categorized, we recommend performing a reconciliation to source data as part of the periodic review.

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<sup>2</sup> The ratings of our audit findings are as follows:

- **Major:** a key control does not exist, is poorly designed or is not operating as intended and the financial and/or reputation risk is more than inconsequential. The process objective to which the control relates is unlikely to be achieved. Corrective action is needed to ensure controls are cost effective and/or process objectives are achieved.
- **Moderate:** a key control does not exist, is poorly designed or is not operating as intended and the financial and/or reputation risk to the process is more than inconsequential. However, a compensating control exists. Corrective action is needed to avoid sole reliance on compensating controls and/or ensure controls are cost effective.
- **Minor:** a weakness in the design and/or operation of a non-key process control. Ability to achieve process objectives is unlikely to be impacted. Corrective action is suggested to ensure controls are cost effective.

Rating of Audit Finding - Moderate  
Action Owner - Manager, Accounts Payable  
Due Date - Q3 2010

## **Conclusion**

The audit findings and recommendations have been communicated to and agreed by management, who has developed action plans that are scheduled for implementation no later than Q4 2010.

We would like to thank management for their support throughout the audit.