

**Invoicing and Collections - Loans
Final Audit Report
Report Nr. 22/10
December 7, 2010**

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Vice President & Corporate Controller
Director, Loans Services

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Introduction

In accordance with our FY 2010 Audit Plan, EDC Internal Audit performed an audit of the Invoicing and Collections process for Loans. Financing is EDC's largest program in terms of revenue which was 1,321M in 2009. Types of loan structures include bilateral loans, syndicated loans, lines of credit, bank guarantees and commercial guarantees. EDC provides financing on a commercial basis under its Corporate Account and administers certain financial commitments approved by the Government of Canada under the Canada Account. The Loans Services team is responsible for the management and administration of all loans including the invoicing and collections activities. In 2009 Loans Services administered 2369 facilities and 7992 loans.

Audit Objectives & Scope

The objective of this audit was to examine the design effectiveness of the controls within the following components of EDC's Core Value Chain: Close the Deal - Invoice the Solution, and Collect Payment - Approve A/R, Bill A/R and Receive Payment. The audit included an examination of:

- Controls to ensure the completeness, accuracy and timeliness of invoicing, recording of receivables and collections;
- Whether existing systems and tools support the business objectives and/or are being properly leveraged to support related process objectives; and
- Mechanisms in place to measure performance and identify opportunities to continuously improve business processes for the benefit of both EDC and its customers.

Loan recoveries associated with non-performing loans were not included in the scope of this audit. Audit fieldwork was performed between August and October 2010.

Internal Audit Opinion

In our opinion, the Invoicing and Collections process for Loans is *Well Controlled*¹. Key controls within the Loans invoicing and collections process are effectively designed. While there is a significant manual effort required to manage the loans portfolio, detective controls have been effectively designed to reduce the related risks. Moderate² areas for improvement were identified and are outlined in the following section.

Audit Findings & Recommendations

1. Technology Infrastructure Resulting in Inefficiencies

The loans underwriting system, MBC, does not interface with the loans administration system, ACBS, which results in a significant manual effort to manage the loans portfolio. The information from the Commitment Memo, which is generated through MBC, must be manually re-entered into ACBS. To ensure the accuracy of this data re-entry, Loans Services has implemented a 3-touch validation of data, created

¹ 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.

² 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.

monitoring reports for critical data fields and has instituted a quality control process. While these controls are effectively designed, the effort associated with manual data re-entry is significant. We recommend that Loans Services, in consultation with BS&T, perform an analysis to determine whether it is feasible to create a "single point data entry" for loans data between MBC and ACBS. We recognize that there would still be a need for data validation but this could be reduced from current levels.

As noted above, reports which provide information on key data fields are generated in Data Management Solutions (DMS) and Mainframe ACBS to monitor portfolio activity. We found that due to the large volume of available reports, the purpose of each report was not clearly understood. As a result, they are not all being reviewed. IA is recommending that the current suite of reports be reviewed and prioritized to ensure there is no overlap. A document should also be created outlining the purpose of each report and the impact if the report is not addressed in a timely manner.

Rating of Audit Finding - Moderate

Action Owners - Director, Loans Services in consultation with BS&T;

Due Date - Q3 2011

2. Suspense (Sundry) Account Reconciliation

The Loans Services cash suspense account is not always reconciled at quarter end. In addition, there are about a dozen cash receipts from 2009 (\$1.4M) and one from 2008 (\$0.8M) that had not been cleared from the suspense account. We recommend that the suspense account be reconciled on a line basis and long outstanding items followed up and resolved. In addition, evidence of the reconciliation and review/approval should be maintained.

Rating of Audit Finding - Moderate

Action Owners - Director, Loans Services

Due Date - Q2 2011

3. Independent Review of Manual Invoices

While the majority of invoices for the loans portfolio are automatically generated by ACBS, there are some situations where invoices are created manually. The current process does not afford visibility into the frequency and/or dollar value of manual invoices. In addition, there is no independent review of manual invoices.

IA is recommending that all manual invoices undergo a second review by an individual with the appropriate skills and knowledge to be able to identify errors. Manual invoices should be saved in a consistent format and location in order to be able track the frequency of their use and their dollar value.

Rating of Audit Finding - Moderate

Action Owner - Director, Loans Services

Due Date - Q2 2011

4. Process for Following-up on Past Dues

ACBS generates a weekly Past Due Report which is reviewed by LS management monthly. Currently, however, there is no formal process for following-up on past dues. During our walkthroughs, we observed that the process for follow-up was informal and as a result varied among personnel in Loans Services. Having a formal process is important as approximately 10% of EDC's loans portfolio is past due. Accordingly, IA is recommending that the process for following-up on past dues be formalized and documented to improve consistency.

Rating of Audit Finding - Moderate

Action Owner - Director, Loans Services

Due Date - Q2 2011

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 Q3 2011. We would like to thank management for their support throughout the audit.