

Review Summary

Internal Audit completed a review of specific Procure to Pay (P2P) Internal Controls at the Calgary Board of Education (CBE) from November 12, 2013 to January 30, 2014. Management requested the review to evaluate the P2P internal controls' effectiveness to mitigate financial risk and the risk of negative impact on student learning. The purpose of the review was to evaluate these risks against current practice and identify areas for improvement.

The P2P Process was restructured from a largely paper-based manual process to an electronic workflow with the Oracle upgrade project (go-live July 2012). Following the "go-live", numerous issues arose which shook the CBE's confidence in the online P2P process. In particular, school staff found the online processes cumbersome; requisition entry was slow, receiving was not occurring, and delivery was inconsistent. In response to these concerns, focus groups with school-based staff were established and alternative processing requirements were implemented, some of which relaxed the intended internal controls. Subsequent to these focus groups, Internal Audit was engaged to undertake the review of specific P2P internal controls.

The Oracle purchasing model is designed to allow routine, high volume purchases to flow through the system and to the supplier automatically to reduce processing time. The primary requisition types for purchases include Blanket Purchase and Standard Contract Purchase requisitions. Blanket Purchase requisitions have an associated catalogue where items are selected while the Standard Contract Purchase requisitions require items to be manually entered. The initiator creates either type of requisition in Oracle then upon approval the system immediately generates a purchase order that is sent to the supplier for delivery.

Our review focused primarily on end-user experience with Oracle requisitions, receiving, invoice payment and each of the associated processes. The following processes were excluded from the scope of the audit:

- Capital Spending;
- P-Card Use (best practice observation noted);
- Archibus Interface;
- School Generated Funds;
- Tendering/Bidding Process.

Our review was conducted in accordance with the "Standards for the Practice of Internal Auditing" published by the Institute of Internal Auditors (IIA). Internal Audit also used the Committee of Sponsoring Organizations (COSO) 1992-Internal Controls – Integrated Framework methodology. The COSO framework defines internal control as a "process, effected by an entity's Board of Directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives" in the following categories:

- (a) Reliability of financial reporting;
- (b) Effectiveness and efficiency of operations; and
- (c) Compliance with applicable laws and regulations.

Our review focused on the reliability of financial reporting and the effectiveness and efficiency of operations. Compliance with applicable laws and regulations was excluded from the scope of the audit. Our review procedures included an analysis of existing documentation provided by management, a series of discovery interviews, followed by detailed process and control walkthrough procedures with various stakeholders and analyzing data provided by management. Sample testing was not performed. From this framework we developed an understanding of the current state of the P2P process, associated risks and mitigation strategies and identified recommendations to address any deficiencies or concerns.

Based on the results of our approach we have categorized, for the purpose described above, the overall internal controls associated with the specific Purchase to Pay Processes reviewed as:

Adequate **Requires Improvement** Inadequate Significant Weakness

The internal control elements of the P2P processes examined require improvement, but not to the extent that there is currently a direct impact to student learning. During our fieldwork, no CBE participant interviewed communicated a negative impact on student learning linked directly to the P2P process. We note however, student learning may be impacted if the deficiencies are not addressed. In addition, we noted exceptions exist in the design of and/or the compliance of established policies and procedures that impact the financial risk and the efficiency of the P2P process.

The internal control elements do not maximize the use and capability of the Oracle software or fully meet all business objectives. There is a need in some processes to formalize the procedures and a more specific articulation of objectives should be considered to drive business process. Deviations from policy may not be detected in a timely fashion and assessing the impact is difficult. Strategic decision-making is therefore compromised. However, nothing came to our attention that would suggest there is a risk of material damage to the CBE.

The observations and recommendations in this audit report would not be possible without the prompt cooperation of management and participants. We thank all those who provided their time, insight and candor in responding to our inquiries.



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Summary of Management Response

1. A recommendation to consider driving smaller dollar value purchases through the Oracle Purchasing module is not accepted, as it would increase the administrative burden on schools without deriving a significant improvement in internal controls. It is acknowledged that this, in part, increases the complexity of purchasing goods at CBE by increasing the number of purchasing methods available. Process flow charts have been created for both schools and service units, which assist staff in the selecting the correct way of ordering depending on the commodity types, services, dollar threshold and installation requirements.
2. A recommendation to tailor purchasing methods to school needs is accepted. Centralized purchasing staff are available to assist school administrators in creating requisitions by either walking them through the process or creating online requisitions on their behalf (e.g. in schools whose staff are challenged by workload, people on leave, or new staff who have not been able to attend training).

3. Recommendations to improve training and support materials are accepted and are in alignment with similar recommendations coming from of the School Financial Management project. In particular, a school-based procedure manual is being developed in 2014-15, and formalized onboarding and annual refresher training are being considered for 2015-16. In the short term, a user friendly internal website has been created to guide users through the Oracle online purchasing process.
4. A recommendation to implement detective controls to catch instances where staff have moved, but are not reflected in the Oracle hierarchy is accepted. These will be implemented in the fall of 2014. In addition, functionality of Oracle Hyperion Data Relationship Management module is being investigated to provide a more proactive solution.
5. Recommendations to reduce onetime vendor set-ups are being pursued.
6. A recommendation to document school-based user access is accepted, and has been implemented.
7. A recommendation was made to utilize the reporting capabilities within Oracle to assess the impacts of any changes within the P2P business process. The revised AR 7001 – Purchase of Goods and Services now states all expenditures over \$10,000 require a Purchase Order. This will allow Oracle to capture all large procurements, and increase the reporting capability and enhance strategic decision making. Resources and expertise in Oracle reporting remains an issue.