

**Centralized Billing and Receivables (CBR)
Audit Report
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Introduction

The Centralized Billing & Receiving (CBR) project was launched in February 2012 with the objective of centralizing four Insurance invoicing and collections processes into a single Centralized Accounts Receivable Team (CART) and implementing a supporting technology platform. The CBR project had the following distinct phases:

- Future State Foundation
- Business Enablement
- Billing Foundation and Tinubu Integration

The first phase of the CBR project was foundational and was closed out in September 2014. This first phase streamlined existing Accounts Receivable (A/R) processes and centralized them into a single unit within EDC's Finance Group, introduced common rules and processes across products and implemented new technology platforms to support managing all cash received by EDC.

Audit Objectives & Scope

The objective of our audit was to evaluate the design and operating effectiveness of the invoicing and collections controls for the ARI, TFO and TP products. The scope of the audit included a review of the new Accounts Receivable policy and supporting guidelines, declaration processing, invoicing, collections, cash processing, adjustments, and user access controls.

Internal Audit Opinion

Based on the results of our testing, we have concluded that “*Opportunities Exist to Improve Controls*”¹. In 2010, we completed an audit of invoicing and collections processes for ARI and TFO which also resulted in an “*Opportunities Exist to Improve Controls*” opinion. Improvements have since been made. Effective transactional controls have now been established surrounding the processing of policyholder declarations which determines premium revenues and invoicing. In addition, effective controls are now in place with respect to cash applications, clearing of cash suspense accounts, and GL reconciliations. However, we found that segregation of duty conflicts exist with respect to the processing of cash receipts. In addition, we noted there is no Delegation of Authority (DOA) in place to govern the processing of customer credit transactions and refunds. Action plans have been developed and are included in Appendix A.

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.

Audit Findings & Action Plans

1. Delegation of Authority

CBR policies, guidelines and procedures related to billing, collections and processing of payments for all revenue at EDC are contained in the Corporate Accounts Receivable Policy and Accounts Receivable Policy Guidelines and Procedures. In addition, CBR process documentation includes job-aids developed as additional guidance by and for CBR team members. However, Internal Audit (IA) noted that the DOA for credit transactions and refunds does not exist. A DOA is needed to provide control over the processing of only appropriate credit transactions and refunds and thereby prevent financial loss.

Management has agreed to develop a DOA for credit transactions and refunds.

Rating of Audit Finding - Major²

Action Owner - Director, Loan Services

Due Date - Q1 2016

2. Cheque Deposits and Segregation of Duties

CART receives the cheques from the mailroom and other regional offices. IA noted that there is lack of segregation of duties around the cheque handling process and there is no validation performed to ensure completeness of cheque deposits received. Without the control to ensure completeness, there is an exposure to the misappropriation of cheques.

Management has agreed to implement a control to ensure the completeness of cheque deposits.

Rating of Audit Finding - Major

Action Owner - Director, Loan Services

Due Date - Q1 2016

3. Operational Monitoring and Oversight

Opportunities exist to enhance monitoring and oversight activities that govern the CBR operations. IA noted that there is no evidence of a monitoring process to verify exception transactions such as the acceptance of late declarations; declaration adjustments; refunds and credits; management of overdue

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.

balances; and write-offs. Without evidence of monitoring by the CART manager, there is a risk that errors or unauthorized transactions may be processed, or are not identified and corrected.

Management has agreed to implement monitoring controls to facilitate oversight of exception transactions.

Rating of Audit Finding - Moderate

Action Owner - Director, Loan Services

Due Date - Q1 2016

4. Key Performance Indicators

Establishment of key performance metrics is an important tool for measuring the contribution to and alignment with business objectives and corporate priorities. Except for Key Performance Indicators (KPIs) established for the deposits function, there are no KPIs in place for the majority of CART functions such as cash allocation, declaration, declaration amendment, and receivable collections.

Management has agreed to develop KPIs for all key CART functions and a performance dashboard report will be implemented to effectively track, monitor and report against KPIs by product.

Rating of Audit Finding - Moderate

Action Owner - Director, Loan Services

Due Date - Q1 2016

5. User Access

Opportunities exist to enhance user access privileges so that user access is only provided as required by the job function in CART. IA noted:

- Over 40 employees across EDC are actively engaged in taking credit card information over the phone and inputting the details in the Personal Authorization Module (PAM) to process payment requests. This appears excessive and inconsistent with the centralization of the billings and collections. With no business owner of PAM, there is no active monitoring being performed to control user access. The decentralization of collecting credit card information beyond CART increases the risk of fraud.
- Access to EDC Direct can be granted to users other than the policyholder provided the customer consent is obtained. At present, there is no process in place to periodically renew the customer's consent and remove excessive user access.
- There is excessive user access over the modification of declarations, refunds or credit adjustments and write-off activities in Globex and FIRM. At present, the user profiles in Globex and FIRM to perform these modifications are not restricted to only CART personnel.

Management has agreed to restrict user access to an "as required basis". The action plan will include removing excessive EDC employee access to PAM, Globex and FIRM; establishing a process to revoke

access to EDC Direct based on a periodic follow up with policyholders and their consent; restricting user access for policy cancelations to only the Underwriting Operations (UWOPs) team; implementing a process to review and confirm the validity of users and access privileges across CART systems and applications on a periodic basis; and assigning CART as the owner of PAM.

Rating of Audit Finding - Moderate

Action Owner - Director, Loan Services in collaboration with the Director, CIT – Project Lead

Due Date - Q3 2015

Conclusion

The audit findings have been communicated to and agreed by management, who has developed appropriate action plans. We would like to thank management for their support throughout the audit.