Electronic Funds Transfer - Pilot Vendor Payments
August 31, 2006

This page is intentionally blank.

Electronic Funds Transfer Pilot Vendor Payments

1.   Introduction

The electronic funds transfer (EFT) process is a widely used technical solution deployed by corporations throughout the world to transmit instructions to financial institutions to pay employees and vendors. The City of Edmonton currently uses the direct deposit process to pay its employees electronically through its payroll system, Peoplesoft, and TD WEB Banking.

In 2005, the City of Edmonton initiated a pilot to implement electronic funds transfer for two selected vendors . This enhancement will allow the City to make vendor payments electronically using the electronic funds transfer functionality in its financial system, SAP, in conjunction with TD WEB Banking. It is intended to provide the City with a lower cost alternative for making vendor payments compared to traditional methods such as issuing cheques, and keep pace with industry standards. The City also intends to offer the EFT method of payment to additional vendors after successful completion of the pilot.

The pilot was led by three Corporate Services Department sponsors from Materials Management, Treasury Management and Business Systems Support who serve as members of the EFT Steering Committee. An implementation team consisting of staff from various sections of Corporate Services Department and a representative from the City's bank was formed and tasked with enhancing the EFT functionality and implementing EFT payments for the pilot vendors.

The Office of the City Auditor (OCA) was requested to participate in the pilot and provide proactive risk and control-related feedback to the Project Sponsors and members of the Implementation Team in meeting their objectives. Since the EFT process involves financial transactions, this request was given a high priority and included in the OCA's Annual Plans for 2005 and 2006 as an emerging request.

2.   Objective

The OCA's overall objective was to ensure that controls in the City's payment processes are not compromised due to the implementation of EFT; and where the EFT functionality cannot provide the required control, that procedural controls are implemented to minimize the risk of loss to the City.

3. Scope and Methodology

From September 2005 to August 2006, the OCA designated a staff member as an advisor to the Project Sponsors and Implementation Team. The OCA did not make decisions or set direction for the implementation process.

The OCA used the following forums to provide proactive advice and control-related feedback during the EFT pilot:

- Attended Steering Committee meetings to provide control-related advice of a strategic nature on the success measures identified by the Project Sponsors.
- Planned, organized and facilitated a Risk Mitigation/Control Session for members of the Implementation Team. The objective of this session was to evaluate the functionality and processes that would change to accommodate EFT, and to identify the new risks that would arise and determine the required controls and procedures to mitigate these risks. The understanding gained from this session assisted the Implementation Team in designing, testing and validating the new controls and ensure that they were documented and included in their operating procedures. Positive feedback was provided by participants on this methodology and the risk/control expertise provided.
- Attended Working Committee meetings, system demos, walk-through sessions, planning meetings and testing sessions. The OCA prepared and maintained a Sign-off Matrix that served as a control document throughout the pilot to ensure that all control-related deliverables were completed and signed off in accordance with the City's development methodology.

4. Summary of Results

The EFT pilot was evaluated against the following four success measures identified by the Project Sponsors and Implementation Team:

1. Prove that the technology works as intended.
2. Prove that the business processes work as intended.
3. Confirm that no unmanageable risks are present.
4. Ensure that positive feedback is received from the two pilot vendors.

All four success measures were achieved successfully and based on this, on February 15, 2006, the Project Sponsors granted approval to move the EFT functionality from the quality assurance base to the production base. From February 24 to May 24, 2006, an Operational test that served as a test of the full EFT payment cycle with live transactions was undertaken to confirm that the EFT functionality performs as intended in the production environment.

During the pilot, the Implementation Team planned, designed and executed Unit, User Acceptance, Integration and Operational tests to prove that the EFT functionality, transmissions to the bank, pilot vendors, and business processes work as intended. The

OCA reviewed the completeness of all control-related deliverables and ensured that they were signed off by appropriate parties. The OCA also ensured that a conversion strategy was prepared and executed by the Implementation Team on the go-live date so that all outstanding invoices for the pilot vendors that were previously defined to be paid by cheque were paid by EFT.

The OCA verified that appropriate controls were implemented for all major risks identified during the Risk Mitigation/Control Session and provided assurance to the Project Sponsors that no unmanageable risks were present at the go-live date. Where the EFT functionality could not provide the required control, procedural controls such as a full cycle reconciliation process were implemented to minimize the risk of loss to the City.

The OCA also ensured that general controls such as initiating and formalizing an agreement with the City's bank not just for EFT transactions but for all dealings with the bank, was in place and a formal price structure was established for EFT transactions. Other general controls incorporated in the integration test and observed by the OCA included the reliability, performance, capacity and availability of the system.

The OCA ensured that all controls pertaining to the authorization, integrity, accuracy, completeness and timeliness of EFT transactions were implemented, operating as intended and reflected in the operating procedures. Existing access administration procedures were reviewed and updated to reflect the EFT security process and all activities pertaining to the update, set up and verification of user access profiles were completed and signed off. A user training strategy was prepared and executed to ensure that all Business Area pilot team representatives participated in the development, testing and documentation of the new EFT functionality and that a strategy was in place for ongoing training. These team members also verified their user access profiles during the integration and operational tests. The OCA also ensured that data recovery procedures were updated as required and archiving requirements for EFT processes had been addressed.

Positive feedback was received from both the pilot vendors who confirmed the accuracy and effectiveness of the EFT payments received by them during the pilot. One vendor conveyed that the City's EFT pilot project met or exceeded all aspects of any other payment process that they are currently a partner in. They added that the team responsible for the EFT project within the City of Edmonton provided excellent communications prior, during, and after the electronic transfer to ensure that the pilot transmissions were correct, properly documented and provided to the correct employee within their office. Both pilot vendors expressed a willingness to continue with the EFT payment process.

5.   EFT Rollout to Other vendors

One of the discussion items at the June 2006 Steering Committee meeting focused on how to proceed with a corporate rollout of EFT functionality to other vendors. It was

agreed that a value case assessment will be conducted to determine whether the EFT payment method provides a net benefit to the City and supports the recommendation to confirm EFT as the City's preferred vendor payment method. If the result is positive, the Project Sponsors, through the General Manager of Corporate Services, will recommend the corporate rollout of EFT to members of the Senior Management Team (SMT). If this recommendation is approved by SMT, a detailed implementation plan will be prepared based on rollout requirements identified during the pilot, and EFT will be rolled out to other vendors in a staged and structured manner.

In view of the time gap between the training of business area representatives during the pilot and the envisaged corporate rollout, the Project Sponsors will have to re-establish that all key EFT staff and their back up positions are trained and familiar with the EFT operating procedures prior to the rollout. For instance, an employee in the Corporate Accounting and Reporting Section, who was trained during the pilot is no longer with the City. Efforts are underway to ensure that other employees are trained to assume EFT related duties.

6.   Conclusion

The OCA commends the Project Sponsors and members of the Implementation Team for the successful completion of the EFT pilot. During the planning and implementation phases, the OCA provided proactive advice, feedback and recommendations to the Project Sponsors and the Implementation Team. Therefore, other than requesting completion of outstanding activities, no formal recommendations are being made for the EFT pilot.

The OCA thanks all the EFT Project Sponsors and members of the Implementation Team for their support and cooperation during the pilot.