



Public Health
Agency of Canada

Agence de la santé
publique du Canada

FOLLOW-UP REPORT

ON RECOMMENDATIONS FROM THE 2008 AUDIT ON
DELEGATION OF FINANCIAL AUTHORITIES

Audit Services Division

June 2010

Approved by Chief Public Health Officer
on June 22, 2010

Canada 

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Executive Summary

1. The follow-up to the audit on Delegation of Financial Authorities was carried out in accordance with the Audit Services Division's Risk-Based Audit Plan, recommended by the Agency's Audit Committee and approved by the Chief Public Health Officer.
2. The objective of this follow-up was to ensure that management had effectively implemented the actions arising from the recommendations contained in the 2008 audit of Delegation of Financial Authorities.
3. The objective of the audit of Delegation of Financial Authorities was to provide PHAC Management with the assurance that the delegation of financial authorities is being administered with due diligence and in compliance with the Financial Administration Act (FAA) and relevant government-wide policies and procedures.

Conclusion

4. The results of the follow-up indicate that four of the eight recommendations have been fully addressed with four action items still in progress. We note that the most significant recommendations have been acted upon. The initial target date for completing management actions was April 2009. We believe that management attention is still required on the four action items and we will follow up on these recommendations next year. We conclude that the proposed four actions, when fully implemented, could remedy the observed conditions identified in the 2008 audit.
5. The follow-up work was performed as a review engagement. The review engagement provides only a moderate level of assurance which is normally limited to enquiry, analysis and discussion. We also did limited testing to provide moderate assurance that the frequency of previously identified deficiencies had been reduced based on management's actions to address the 2008 recommendations. The follow-up was done in accordance with Treasury Board policies and directives. The follow-up confirmed the status of corrective measures established by management in the area of Financial Delegation of Authorities.

Statement of Assurance

6. In my professional judgment as Chief Audit and Evaluation Executive, sufficient and appropriate procedures have been conducted and evidence gathered to support the accuracy of the conclusion provided and contained in this report. The conclusion is based on our review of approved management actions against the 2008 audit recommendations.

Christian Asselin, CA, CMA, CFE Chief Audit and Evaluation Executive

Management Response

7. The Agency's management agrees with our assessments.

Background

8. In accordance with the Risk-Based Audit Plan for 2010-11, the Audit Services Division (ASD) undertook the follow-up of the management action plan submitted by the Chief Financial Officer (CFO) in response to the 2008 audit report on Financial Delegation of Authorities.
9. In April of 2010, there were 160 officers with financial delegation of authorities and 159 acquisition card holders authorized to make purchases using a credit card. A total of 96 acquisition card holders were in the National Capital Region or in the regions supported by the Health Canada's office of the Chief Financial Officer under the Corporate MOU between Health Canada and the Agency. The monthly limit on the acquisition card is typically \$25,000 with 15 cardholders having a monthly limit between \$100,000 and \$325,000.

About the Follow-up

Objectives

10. The two objectives for this follow-up were:
 - To assess the extent to which the Agency has made progress in implementing the intended course of action (Appendix B) arising from the June 2008 Audit Report on Financial Delegation of Authorities; and
 - To assess whether the actions taken by management were sufficient to correct the noted deficiencies.

Scope

11. The scope of the follow-up covered the recommendations contained in the audit project:
 - All financial information related to expenditures including acquisition card purchases in March and April of 2010; and
 - Policies, directives, processes and evidence of improved situations were collected for the period of April 2009 to April 2010.
12. The follow-up was conducted in May 2010.

Approach and Methodology

13. The follow-up was performed as a review engagement. A review does not constitute an audit. The review provides a moderate level of assurance with respect to the Status of the Management Action Plans to our recommendations as at May 2010. It may also identify areas of weakness that were not identified in the original audit.
14. For the follow-up, evidence was collected to provide assurance that the action plans were implemented. The follow-up methodology included interviews, review of updated processes, policies, standards, newly implemented procedures and limited testing. We also assessed the efficiency of processes and internal controls in place to determine the extent to which the recommendations from the previous audit have been implemented and whether the reported situations had improved.
15. For each recommendation, the follow-up examined the actions taken to rectify the reported situations. Furthermore, we collected evidence of the actions taken and examined the appropriateness of each proposed solution. When agreed actions were not completely implemented, we further assessed:
 - What remained to be done, by whom and when?
 - What were the implemented alternatives that may have been more appropriate?
 - Were the agreed actions effective or did they cease to be of value?
 - If no action was taken, why not?
 - What were the issues or concerns causing inaction?
16. The evidence was gathered in compliance with Treasury Board policy, directives and standards on internal audit and the procedures used to meet the professional standards of the Institute of Internal Auditors.

Overall Assessment

17. We reviewed management's actions taken to address the audit recommendations and, in our opinion, progress has been made on the majority of the recommendations including those recommendations that auditors considered the most significant. The Chief Financial Officer (CFO) must however address the issue of Cost Centre Administrators exercising performance authority under section 34 when they are not authorized to do so. The CFO must also complete the implementation of the acquisition card monthly reconciliation review process by ensuring that a follow-up process is put in place to address issues identified. Finally, a deadline for implementation of the post-audit sampling process should also be set.
18. We conclude that the proposed actions, when fully implemented, could remedy the observed conditions identified in the 2008 audit.

19. We note that since our original audit, PHAC has taken over the responsibility for issuing and maintaining the specimen signature card database. The maintenance of the software application remains with Health Canada (HC). HC is no longer involved in the administration of signature cards except for archiving the cards. The Financial Policy, Systems and Operations Division of the Office of the CFO is now responsible for:
- The approval process, as a prerequisite for granting delegation of financial authority;
 - Maintenance of the specimen signature card database (activation, cancellation and withdrawal); and
 - The conduct of an annual review of all delegated authorities.
20. The Office of the CFO in PHAC also proceeded to a realignment of the attribution of financial authorities to appropriate positions having budgetary responsibilities. They have developed a spreadsheet with the names of officers in the organization that have authority and their cost centre/budgets. The spreadsheet is used to assist in the decision-making process regarding the attribution of financial delegation of authority. The Financial Policy, Systems and Operations Division in Winnipeg uses this spreadsheet to determine when a financial delegation of authority should be given. The realignment exercise resulted in the reduction of the number of officers delegated with financial authority to the cost centres' budget holder and their superiors. The situation with administrative staff that was identified in the 2008 audit has been corrected by changing the financial delegation of authority from Cost Centre Manager to Cost Centre Administrator. In most instances, only administrative officers responsible for managing a specific budget now have full delegated financial authority.
21. All staff has received clarification on the Cost Centre Administration (CCA) responsibilities, specifically that they can only set-up commitments within the system against a specific budget. It has also been clarified that the individuals identified as Cost Centre Administrators cannot exercise performance authority under section 34 of the Financial Administration Act.
22. Our review of the delegation of financial authorities demonstrated that many of the control weaknesses identified in the 2008 audit report, surrounding the issuance and cancellation of specimen signature cards were corrected with the change in responsibilities and the realignment exercise.
23. Some corrective measures have only recently been put into place with a few elements remaining to be fully implemented. Consequently all recommendations cannot be considered fully implemented until these corrective measures are fully operational.
24. We concentrated our follow-up efforts on certain transactions to verify that the proper financial delegation of authority had been exercised to authorize payment and that monitoring activities were working as intended.

25. It is important to note that we performed limited tests of selected transactions and did not find the same problems identified in the 2008 audit.

In Progress Assessment

26. 2008 Audit Recommendation # 3:

-That the Chief Financial Officer obtain from Health Canada, on a regular basis, assurances about how they discharge their responsibility for managing Electronic Authorization and Authentication (EAA) keys (i.e. maintenance of supporting documentation evidencing the electronic delegation; approval by the Receiver General and cancellation of EAA keys).

-That the CFO implement a process to review and control the Standard Payment Access System (SPS) and EAA key for its own staff exercising payment authority under section 33 of the FAA.

27. We note that the CFO is not obtaining assurances from HC about how they discharge their responsibility for the management of Electronic Authorization and Authentication (EAA) for officers exercising payment authority under section 33 of the FAA. We were informed by HC officials that new procedures for the management of EAA keys have been implemented. On that basis, we are confident that the controls over the activation and cancellation of EAA keys have been strengthened. However, the CFO should obtain from HC a yearly assurance statement on the process that they have implemented for the management of EAA keys.

28. 2008 Audit Recommendation # 6:

-That the Chief Financial Officer ensure that the Winnipeg Financial Operations exercise proper financial control over the store operations (i.e. that monitoring take place with respect to internal journal vouchers by sampling signed requests from laboratories to internal voucher, and that they regularly participate in inventory count of the store).

29. We note that the quarterly process for reviewing the allocation of charges for items issued from the stores has not yet been implemented and that the Financial Policy, Systems and Operations Division is not participating in regular inventory counts of the store. We believe that the financial controls over the store operations are still weak and until such controls are strengthened, this recommendation is assessed to be in progress.

30. 2008 Audit Recommendation # 7:

-That the Chief Financial Officer determine with Winnipeg Accounting Operations how the financial controls with respect to the use of acquisition cards can be better monitored

31. A new process has been implemented to review monthly acquisition card reconciliations. This process ensures minimum review of all monthly reconciliations and detailed reviews of a sample of monthly reconciliations. We are satisfied with the

implementation of this new process, which started in January of 2010. However, the Financial Policy, Systems and Operations Division in Winnipeg has not yet put in place the mechanism to follow-up with cardholders on the results of the review of monthly reconciliations. For instance, we found in our sample that a monthly reconciliation was signed by an officer without the proper authority. The Agency's review of the reconciliation identified this authority issue; however, it has not been followed-up and corrected.

32. A similar situation was identified during the examination of the monthly reconciliation process conducted by HC on behalf of PHAC. The monthly reconciliation of a cardholder was approved by a CCA when it should have been approved by the managers having delegated authority for the cost centres where purchases were done using the acquisition card. The HC review process in place did not detect this situation.
33. Until the review process includes a follow-up with cardholders for correction of identified situations, we will consider this recommendation to be in progress.

34. 2008 Audit Recommendation # 8:

-That the Chief Financial Officer adopt a post-audit sampling approach to conduct the quality assurance process of the account verification system maintained by managers (at the Section 34 level) for the Winnipeg Accounting Operations.

-That the CFO complement the post-audit sampling approach by regular monitoring and on-site visit (based on risk, those visits could be semi-annually, or annually) where specific themes or topics would be assessed.

-As part of the Memorandum of Understanding (MOU) discussion, the CFO recommends to HC Accounting Operations that they adopt an approach of post-audit, monitoring and on-site visits. If such negotiations are unsuccessful, the CFO should compensate for the lack of assurance obtained from the HC Accounting Operations by initiating its own monitoring and on-site visits.

35. A new statistical post-audit process has been implemented by HC to ensure quality assurance of the account verification system maintained by managers. PHAC Financial Policy, Systems and Operations Division has been consulted and is an active participant in the implementation of the HC statistical post-audit process. After piloting the new process in 2009, the process was implemented in all regions of HC as of April 2010. A first consolidated error report is expected to be presented to PHAC management in the near future.
36. A similar process has not yet been implemented by PHAC Financial Policy, Systems and Operations Division in Winnipeg. While auditors were informed that the process should be implemented in 2010-11, no specific implementation date has been determined. Furthermore, the review of a sample of 10 transactions found two non-compliant authorizations under Section 34, indicating a need for increased quality

assurance. It is important that the CFO continue with the implementation of a post-audit sampling approach and conduct the quality assurance process of the account verification system maintained by managers (at the Section 34 level) and commit to a specific date of implementation. Until this process is implemented, we will consider this recommendation to be in progress.

Conclusion

37. The results of the follow-up indicate that four of the eight recommendations have been fully addressed with four action items still in progress. We note that the most significant recommendations have been acted upon. The initial target date of completing management actions was April 2009. We believe that management attention is still required on the four action items and will follow-up on these recommendations next year. We conclude that the proposed four actions, when fully implemented, could remedy the observed conditions identified in the 2008 audit.

Appendix A: Summary Assessment of the Implementation of the Recommendations from the 2008 Audit on Delegation of Financial Authorities

Recommendations	Management Response	Target Date	Completed	In Progress
1. The Chief Financial Officer (CFO) ensure that regular maintenance of the specimen signature card database takes place, that cards be cancelled and withdrawn when necessary and that non-active specimen signature cards be archived.	Agree. Archiving of non-active specimen signature cards ending 06/07 and earlier has taken place and Public Health Agency of Canada (PHAC) Finance is working with Cost Centre Managers (CCMs)/Cost Centre Administrators (CCAs) to identify other cards which should be cancelled and withdrawn.	July 2008 and ongoing	Yes	
2. The CFO establish a PHAC approval process, as a prerequisite for granting delegation of financial authority. This process would allow for PHAC personnel to validate that the position occupied by the proposed person for whom financial authority is sought, is a responsibility centre manager and budget holder.	Agree. 2a) Roles and processes of both PHAC and Health Canada (HC) with respect to the activation, cancellation and annual review of signing authorities will be assessed and revised as necessary to address this recommendation and any other issues identified in the assessment. 2b) It is anticipated that the new roles and processes to be implemented as a result of the assessment will have all signing authorities activation, cancellation and annual review functions performed by PHAC Finance staff.	a) Dec 2008 b) April 2009	Yes	
3. The CFO obtain from HC, on a regular basis, assurances about how they discharge their responsibility for managing Electronic Authorization and Authentication (EAA) keys (i.e. maintenance of supporting documentation evidencing the electronic delegation; approval by the Receiver General and cancellation of EAA keys). The CFO implement a process to review and control the Standard Payment Access System (SPS) and EAA key for its own staff exercising payment authority under	Agree. PHAC Finance will obtain and review the processes used by HC and Public Works Government Services Canada (PWGSC) for the management of PHAC EAA keys. Agree. PHAC Finance will obtain and review annually the list of individuals with PHAC EAA keys and ensure they are valid PHAC or HC Finance Officers.	Dec 2008	No	Substantial implementation

section 33 of the FAA.				
<p>4. a)The CFO ask HC to ensure that the process for conducting the annual review of all delegated authorities involves PHAC managers responsible for the designation of persons with financial authority.</p> <p>b)The CFO request that the Financial Policy, Systems and Operations Division in Winnipeg initiate an annual review process of all delegated authorities involving PHAC Managers.</p>	<p>Agree. 4a) Roles and processes of both PHAC and HC with respect to the activation, cancellation and annual review of signing authorities will be assessed and revised as necessary to address this recommendation and any other issues identified in the assessment. 4b) It is anticipated that the new roles and processes to be implemented as a result of the assessment will have all signing authorities activation, cancellation and annual review functions performed by PHAC Finance staff.</p>	<p>a) Dec 2008</p> <p>b) Apr 2009</p>	Yes	
5. The CFO realigns the attribution of financial authorities to appropriate positions having budgetary responsibilities.	<p>Agree. Within the Agency, budgets have been assigned to Branches, Directorates, and Divisions. Accordingly financial signing authorities will be limited only to positions overseeing a Branch, Directorate or Division normally Branch Heads, Directors General, and Directors respectively).</p> <p>In order to limit the authorities as indicated above:</p> <p>a) PHAC Finance will first determine which positions oversee a budgetary unit and ensure incumbents have full signing authority for their unit and level.</p> <p>b) PHAC Finance will then discontinue the financial signing authorities of all other individuals (with the exception of Cost Centre Administrators).</p> <p>c) Assignment of budgets to organizational units below the Division level and the corresponding extension of financial signing authorities to positions overseeing those organizational units will be examined for possible</p>	<p>a) July 2008</p> <p>b) Aug 2008</p> <p>c) Apr 2009</p>	Yes	

	implementation in fiscal 2009/2010 and beyond.			
6. The CFO ensure that the Winnipeg Financial Operations exercise proper financial control over the store operations (i.e. that monitoring takes place with respect to internal journal vouchers by sampling signed requests from laboratories to internal voucher and that they regularly participate in inventory count of the store).	Agree. The process of internally allocating charges for items issued from stores will be reviewed to ensure it is based on requisitions which have been approved by authorized managers. Quarterly samples of charges for items issued from stores will be selected and reviewed to ensure they are supported by signed requisitions.	Sept 2008	No	No progress or insignificant progress
7. a) The CFO review with HC Accounting Operations how the financial controls with respect to the use of acquisition cards can be better monitored; b) The CFO determine with Winnipeg Accounting Operations how the financial controls with respect to the use of acquisition cards can be better monitored; and c) The CFO ensure that procedures be in place to cancel acquisition cards when (or as soon as) employees leave the organization (either temporarily or permanently) or are assigned to other functions.	a) b) Agree. The new HC Acquisition Card Policy requires increased monitoring of the CCA/CCM reconciliation and approval processes and this policy will be followed by PHAC and HC Financial Operations with respect to PHAC cards and transactions. c) Agree. PHAC Finance will review the departure forms and procedures to ensure that the return of acquisition cards is included and being completed.	a) b) July 2008 c) Sept 2008	a) Yes b) No c) Yes	Substantial implementation
8. a) The CFO adopt a post-audit sampling approach to conduct the quality assurance process of the account verification system maintained by managers (at the section 34 level) for the Winnipeg Accounting Operations; b) The CFO complement the post-audit sampling approach by regular monitoring and on-site visit (based on risk, those visits could be semi-annually, or annually) where	Agree that this is a goal to be adopted if and when conditions are appropriate. The new Health Canada Policy on Account Verification involves adoption of a risk based approach pending further analysis towards the possible implementation of statistical sampling. PHAC will work with HC to apply the new HC procedures on PHAC transactions and work toward the eventual implementation of statistical	July 2008	a) No b) Yes	No progress or insignificant progress

<p>specific themes or topics would be assessed; and</p> <p>c) As part of the Memorandum of Understanding (MOU) discussion, the CFO recommends to HC Accounting Operations that they adopt an approach of post-audit, monitoring and on-site visits. If such negotiations are unsuccessful, the CFO should compensate for the lack of assurance obtained from the HC Accounting Operations by initiating its own monitoring and on-site visits.</p>	<p>sampling.</p>		<p>c) Yes</p>	
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Appendix B: Assessment Rating Guide

1. No progress or insignificant progress

No action taken by management or insignificant progress. Actions such as striking a new committee, having meetings, and generating informal plans are insignificant progress.

2. Planning stage

Formal plans for organizational changes have been created and approved by the appropriate level of management (at a sufficiently senior level, usually executive committee level or equivalent) with appropriate resources and a reasonable timetable.

3. Preparation for implementation

The entity has begun necessary preparation for implementation, such as hiring or training staff, or developing or acquiring the necessary resources to implement the recommendation.

4. Substantial implementation

Structures and processes are in place and integrated in some parts of the organization, and some achieved results have been identified. The entity has a short-term plan and timetable for full implementation.

5. Full implementation

Structures and processes are operating as intended and are implemented fully in all intended areas of the organization.

6. Obsolete

Recommendation is obsolete or no longer applicable because of unforeseen events or because the issue involved was superseded by the introduction of a new process or program.

Appendix C: Acronyms

ASD: Audit Services Division

CCA: Cost Centre Administrator

CCM: Cost Centre Manager

CFO: Chief Financial Officer

EAA: Electronic Authorization and Authentication

FAA: Financial Administration Act

HC: Health Canada

SPS: Standard Payment Access System