



**Unclassified**

Internal Audit Services Branch

# **Audit of Section 33 of the *Financial Administration Act* Phase 1A – Priority Payments**

February 2014

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**PDF**

Cat. No.: Em20-6/2014E-PDF

ISBN/ISSN: 978-1-100-23423-6

## Table of Contents

Executive Summary .....	1
<b>1.0 Background .....</b>	<b>3</b>
1.1 Context.....	3
1.2 Audit Objective.....	3
1.3 Scope .....	3
1.4 Methodology .....	4
<b>2.0 Audit Findings.....</b>	<b>5</b>
2.1 Evidence of valid Section 33 certification could be strengthened.....	5
2.2 Controls around CPP and OAS priority payments could be streamlined.....	6
<b>3.0 Conclusion .....</b>	<b>8</b>
<b>4.0 Statement of Assurance .....</b>	<b>8</b>
<b>Appendix A: Audit Criteria Assessment .....</b>	<b>9</b>
<b>Appendix B: Glossary .....</b>	<b>10</b>



## ***Executive Summary***

The *Financial Administration Act* (FAA) provides legislative requirements for financial management of the Government of Canada. Section 32 of the FAA pertains to the commitment of funds against an appropriation, Section 34 provides the authority to certify that the goods or services were received and Section 33, the final step in the procure to payment process, provides the authority for issuing the payment.

Pursuant to Section 33 of the FAA, no requisition shall be made for a payment that is not a lawful charge against an appropriation, will result in expenditures exceeding an appropriation, or will result in an insufficient balance in an appropriation to meet the commitments charged against it. Financial officers exercising Section 33 payment authority are also responsible for ensuring that the relevant provisions of the Treasury Board of Canada Secretariat (TBS) Directive on Account Verification have been upheld.

Government departments use the Standard Payment System (SPS) to requisition payments through the Receiver General (RG), who then issues cheques on their behalf. Payments can be requisitioned and processed on a regular or priority basis. Only the RG issues regular payments whereas both the RG and departments can issue priority payments through SPS. A cheque processed on a priority basis is defined as same business day for cheque pick up or next business day delivery to the payee.

## ***Audit Objective***

The objective of the audit was to provide assurance that priority payment practices related to certification under Section 33 are compliant with relevant legislation.

## ***Summary of Key Findings***

- The overall control environment supporting the certification of Section 33 on priority payments is working. Roles, responsibilities and accountabilities are clearly defined by the branches processing these payments; Chief Financial Officer Branch (CFOB) and the Processing and Payment Services Branch (PPSB) with the support of the regions.
- There were inconsistencies in applying the national policies on the delegation of financial authority application process.
- There were inefficiencies in the existing process around the issuance of Canada Pension Plan (CPP) and Old Age Security (OAS) priority payments.

## ***Audit Conclusion***

The audit concluded that the control framework supporting priority payment practices related to certification under Section 33 is compliant with relevant legislation.

Improvements to control procedures in the administration and monitoring of the delegation of financial authority instrument are recommended to strengthen practices.

### ***Recommendations***

- The Chief Financial Officer (CFO) should strengthen the process of delegation of financial authority by aligning it with the process of issuing Electronic Authorization and Authentication (EAA) keys.
- The Assistant Deputy Minister (ADM) PPSB, in coordination with the CFO, should:
  - Align the process of issuing EAA keys for Section 33 payment approval in SPS with the required departmental specimen signature card process.
  - Define and communicate what constitutes a priority payment with the goal of reducing the volume and streamlining the existing process.

## **1.0 Background**

### **1.1 Context**

The FAA provides legislative requirements for financial management of the Government of Canada. Pursuant to Section 33 of the FAA, no requisition shall be made for a payment that is not a lawful charge against an appropriation, will result in expenditures exceeding an appropriation, or will result in an insufficient balance in an appropriation to meet the commitments charged against it. In addition, the TBS Directive on Account Verification stipulates that, when exercising payment authority pursuant to Section 33 of the FAA, financial officers are responsible for ensuring that there is auditable evidence demonstrating that account verification has taken place and has been certified by an individual with delegated financial signing authority pursuant to Section 34 of the FAA. Financial officers are also responsible to ensure that:

- all high risk transactions are subjected to a full review; and
- a sample of medium and low risk transactions are selected based on a sample selection methodology and are subjected to a review of the most important aspects of each transaction.

### **1.2 Audit Objective**

The objective of the audit was to provide assurance that priority payment practices related to certification under Section 33 are compliant with relevant legislation.

### **1.3 Scope**

Section 33 is being audited in multiple phases. The first phase of the audit covered all departmental expenditures that were paid using the priority payment method (Phase 1A) and all operating expenditures (Phase 1B). All other expenditures were excluded from Phase 1 and will be covered in planned future audits.

The scope of Phase 1A included all regions; National Headquarters (NHQ), Western-Territories, Ontario, Quebec and Atlantic. A randomly selected, statistically valid representative sample of 406 departmental transactions processed during fiscal year 2012–13 was reviewed to determine compliance with legislative requirements. The audit fieldwork was completed between July 2013 and September 2013.

## **1.4 Methodology**

The following audit techniques were used:

- Documentation review and analysis of applicable TBS and departmental policies, and directives related to Section 33 of the FAA;
- Interviews with management and key individuals within CFOB and PPSB responsible for Section 33 certification;
- Walkthrough and process observations to identify and assess the design effectiveness of manual and automated key controls; and
- File review of a random sample of 406 priority payment transactions made during fiscal year 2012–13 to assess the operating effectiveness of key Section 33 controls.

The resulting sampling plan incorporated the following:

- A random sample of 203 priority payments, excluding CPP and OAS disbursements. 30 transactions for each region, except NHQ where 83 transactions were selected.
- A random sample of 93 CPP priority payments; 20 transactions for each region, except NHQ where 33 transactions were selected. There were no CPP payments selected from the Quebec region because any CPP applications for residents of Quebec are processed at a designated processing site in the Atlantic region.
- A random sample of 110 OAS priority payments; 20 transactions for each region except NHQ where 30 transactions were selected.

In addition, a judgmentally selected sample of 137 transactions was reviewed to gain a better understanding of the nature of priority payments as well as the processes and procedures followed for their issuance. The sample included nil payments, low dollar payments and payees that had multiple payments made of the same amount and/or on the same date.



## **2.0 Audit Findings**

The Employment and Social Development Canada (ESDC) Policy on Commitment Control, Account Verification and Payment Requisition provides an exception for departmental priority payments to be issued in all regions and not centralized at NHQ, as required for all other departmental payments. Currently, CFOB and PPSB are issuing priority payments. PPSB, with the support of the regions, issues CPP and OAS priority payments while all other departmental priority payments are issued by CFOB.

The overall control environment supporting the certification of Section 33 on priority payments is working. Roles, responsibilities and accountabilities are clearly defined in PPSB and CFOB. Given the high risk nature of priority payments, policies in both branches require that all individual payments have a secondary segregated verification performed before approving and issuing a payment. We found that, in most cases, priority payments are reviewed by three or more individuals before a payment is made. There may be an opportunity to assess whether this is an efficient practice.

### **2.1 Evidence of valid Section 33 certification could be strengthened**

Priority payment transactions sampled were compliant with legislation requirements for Section 33 processes. However, incumbents approving priority payments did not always have sufficient evidence of Section 33 delegated authority.

As required by the TBS Directive on Delegation of Financial Authorities for Disbursements, ESDC has put in place a Policy on the Delegation of Financial Signing Authorities and Specimen Signature Cards. Before an incumbent can exercise financial authority, the organizational position must be delegated in accordance with the Delegation of Authority Instrument.

The current departmental process in place requires the authority to be delegated by the incumbent's direct report using the specimen signature card form. Upon completion of the form, the information is manually transposed into a Signing Authorities Application (SAA). The SAA intranet database contains the incumbent's delegation information such as the effective and end date of delegation, the type of delegation (Section 33 or Section 34), the scope of the delegation for example, a limit set on the dollar amount that can be approved or the responsibility centre limitations that an incumbent can sign for, etc.

Incumbents exercising Section 33 delegation are also required to obtain an EAA key issued by the RG to authorize and release payments on the SPS. As part of the ESDC Financial Systems Security Control Procedure for SPS Accounts Payable Codes, all incumbents requesting an EAA key are required to have Section 33 signing authority.

The audit team tested a total of 406 transactions and found that:

- Two of the 203 transactions from CFOB were missing supporting documentation;
- Of the 203 transactions from PPSB (OAS and CPP), 67 errors were noted. Specifically, 30 OAS payments and 37 CPP payments did not have adequate specimen signature cards for Section 33 delegation.

The audit team found acceptable error rates across all the regions for all priority payment transactions processed by CFOB. However, Section 33 certification error rates were higher than acceptable for CPP and OAS priority payments. Errors were due to certification that could not be matched to the delegated financial authority instrument (SAA) or absence of supporting documentation on the Section 33 certification.

### ***Recommendation***

The CFO should strengthen the process of delegation of financial authority by aligning it with the process of issuing EAA keys.

### ***Management Response***

Management agrees with the recommendation. CFOB will align the EAA key issuance process with its financial delegation authority process. The estimated completion date is March 2014.

### ***Recommendation***

The ADM PPSB, in coordination with the CFO, should align the process of issuing EAA keys for Section 33 payment approval in SPS with the required departmental specimen signature card process.

### ***Management Response***

Management agrees with the recommendation. PPSB will work with CFOB to provide Section 33 signing authorities across PPSB and ensure that access rights are aligned with the delegation of authority. The estimated completion date for a plan is March 2014, with an estimated implementation date of September 2014.

## ***2.2 Controls around CPP and OAS priority payments could be streamlined***

As stipulated in the TBS directive on Payment Requisitioning and Cheque Control, ESDC is expected to establish and maintain rigorous controls around the requisitioning, issuance and delivery of cheques. The Department has established clear accountabilities, as well as financial and risk management practices to support Section 33 certification requirements. However, the Department's expectation of maintaining cost-effective processes was not evident. In fiscal year 2012–13, there were 35,487 CPP and OAS priority payments, totalling over \$146 million.<sup>1</sup> That is approximately 3,000 priority payments issued per month. In large measure these payments must be made, they are required by legislation

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<sup>1</sup> As provided by PPSB

as clients are entitled to receive them. System limitations make it necessary to generate these payments.

On-site observation, interviews and sample file reviews indicated priority payments were not always made on urgent circumstances and there is no lower limit set on the payment amount. As a result there are high volumes of CPP and OAS priority payments made annually and a significant amount were low dollar transactions, less than two dollars.

During our discussions with the processing staff, it was indicated that one of the causes triggering a high volume of priority payments is due to limitations in processing systems. In cases of re-adjudication and benefits re-calculation, manual interception of the payment is required to remove it from the regular payment process. In many cases, intercepted payments were processed for low dollar amounts. For example, there was a payment made for sixty cents that would have been subjected to as many as six control points in the priority payment process supported by the National policy and procedures<sup>2</sup> regarding priority payments under the CPP and the OAS Act.

### ***Recommendation***

The ADM PPSB, in coordination with the CFO, should define and communicate what constitutes a priority payment with the goal of reducing the volume and streamlining the existing process.

### ***Management Response***

Management agrees with the recommendation. Priority payments require manual preparation and are for the release of funds outside the regular payment process. Currently, the vast majority of the priority payments issued within PPSB are not falling under the list of criteria which permit the issuance of an urgent payment. They are deemed 'special payments' that have to be handled outside of the current CPP/OAS system. These types of payments are following the exact same process as the SPS priority payments. The implementation of SAP in April 2014 and of the Corporate Payment Management System in September 2014 will reduce volumes and streamline processes for issuing these payments. The estimated completion date is September 2014.

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<sup>2</sup> [http://intracom.hq-ac.prv/isp-psr/reference/policy/pay-priority\\_e.shtml](http://intracom.hq-ac.prv/isp-psr/reference/policy/pay-priority_e.shtml)

### **3.0 Conclusion**

The audit concluded that the control framework supporting priority payment practices related to certification under Section 33 is compliant with relevant legislation. Improvements to control procedures in the administration and monitoring of the delegation of financial authority instrument are recommended to strengthen practices.

### **4.0 Statement of Assurance**

In our professional judgement, sufficient and appropriate audit procedures were performed and evidence gathered to support the accuracy of the conclusions reached and contained in this report. The conclusions were based on observations and analyses at the time of our audit. The conclusions are applicable only for the assessment of priority payment practices. The evidence was gathered in accordance with the *Internal Auditing Standards for the Government of Canada* and the *International Standards for the Professional Practice of Internal Auditing*.

**Appendix A: Audit Criteria Assessment**

Audit Criteria	
It is expected that:	Rating
<ul style="list-style-type: none"> <li>Roles, responsibilities and accountabilities for Section 33 are established and communicated department-wide.</li> </ul>	●
<ul style="list-style-type: none"> <li>Functional advice, guidance and support are provided in a timely and effective manner.</li> </ul>	●
<ul style="list-style-type: none"> <li>A delegation of financial authority instrument is in place and updated as required.</li> </ul>	◐
<ul style="list-style-type: none"> <li>Certification under Section 33 is supported by appropriate manual and/or automated application controls.</li> </ul>	●
<ul style="list-style-type: none"> <li>There is an account verification process, including a risk management framework, in place, documented, approved, and communicated.</li> </ul>	●
<ul style="list-style-type: none"> <li>Appropriate quality assurance processes are in place and support the risk management framework.</li> </ul>	●
<ul style="list-style-type: none"> <li>Segregation of duties are appropriate and in accordance with the Directive on Delegation of Financial Authorities for Disbursements.</li> </ul>	●

- ✦ Best practice
- Sufficiently controlled, low risk exposure
- ◐ Controlled, but should be strengthened, medium risk exposure
- Missing key controls, high risk exposure

## **Appendix B: Glossary**

<b>ADM</b>	Assistant Deputy Minister
<b>CFO</b>	Chief Financial Officer
<b>CFOB</b>	Chief Financial Officer Branch
<b>CPP</b>	Canada Pension Plan
<b>EAA</b>	Electronic Authorization and Authentication
<b>ESDC</b>	Employment and Social Development Canada
<b>FAA</b>	<i>Financial Administration Act</i>
<b>NHQ</b>	National Headquarters
<b>OAS</b>	Old Age Security
<b>PPSB</b>	Processing and Payment Services Branch
<b>RG</b>	Receiver General
<b>SAA</b>	Signing Authorities Application
<b>SPS</b>	Standard Payment System
<b>TBS</b>	Treasury Board of Canada Secretariat