



DEPARTMENT OF JUSTICE CANADA

REPORT ON THE AUDIT OF THE DELEGATION OF FINANCIAL AUTHORITIES

February 2014

Internal Audit Branch

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STATEMENT OF CONFORMANCE AND ASSURANCE

The Internal Audit Branch has completed the Audit of the Delegation of Financial Authorities at the Department of Justice Canada. The objectives of the audit were to: a) provide assurance that processes and instruments in place for the delegation of financial authorities in the Department comply with the requirements of applicable government legislation and policies; and, b) to assess the effectiveness of controls supporting the ongoing management and exercise of financial authorities.

This audit conforms to the *Internal Auditing Standards for the Government of Canada*, as supported by the results of the quality assurance and improvement program.

In our professional judgment, sufficient and appropriate audit 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 a comparison of the conditions, as they existed at the time of the audit, against pre-established audit criteria that were primarily based on the Treasury Board of Canada Secretariat *Audit Criteria related to the Management Accountability Framework – A Tool for Internal Auditors*; the Treasury Board of Canada Secretariat *Directive on Delegation of Financial Authorities for Disbursements* and *Directive on Account Verification*; and, the *Financial Administration Act*.

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Date

EXECUTIVE SUMMARY

Conclusion

- 1 The Department has an overall adequate framework for managing the delegation of financial authorities. There is a formal Departmental *Delegated Financial Authorities Chart* where authorities are delegated to positions aligned with the organizational structure. There are documented policies and procedures, as well as an effective process for Specimen Signature Card management and authentication of signatures.
- 2 However, improvements are required in the following areas, which present a medium risk to the Department: separating authorities delegated to functional positions; implementing a risk-based quality assurance and monitoring function; formalizing process for review of the delegation of authorities; enhancing the challenge function for the authorities delegated to individuals; and developing an in-house Departmental training program.

Background

- 3 This audit was identified in the departmental *Three-Year Risk-based Audit Plan, 2012-2013 to 2014-2015* which was recommended by the Departmental Audit Committee and approved by the Deputy Minister in March 2012. The objectives were to: provide assurance that processes and instruments in place for the delegation of financial authorities in the Department comply with the requirements of applicable government legislation and policies; and, assess the effectiveness of controls supporting the ongoing management and exercise of financial authorities in the Department.
- 4 The audit team examined and assessed:
 - The Departmental *Delegated Financial Authorities Chart*, associated instruments, and tools as well as the process to issue and maintain Specimen Signature Cards;
 - Communication and training activities, as well as guidance documents for Responsibility Centre Managers and functional specialists;
 - A sample of expenditure transactions to determine their compliance with Departmental authorities; and
 - The process for quality assurance of the payment process and monitoring compliance.

1.0 INTRODUCTION

1.1 Background

- 5 The delegation of financial authorities constitutes a key internal control in the expenditure processes of the government. When appropriately implemented, the delegated authorities empower managers to achieve Departmental and government priorities and objectives, while maintaining accountability for decisions taken.
- 6 The requirements for the delegation of financial authorities are primarily set out in the Treasury Board Secretariat's (TBS) *Directive on Delegation of Financial Authorities for Disbursements*. This Directive supports the *Policy on Financial Management Governance* and the *Policy on Internal Control* and, along with other related policy instruments, directives and relevant legislation, outlines the general principles and elements of financial signing authority in the federal government.
- 7 Financial Authority comprises the following elements:
- Spending Authority - consisting of:
 - Expenditure Initiation;
 - Commitment Authority, under Section 32 of the *Financial Administration Act* (FAA): the authority to carry out one or more specific functions related to the control of financial commitments as required in the *Directive on Expenditure Initiation and Commitment Control*; and,
 - Transaction Authority (contracting): the authority to enter and amend a contract.
 - Certification Authority - under Section 34 of the FAA and consisting of:
 - Certification of the receipt of goods and the provision of services; and,
 - Determination of entitlement, verification of accounts and preparation of requisitions for payment or settlement.
 - Payment Authority - under Section 33 of the FAA, is generally delegated to financial officers. This delegation ensures that all payments and all other charges requisitioned against the Consolidated Revenue Fund are timely, properly authorized and legal.
- 8 At the Department of Justice, financial authorities are formally delegated to generic managerial and functional positions through the Departmental *Delegated Financial Authorities Chart* (Delegation Chart). There is also a complimentary Table of Equivalent

Positions (TOEP), which links generic levels of management to Departmental positions. The exercise of financial authorities is in turn designated to individuals via the use of Specimen Signature Cards (SSC), by supervisors whose positions have been duly delegated authority by the Minister. The Assistant Deputy Minister, Management Sector and Chief Financial Officer, is responsible for the overall management of the delegation of financial authorities.

- 9 There was a recent consolidation by the Finance and Procurement Branch (FPB) of certain Accounting Operation activities. As of March 2013, the accounts payable activities related to the expenditure verification and payment processing under Section 33 of the *FAA* are conducted in two hubs, Ottawa, and Edmonton. Prior to consolidation, each regional office individually administered this activity, including the National Capital Region (NCR).
- 10 The Audit of Delegation of Financial Authorities was approved pursuant to the departmental *Three-Year Risk-based Audit Plan, 2012-2013 to 2014-2015*.

1.2 Audit Objectives and Scope

- 11 The objectives of this audit were to:
 - a) Provide assurance that processes and instruments in place for the delegation of financial authorities in the Department comply with the requirements of applicable government legislation and policies; and,
 - b) Assess the effectiveness of controls supporting the ongoing management and exercise of financial authorities in the Department.
- 12 The scope of the audit included:
 - Examination and assessment of Departmental authorities and procedural requirements for the delegation of authorities, relative to requirements set out in relevant legislation, Treasury Board (TB) policies and TBS directives; and,
 - Examination of management activities and controls in place (from April 1, 2011 to May 23, 2013), and a review of a sample of payment transactions (from after the consolidation of Accounting Operations). Emphasis was placed on the most recent processes that were expected to best reflect post re-organization and consolidation practices. Salary expenditures were excluded from the scope of this audit.
 - Audit activities were carried out between February and June 2013. Transactional audit tests and procedures were undertaken at NCR and in the Edmonton Office of the Prairie Region. In light of the recent consolidation of accounts payable operations in the Department, testing focused on post-consolidation transactions. Interviews were

conducted with finance representatives in the NCR and regional locations and with Responsibility Centre Managers (RCMs).

1.3 Risk Assessment

- 13 A preliminary risk assessment was conducted to determine potential priorities and to focus audit activity. Consequently, the audit was planned and carried out to address potential general risks as detailed below.
- There is a risk that authorities and related instruments for the delegation of financial authorities are not established, communicated or effective resulting in improper use of financial authorities;
 - There is a risk that controls for the delegation of financial authorities to individuals are not established or effective resulting in improper delegation to individuals;
 - There is a risk that financial authorities and related instruments are not reviewed, revised or maintained leading to authorities that are not up-to-date with TB and TBS requirements or do not reflect Departmental organisational changes; and,
 - There is a risk monitoring and training activities are not adequate or effective to support the exercise of financial authorities.

1.4 Audit Criteria

- 14 Specific criteria to address the audit objectives were developed taking into consideration the identified risks. The criteria were based primarily on guidance from the TBS' *Audit Criteria related to the Management Accountability Framework – A Tool for Internal Auditors*; the TBS *Directive on Delegation of Financial Authorities for Disbursements* and *Directive on Account Verification*; and, the FAA. (See Appendix A.)

1.5 Approach and Methodology

- 15 The audit was conducted in accordance with the requirements of the TB *Policy on Internal Audit* and followed the *Internal Auditing Standards for the Government of Canada*. This included the conduct of a planning phase to identify key risks and to develop audit criteria. A methodology and detailed programs were developed and carried out during the conduct phase of the audit to address the criteria and conclude on the audit objectives. This included:
- Documentation reviews, including but not limited to: review of Department of Justice delegation of authority instruments; procedures and other relevant

documentation related to the delegation and exercise of financial authorities; and, documentation related to training and guidance provided by FPB.

- Interviews and discussions held with FPB representatives and RCMs at NCR and the regional offices that focused on: structure and approach for delegating authorities; training requirements and initiatives; support offered by FPB; ongoing management and administration of SSC Records; account verification and related quality assurance and monitoring processes; and, identification of opportunities for improvement. The list of interviewees is at Appendix D.
- Review and testing of a sample of files and transactions addressing: completion, validation and authorization of the designation of authorities for 40 SSCs; cancellation of authorities for 44 departed employees; and, the process for account verification of expenditures for 139 transactions.
- A benchmarking exercise with six other government departments or agencies, focusing primarily on assessing *FAA* Section 33 payment verification and related quality assurance methodologies.

- 16 The results of the audit approaches and methodologies described above were reviewed, analyzed, and interpreted by the audit team. On this basis, professional judgement was exercised, leading to conclusions as to the extent to which each criterion was met, and to an overall audit conclusion addressing the audit objectives.
- 17 Upon completion of audit fieldwork, a draft report with key findings and recommendations was prepared and presented to the Assistant Deputy Minister, Management Sector and Chief Financial Officer for validation.

1.6 Identified Strengths

- 18 The audit team identified the following practices and controls in place that reflect compliance to government policy and Departmental requirements. These practices serve to mitigate risks and facilitate operational activities related to the delegation, ongoing management, and exercise of financial authorities in the Department.
- 19 The Minister and Deputy Minister have formally delegated and communicated financial authorities by position level and title, in writing, through the Delegation Chart. Authorities have been further delegated to named individuals through the use of SSCs and linked to organizational positions through an approved TOEP. (Criteria 1, 2, 5)
- 20 Responsibility for overall management of the delegation of financial authorities has been assigned to the Chief Financial Officer in accordance with the TB *Directive on Delegation of Financial Authorities for Disbursements*. The Manager, Financial Policy and Controls Division and the Director, Accounting Operations support the Assistant Deputy Minister, Management Sector and Chief Financial Officer in discharging this responsibility.

- 21 Policy guidance and procedural support is provided through the Departmental intranet site. The site includes guidance on the types of authorities for financial administration, outlines related general principles and provides a link to the TB *Directive on Delegation of Financial Authorities for Disbursements*. A comprehensive set of Departmental *Supporting Notes to the Delegation of Financial Signing Authorities* provides further guidance to specific areas of authority, linked to the respective sections of the Delegation Chart. (Criterion 6)
- 22 There is an established process including documented procedures and standardized forms for the completion, validation and activation of individual SSCs. The purpose of this control is to: ensure that the delegation is authorized at the appropriate managerial and / or functional levels; that incumbents do not re-delegate their authority; and, that only positions delegated authority by the Minister designate incumbents to exercise financial authorities. There is evidence of diligent adherence to the process. (Criteria 4 and 9)
- 23 A database, serving as a central repository of all SSCs in the Department, has been created and is a key control in the management of delegated authorities to individuals. This database is centrally maintained by Accounting Operations in the NCR, and is sorted by region and hierarchically thus clearly demonstrating the flow of delegated authorities from the Sector level through Directorates and Divisions to individual Cost Centres. Authorities are identified by type (Active, Acting or On-Demand), including effective dates for the authorities and provides direct links to scanned copies of the respective individual SSCs. The database is thus a very effective and efficient tool in facilitating the authentication of financial authorities exercised. (Criterion 10)
- 24 There is evidence of review and consultation activities, undertaken by finance, as part of assessing the relevancy and appropriateness of authorities and in updating delegation instruments. An updated Delegation Chart was signed by the Minister in May 2012 and an update of all SSCs commenced in early June 2012. (Criterion 7)
- 25 There are documented procedures related to account verification for administrative staff and for the finance team members conducting pre-payment verification. (Criterion 14)
- 26 FPB offered training activities targeted specifically at individuals of the Administrative Services group within the Regional Offices, who in the post-consolidation environment, have assumed the same responsibilities in support of RCM related to requisition and verification activities of the procurement and payment processes, as undertaken by their counterparts in the NCR. Pre-consolidation, such activities were, in large part, carried out by finance representatives supporting business units in the regions. (Criterion 8)
- 27 The audit also identified areas where opportunities exist to strengthen management practices and controls related to the delegation, exercise and ongoing management of financial authorities. These opportunities are discussed in greater detail in section 2.0 of this report.

2.0 FINDINGS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

2.1 Separation of Financial Authorities

Audit Criterion 1: There is appropriate separation of duties related to the exercise of financial authorities.

Key Finding: The Delegated Financial Authorities Chart assigns potentially incompatible authorities to functional positions in the Department.

28 The general principles of financial signing authority, as stated on the Department of Justice intranet site, state that:

“In keeping with sound internal control practices, each of the following steps in the spending process shall be separated where possible:

- Procurement (Part 2 of the Delegation Chart);
- Certification of the receipt of goods, the provision of services, and entitlement (Confirmation of Contract Performance and Price under Section 34 of the *FAA*);
- Determination of entitlement, verification of accounts, and preparation of requisitions for payment or settlement (Account verification under Section 34 of the *FAA*); and
- Certification of requisitions for payment or settlement (Payment Authority under Section 33 of the *FAA*).”

29 This is consistent with sound management and control practices and with guidance provided by the TB and TBS.

30 The Delegation Chart assigns potentially incompatible authorities to certain functional positions. For example: position levels 9 and 10 for functional specialists in the Contracting and Materiel Management Division are delegated: full expenditure initiation and commitment authority (Section 32 of the *FAA*); full certification authority (Section 34 of the *FAA*); transaction (contracting) authority (Part 2 of the Delegation Chart) ranging from \$5K to \$2M depending on their position title and the type of expenditure; and, full authority for the disposal, transfer and write-off of Departmental materiel and assets including intangible assets. Similarly, the Delegation Chart allows for the delegation of contracting authority, through acquisition cards, to finance officers that are delegated full financial authorities for spending, certification, and payment.

- 31 The review of approved signature cards confirmed that the potentially incompatible authorities for certain positions as identified above, have in fact been delegated to individuals in those positions. Detailed testing of payment transactions did not identify any instances where potentially incompatible authorities were actually exercised.
- 32 FPB has some controls in place to detect the exercise of incompatible duties. Since February 2012, the Financial Policy and Controls Division conducted process testing as per the *TB Policy on Internal Control*. However, these internal controls process testing was not designed specifically to be a robust, continuous compensating control to address the risk to the delegation and potential exercise of incompatible authorities by functional specialists. In addition, finance staff are expected to identify the exercise of incompatible duties through its pre-payment verification process. The effectiveness of the pre-payment verification control is minimized in the current post-consolidation environment, where finance staff responsible for verification may not have sufficient knowledge of the positions occupied by people with signing authorities in other regions. For example: an accounts payable specialist or finance officer at the Edmonton hub may not know that a person in British Columbia exercising *FAA* Sections 32, 34, and contracting authority for a transaction is a contracting specialist. Thus, the accounts payable specialist or finance officer may rely solely on the authorities granted on the SSC of the individual.
- 33 Effectiveness of the pre-payment verification control would be further compromised in an environment of risk-based account verification, where not all payment requests would be verified by finance prior to payment.
- 34 Separation of incompatible authorities via the delegation chart is a preventative and more effective control in mitigating risk of errors, misappropriation of funds, to the accountability for expenditures and to the stewardship of funds.

Recommendation and Management Response

- 1. The Manager, Financial Policy and Controls Division, should adequately separate financial authorities to functional positions in the Delegated Financial Authorities Chart. (High Risk)**

Agreed. Expenditure initiation authority, commitment authority (Section 32 of the *FAA*), and certification authority (Section 34 of the *FAA*) have now been removed from contracting functional specialist positions on the Delegation of Financial Signing Authorities Chart (Delegation Chart) which was approved on October 24, 2013. New Specimen Signature Cards for these positions will also be prepared by March 31, 2014, which will effectively remove these delegations from the incumbents' financial signing authorities. Separation of financial authorities within the duties of the other functional specialist positions will be assessed during the next comprehensive review of the Delegation Chart. **Target completion date:** November 30, 2015.

2.2 Quality Assurance and Monitoring

Audit Criterion 13: Risk-based management practices are established that enhance the effectiveness and efficiency in the exercise of financial authorities.

Audit Criterion 14: There is formal process for quality assurance of the payment process and for the monitoring of compliance to the delegation of authorities, related financial management legislation, policies and authorities. Results of quality assurance and monitoring are reported in a timely manner to senior management or delegated oversight body.

Key Finding: A formal, systemic process for continuous quality assurance and monitoring of the exercise of financial authorities has not been implemented.

- 35 Monitoring is a fundamental component of a management control framework, to identify exceptions which require correction or information that may signal the need to re-evaluate controls. In the context of the exercise of financial authorities, monitoring is primarily accomplished during the verification and payment of accounts, through the quality assurance function exercised by financial officers vested with *FAA* Section 33 payment authority.
- 36 The *TBS Directive on Account Verification* states that: "accounts for payment and settlement are verified in a cost-effective and efficient manner while maintaining the required level of control to ensure prudent management of financial resources." The directive further requires that payment authority exercised by financial officers is based on risk, which includes a full review of high-risk transactions and a sample review of medium and low risk transactions. Departments are required to develop sampling plans that are cost-effective and respond to Departmental risks. This requirement was first introduced in the 1998 *TB Policy on Account Verification* and restated in the current 2009 *Directive on Account Verification*.

Efficiency

- 37 At the Department of Justice, the *FAA* Section 33 payment verification review process was not risk-based. Once expenditures have been verified and certified pursuant to *FAA* Section 34 by RCMs, certified invoices are sent to accounts payable operations, at the Ottawa or Edmonton hub in the post-consolidation environment, for Section 33 and payment processing. These accounts payable operations review and verify 100% of financial transactions prior to payment and validate the Section 34 authority. The initial review and verification is conducted by accounts payable specialists prior to input in the financial system. Prior to exercising *FAA* Section 33 authority, finance officers then perform a second verification of expenditures that, to a large degree involves re-performing the work of the accounts payable specialists. For transactions processed post-consolidation; this second verification was done for all transactions in one of the hubs and the second hub it was done on a judgmental basis.

- 38 This process is inefficient as it results in duplication of effort at two levels for *FAA* Section 33: at the initial review by the Accounting Specialists who re-perform account verification undertaken by RCMs and their assistants; and, during the review by finance officers who perform similar verification procedures to those of the accounts payable specialists. A risk-based approach to account verification by accounts payable operations in the two hubs would enhance process efficiency. 100% pre-payment verification by accounts payable operations increases the possibility of obscuring accountability, as there is a risk that RCMs may come to expect that verification is the responsibility of finance.
- 39 Results of a benchmarking exercise with other government departments confirmed that for all six respondents—regardless of size, level of activity and operational structure (decentralized, hubs, or Centralized-NCR presence)—there is a risk-based approach and methodology for the quality assurance and monitoring of the *FAA* Section 34 certification process and related payment verification activities. Although methodologies varied among respondents, all are based on prepayment verification of high risk transactions by finance officers and post payment verification of medium and lower risk transactions using established gating and sampling methodologies.

Effectiveness

- 40 When errors or omissions are identified by accounts payable operations in the two hubs during the verification process, RCM and their assistants are requested to provide the required documentation to correct the errors. Depending on the severity of the errors or omissions, payment may be halted at this stage pending satisfactory resolution of the issue. Accounts payable specialists and finance officers confirmed that there is currently no ongoing process for logging, tracking, analysing and reporting of errors.
- 41 A formal process that includes tracking, analyzing and reporting of errors by nature, severity, and area of responsibility would be a more effective monitoring tool. Formalizing the process would provide a means of demonstrating the extent to which managers are effectively exercising their financial authorities in accordance with the Departmental delegation instruments. A formal process would also support the appropriateness and efficiency of related internal controls. The results of a formal process, would better inform related training strategies and activities and the process for review of the delegation of financial authorities of the Department.

Recommendation and Management Response

- 2. The Director, Accounting Operations, should develop and implement:**
- a) A risk-based approach to the quality assurance and monitoring process of account verification for Accounts Payable; and**
 - b) A formal process for tracking, analyzing and reporting on monitoring results to senior management. (Medium Risk)**

Agreed.

- a) A risk assessment of accounts payable transactions has been completed and a post-payment sampling methodology has been developed. Full implementation of this risk-based verification and post-payment quality assurance is planned for December 2014.
- b) A process for tracking, analyzing and reporting to senior management, the results from the monitoring (sampling) of low, medium and high risk transactions is presently being developed. The process to conduct post-payment quality assurance on these transactions is planned to begin January 2015. Formal communication to senior management will commence with the results of the last quarter of the 2014-15 fiscal year, which will be reported to senior management by September 30, 2015.

Target completion date: September 30, 2015.

2.3 Review of Delegated Financial Authorities

Audit Criterion 7: There is a process in place for regular (at least annually) consultation on and review of the delegation of authority instruments by senior management in the Department.

Key Finding: Review of delegated financial authorities and related instruments would benefit from formalization and documentation of the process.

- 42 Informal review and consultation activities took place to assess the relevancy and appropriateness of authorities and to update delegation instruments. This included call letters sent out by the FPB in September 2012 as part of an annual review, followed by email communications discussing specific issues and areas of authority that included: the appropriateness of levels of authority, the effect of certain legislation, trading conventions, treaties, government policies; and, validation and update of the TOEP. However, the audit found no formal documentation or plan that guides the annual review activities which impacts the ability to demonstrate the adequacy of the review in terms of scope and timing.
- 43 Branch officials reported that the last comprehensive review of the Delegation of Authorities took place prior to the scope of this audit and another comprehensive review is currently in the planning stage. There is no documented explanation of how the scope of a comprehensive review differs from annual or ongoing review activities currently undertaken. Although SSCs were updated in 2012, there is no documented process or rationale for the frequency or extent of their review and update.

44 Formalization and documentation of the process should, at a minimum, address:

- identification of key components to be reviewed (e.g. Delegation Chart, SSC, processes for maintenance of delegations);
- frequency of review (ongoing or periodic);
- key review activities;
- identification of processes that will inform the reviews (e.g., quality assurance and monitoring for account verification, risk assessments, gap analyses); and,
- roles and responsibilities for key positions in the processes that will be either responsible, accountable, consulted or informed.

45 The Financial Policy and Controls Division has a plan to develop and undertake a comprehensive “Review of Delegations of Authority Project.” The most recent Gantt chart for the project identifies deliverables and milestones including a Project Charter; Review of Delegation Chart, Supporting Notes and TOEP; development of policy instruments and process flowcharting for the review process; development and delivery of training; and, update of all SSCs. However, Gantt chart timelines for completion and implementation are long as the project is expected to be complete in 2015-2016.

46 A documented and formal process for the review of Delegated Financial Authorities and related instruments would better demonstrate the adequacy of the scope and frequency of the reviews. A documented and formal process would also enhance compliance to the requirement of the TBS *Directive on Delegation of Financial Authorities*.

Recommendation and Management Response

3. The Manager, Financial Policy and Controls Division should formalize, document and implement the process for the review of the Delegation of Financial Authorities, in compliance with the Treasury Board requirement for annual review. (Low Risk)

Agreed. The process for the annual review of the delegation of financial authorities has been in place since the issuance of the new TBS Directive on Delegation of Financial Authorities on April 1, 2009. The latest review culminated in the Delegation Chart being approved by the Minister on October 24, 2013. The need to formalize and document this process is recognized, and will be completed during fiscal year 2014-15, as part of the comprehensive Review of Delegation of Authorities project. **Target completion date:** December 31, 2014.

2.4 Delegating authorities through Specimen Signature Cards

Audit Criterion 2: Authorities are aligned with responsibilities and are delegated to positions identified by title, not to named individuals.

Key Finding: There is inadequate consideration, review, and challenge in the delegation of authorities to individuals via the current Specimen Signature Card process.

- 47 The audit found that, without exception, authorities were delegated to positions by title and not to named individuals. This complies with the requirements set out in the TBS *Directive on Delegation of Financial Authorities for Disbursements*.
- 48 However, in the SSCs, the limits under the various authorities granted to individuals were always the maximum allowed by the Delegation Chart for any given level of managerial authority. For all SSCs reviewed during the various testing procedures, there were no instances noted where limits of authority designated to individual managerial positions were less than the maximum provided for in the Delegation Chart.
- 49 Interviews with RCM designated to exercise Financial Authorities confirmed that certain authorities were granted to them without there being an operational requirement. RCMs reported having never or seldom used some authorities. This includes, for example: the authority to dispose or transfer materiel, as well as Grants and Contributions.
- 50 The audit team is of the opinion that the above observations are indicators of insufficient consideration, review and challenge when managers are designated to exercise financial authorities.
- 51 Adequate consideration, review and challenge of the delegation of authorities through the SSC process would further align authorities to responsibilities and minimize the risk of the designation and exercise of inappropriate types or levels of authority.

Recommendation and Management Response

- 4. The Director, Accounting Operations should ensure that there is adequate consideration, review and challenge of the types and level of authorities granted to incumbents through the Specimen Signature Card process. (Low Risk)**

Agreed. The Director of Accounting Operations currently ensures that the types and level of authorities requested are in compliance with the *Delegation Chart*, are properly authorized by the delegated manager and approved by the Functional Specialist(s) as required, and that there is no other RCM that holds direct signing authority for the cost centre. Together with Recommendation 5, more awareness provided through training to RCMs will also ensure future requests are reviewed and challenged by the RCMs prior to the Specimen Signature Card being sent to Accounting Operations for processing. The *Procedures for Completing the Specimen Signature Card* will also be updated to reflect the

requirements that RCMs are to consider, review and challenge the types and levels of authorities being granted to incumbents. **Target completion date:** December 31, 2014.

2.5 Requirements for further training and guidance

Audit Criterion 3: Individuals are designated to exercise authority only after they have acquired appropriate training.

Audit Criterion 8: There is effective communication, awareness and training related to financial authorities and related policies and responsibilities.

Audit Criterion 12: Financial Authorities are exercised in accordance with the delegation instruments of the Department.

Key Finding: There is a need to further train and guide Responsibility Centre Managers, Administrators and finance representatives performing *FAA* Section 33 functions.

52 Detailed testing of 139 contract expenditure transactions (60 and 79 processed at the Ottawa and Edmonton accounts payable hubs respectively) was carried out by the audit team. The sample was chosen from a population of 8,386 transactions (3,477 processed at the Ottawa hub and 4,909 processed at the Edmonton hub) focusing on transactions processed after the consolidation of accounts payable activities in the two hubs. There were no exceptions with respect to the certification pursuant to Section 34 of the *FAA*, all such certifications were performed by persons with authority to do so. The testing did however result in the following findings:

- In 19% (27) of the transactions, there was inadequate evidence of proper spending authority:
 - For 17 transactions: there was no expense initiation document, neither a formal *FAA* Section 32 signature nor other documentation from a person with delegated authority indicating approval of the expenditure.
 - For 10 transactions: approval of the expense was done after the fact, either through a formal *FAA* Section 32 signature or other communication such as email or signed form authorizing the expenditure.
- In 5% (7) of the transactions, there was insufficient evidence supporting the basis for payment (e.g. contract, purchase order, agreement or receipts); and
- There were seven contracts (less than 1%) where a person without delegated authority signed a contract on behalf of the Minister. These exceptions were isolated to one individual in one regional office.

53 For some of the exceptions identified above related to inadequate, incomplete or untimely expense initiation, the accounts payable specialists had identified and noted the exceptions on

the Payment Voucher (form summarizing payment information) during the pre-payment verification. For example: notations were evidenced indicating "no training approval" or "no commitment." However, there was no documented follow-up. The accounts payable specialists and finance officers reported that, depending on the nature and severity of the exceptions and the materiality of the transactions, the RCM or the Administrative Assistant may be contacted to obtain clarification or documentation. Interviews also revealed that there is no logging of exceptions and errors, or tracking of follow-up activities.

- 54 Accounts payable specialists performing *FAA* Section 33 pre-payment verification of expenditures stated that: they were aware of what to look for when reviewing expenditures. Policies and desktop procedures to guide them for verification of different types of expenditures were also accessible. However, accounts payable specialists did not utilize a checklist to document the specific steps taken when performing *FAA* Section 33 pre-payment verification. Further, the knowledge in support of *FAA* Section 33 pre-payment verification duties was gained through on-the-job training with more senior accounts payable specialists, not through formal training. Interviews with representatives of the Financial Policy and Controls Division and with finance officers in Accounting Operations revealed that FPB has not provided specific training on financial authorities to its functional specialists exercising Section 33 accounts verification or to accounts payable specialists. A session was offered for finance officers to train administrative assistants supporting responsibility centre managers; this training provided guidance on many of the principles and activities that are common to both the exercise of Section 33 and 34. As a next step it would be beneficial to provide more in-depth training on the specific responsibilities for Section 33.
- 55 To date, courses provided by the Canada School of Public Service are a prerequisite for RCMs to obtain their financial authorities. This was confirmed through interviews with RCMs and audit testing conducted related to the training requirements for the issuance of SSCs. There is no training provided to RCMs by FPB related to financial authorities specifically at Department of Justice.
- 56 RCMs and regional finance representatives interviewed stated that the recent consolidation of finance has resulted in realignment of administrative-related financial duties for RCMs. Prior to consolidation of internal services; these duties were to a large part, carried out by the regional finance representatives, reporting to the Regional Directors General. The interviewees expressed concern that RCMs and their administrators may be assuming these duties without the requisite skills. Even though FPB has provided general training to Responsibility Centre Administrators (RCA) to address these concerns, there is a need for more intensive training at the RCM and RCA level with more direction including specific examples for guidance.
- 57 In addition to the elements identified in the paragraph above, training could also address the following topics for various stakeholders:

- For RCMs: the requirement to ensure that in designating individuals to exercise authorities, the authorities are risk-based and tailored to the individual's scope of responsibilities (see Section 2.4);
 - For RCAs and accounts payable specialists: detailed requirements for account verification including the use of a checklist to document verification procedures and specific examples;
 - For functional specialists, including finance and procurement officers: the need for minimum training requirements to be met prior to being delegated financial authorities;
 - For finance officers: requirements for the review and quality assurance of the work of subordinate staff responsible for *FAA* Section 33 verification; and,
 - The development of tools including forms, checklists and procedures in support of the quality assurance of *FAA* Sections 34 and 33 verification activities.
- 58 Regional finance representatives stated that due to competing priorities such as a week of financial training for regional finance officers in January 2013, corporate finance at NCR has been challenged to provide the requisite training and direction required. Accordingly, one regional finance office has designed a common training program for RCMs, RCAs and finance staff with the intent of rolling it out nationally.
- 59 Based on results of the testing of payment transactions, as well as the concerns and needs expressed by RCMs and regional finance representatives outlined above, a comprehensive training strategy and related training programs are required. A training strategy and program would further mitigate risks related to the delegation and exercise of financial authorities, and enhance account verification activities at both *FAA* Section 34 (RCM level) and *FAA* Section 33 (Accounts Payable).

Recommendation and Management Response

5. The Deputy Chief Financial Officer should develop and implement a comprehensive training strategy for the delegation and exercise of financial authorities, including identifying and assigning related responsibilities. (Medium Risk)

Agreed. As part of the comprehensive Review of Delegations of Authority project being undertaken by the Finance and Procurement Branch, a training strategy encompassing Responsibility Centre Managers, Administrators and Functional Specialists will be developed and implemented. The scheduled timeframe for this aspect of the project which is to consider training delivery options, development of material, and actual delivery of the training department wide is October 2014 to November 2015. This delegation of authority training strategy will also link to the Branch's development of an overall financial training program for RCMs and Administrators which will be completed by June 30, 2014. In the interim, the Financial Policy and Controls Division will modify the "Introduction to

Delegation of Financial Signing Authorities (for Administrative Staff)” course, offered through the Professional Development Division’s Training Calendar, to encompass RCMs. The next sessions for this modified course will be offered by June 30, 2014. **Target completion date:** November 30, 2015.

3.0 CONCLUSION

While the Department has an overall adequate framework for managing the delegation of financial authorities, there are key areas that pose medium risk. The improvements recommended in this audit report would strengthen the effectiveness and efficiency of the control framework.

The Department has formally delegated authorities to positions aligned with its organizational structure. There are documented policies and procedures in place that provide guidance for the understanding and exercise of financial authorities. There is a robust and effective process for the management of SSCs and for ensuring authentication of signatures.

However, improvements are required in the following areas:

- Amendment of the Delegation Chart to enhance its effectiveness as a control for adequate separation of authorities delegated to functional positions;
- Implementation of a risk-based quality assurance and monitoring function as part of the exercise of Section 33 of the *FAA* by Accounting Operations;
- Formalization and documentation of the processes for ongoing and periodic reviews of the delegation of authorities;
- Strengthening of the process for delegating authorities to individuals to ensure that authority types and levels are better aligned to responsibilities; and,
- The development and provision of a comprehensive in-house training program for:
 - RCM delegated financial authorities;
 - RCAs supporting RCMs in the procurement and expenditure processes; and,
 - Functional Specialists exercising payment authorities and responsible for overall quality assurance of the exercise of financial authorities by RCM and of verification activities undertaken by accounts payable specialists.

Recommended for approval by the Departmental Audit Committee:

Hon. Doug Lewis
F.C.A., Q.C., P.C., L.S.M.
Departmental Audit Committee Chair

Date

Approved by:

William F. Pentney
Deputy Minister

Date

APPENDIX A – AUDIT CRITERIA

The results from our audit for each criterion are presented in the table below. A brief overview of results for criteria which are “Met” is in section 1.2.5 of the report. Findings and related recommendations are presented in section 2 of this report for those criteria that are “Not Met”, or “Met with Exception – Opportunity to Strengthen.”

AUDIT CRITERIA	Results
C1 - Financial Authorities are formally delegated and communicated in writing by the Minister.	Met
C2 - Authorities are aligned with responsibilities and are delegated to positions identified by title, not to named individuals	Met with Exception – Opportunity to Strengthen
C3 - Individuals are designated to exercise authority only after they have acquired appropriate training	Met with Exception – Opportunity to Strengthen
C4 - Persons designated to exercise authority do not re-delegate such authority	Met
C5 - Delegation instruments are compatible with the organizational structure, are standardized, and are clear and effective in the communication and management of the delegation of authorities	Met
C6 - Applicable policies and procedures are maintained, kept current, and are made available to persons with delegated authority throughout the organization	Met
C7 - There is a process in place for regular (at least annually) consultation on and review of the delegation of authority instruments by senior management in the Department	Met with Exception – Opportunity to Strengthen
C8 - There is effective communication, awareness and training related to financial authorities and related policies and responsibilities	Met with Exception – Opportunity to Strengthen
C9 - There is an effective process in place for the management of Specimen signature cards.	Met
C10 - The Specimen signature card along with delegation documents is available in all locations where the signatures will have to be authenticated	Met
C11 - There is appropriate separation of duties related to the exercise of financial authorities	Not Met
C12 - Financial Authorities are exercised in accordance with the Delegation instruments of the Department	Met with Exception – Opportunity to Strengthen
C13 - Risk-based management practices are established that enhance the effectiveness and efficiency in the exercise of financial authorities.	Not Met
C14 - There is formal process for quality assurance of the payment process and for the monitoring of compliance to the delegation of authorities to related	Met with Exception – Opportunity to

financial management legislation, policies and authorities. Results of quality assurance and monitoring are reported in a timely manner to senior management or delegated oversight body.	Strengthen
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APPENDIX B – RISK ASSESSMENT GUIDELINES FOR AUDIT RECOMMENDATIONS

Assessment	Significance Level and Impact
High	<p>Immediate Management Attention Required</p> <p>IMPACT:</p> <ul style="list-style-type: none"> • Weaknesses exist that could impact the Department’s financial statements, reputation and/or the Department’s goals or objectives. • Weaknesses could impact the Department’s efficiency and effectiveness of operations. • Risk to the Department is significant.
Medium	<p>Monitoring and Mitigation Required</p> <p>IMPACT:</p> <ul style="list-style-type: none"> • Weaknesses exist that could impact the entity’s financial records, the entity’s reputation, the entity’s goals or objectives or the efficiency and effectiveness of the entity’s operations. • Risk to the Department is medium.
Low	<p>Improvement Required</p> <p>IMPACT:</p> <ul style="list-style-type: none"> • Opportunities are identified that could enhance operations by improving efficiency, effectiveness or control. • Risk to the Department is low.

It should be noted that, in applying the above criteria to a recommendation, the Internal Audit Branch takes into consideration the nature, scope, and significance of the audit finding(s), the impact of the recommendation on the organization, and the auditors’ professional judgment.

APPENDIX C – ACRONYMS/ABBREVIATIONS

Delegation Chart	<i>Delegated Financial Signing Authorities Chart</i>
FAA	<i>Financial Administration Act</i>
FPB	Finance and Procurement Branch
NCR	National Capital Region
RCA	Responsibility Centre Administrator
RCM	Responsibility Centre Manager
SSC	Specimen Signature Card
TB	Treasury Board
TBS	Treasury Board Secretariat
TOEP	Table of Equivalent Positions

APPENDIX D – INTERVIEWS/DISCUSSIONS BY POSITION

Chief Financial Officer (Currently Deputy Chief Financial Officer)

Manager, Financial Policy and Controls Division

Senior Financial Advisors (two) - Financial Policy and Controls Division

Manager Accounting and Client Services

Acting Chief Accounting and Client Services

Manager Accounting Operations Prairie Region - responsible for Section 33 *FAA* verification

Financial Officer, NCR - responsible for SSC Administration and for Section 33 *FAA* verification

Financial Officer, NCR- responsible for Section 33 *FAA* verification

Chief Corporate Accounting Services

Director Grants and Contributions Financial Services

Financial Advisor Grants and Contributions Financial Services

Accounts Payable Specialists (two) - responsible for initial pre-payment account verification

Regional Director of Finance, British Columbia

Regional Director of Finance, Ontario

General Counsel/Director ALS Directors Group, British Columbia

Deputy Director Aboriginal Law Services, Prairie Region

Director Creative Services Outreach and Electronic Communications

Director Information Management Services, Prairie Region

Director, Strategic Planning, Risks and Scans

Head, Administrative Services, Youth Services and Strategic Initiatives Section

Manager, Information Management, British Columbia

Regional Manager, Tax Law Services, British Columbia

Executive Director and General Counsel, CIDA Legal Services Division