

**AUDIT OF THE INTEGRITY OF INFORMATION IN THE HERMÈS FINANCE
SYSTEM**

REPORT

June 2011

**PREPARED BY
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(IAB)**

Project no: 2011-08

CANADA ECONOMIC DEVELOPMENT FOR QUEBEC REGIONS



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1. EXECUTIVE SUMMARY

1.1 Background

Hermès Finance is the financial computer system of the Economic Development Agency of Canada for Quebec Regions (the Agency). All of the Agency's expenditures are accounted for in this system. The non-pay operating expenditures are authorized in the system under sections 32 (commitment of funds) and 34 (certification and verification of payments) of the *Financial Administration Act* (FAA), while expenditures associated with grants and contributions programs are imported into Hermès Finance when authorized under section 32 (commitment of funds) or 34 (certification and verification of payments) in the Hermès Programs management system. Information regarding actual salary expenditures is imported into Hermès Finance from the Standard Payment System (SPS) of Public Works and Government Services Canada (PWGSC). In summary, Hermès Finance is the Agency's base of financial information and is the system used for financial management, including producing reports and making decisions.

The project to audit the integrity of the information in the Hermès Finance system was included in the *Risk-Based Internal Audit Plan (2010-2011 to 2012-2013)*. The last audit of the Hermès system took place in 2005, following the implementation of the system in 2002. Hermès Finance is the basis of the Agency's financial management. It is therefore an important subject for the Agency in terms of the Agency's audit priorities. Within the Agency's auditing plans, this project is associated with the following subjects: information resources and integrity of the financial information in the Hermès system.

1.2 Main audit objective

The main objective is to audit the effectiveness of internal controls to ensure the integrity of data saved in the Hermès Finance system.

1.3 Scope of the audit

The scope of the audit includes the transactions carried out in the Hermès Finance system, namely how the Agency ensures that the information is retained with full integrity after it is saved in the system until reports are extracted from Hermès Finance. The financial statements are excluded because they are not extracted directly from the Hermès Finance system. Furthermore, salary expenditures were not included in the sample of transactions selected because these transactions are conducted in the SPS. The audit took place from October 2010 to April 2011.

1.4 Methodology

The approach used for this audit is based on the Control Objectives for Information and Related Technology (COBIT) methodology. Interviews were done, as were tests on a sample of financial data, and a sample of users was carried out to confirm that the controls in place were working. All of the non-salary transactions entered in Hermès Finance in August 2009 and in November 2010, as well as all of the commitments in grants and contributions entered into the system from April to December 2010, served as a population for the tests carried out during this audit. Moreover, we conducted tests on user access to the Hermès Finance system.

The approach used involved the following steps:

1. Planning the risk-based audit;
2. Developing audit criteria and program;
3. Defining the tests to conduct in order to audit the controls in place;
4. Carrying out the audit program;
5. Conducting interviews and discussions with key representatives;
6. Validating findings with the stakeholders concerned;
7. Preparing the audit report;
8. Obtaining senior management's action plan;
9. Presenting the audit report to the Departmental Management Committee;
10. Presenting the report to the Departmental Audit Committee.

1.5 Statement of assurance

The audit was carried out in accordance with the *Policy on Internal Audit*, and with the directives and standards on internal audit of the Treasury Board. It was also planned in accordance with the Institute of Internal Auditors' (IIA) *Standards for the Professional Practice of Internal Auditing*. These standards require the audit to be planned and carried out in a manner which provides a reasonable degree of certainty. The evidence was gathered in a manner that will provide senior management with sufficient probative elements to support the internal audit opinion.

The audit was intended to verify the effectiveness of internal control to ensure the integrity of the data saved in the Hermès Finance system. The audit took place from October 2010 to April 2011, and tests were carried out on data from August 2009 and from April to December 2010.

In my professional judgment as Chief Audit Executive, sufficient and appropriate procedures have been applied and evidence gathered to support the accuracy of the opinion provided and contained in this report. The opinion is based on a comparison between the situation at the time of the audit and the pre-established audit criteria that was agreed on with management. The opinion applies only to the situation examined during the audit period.

1.6 Audit opinion

In my opinion, the internal controls in place are effective to ensure the integrity of the data in the Hermès Finance system. However, a minor improvement in the control of information disclosed concerning the awarding of grants and contributions is required.

1.7 Summary of recommendations

We recommend that the Departmental Finance Branch take measures to ensure that all of the information on the awarding of grants and contributions is released on the Agency's Web site.

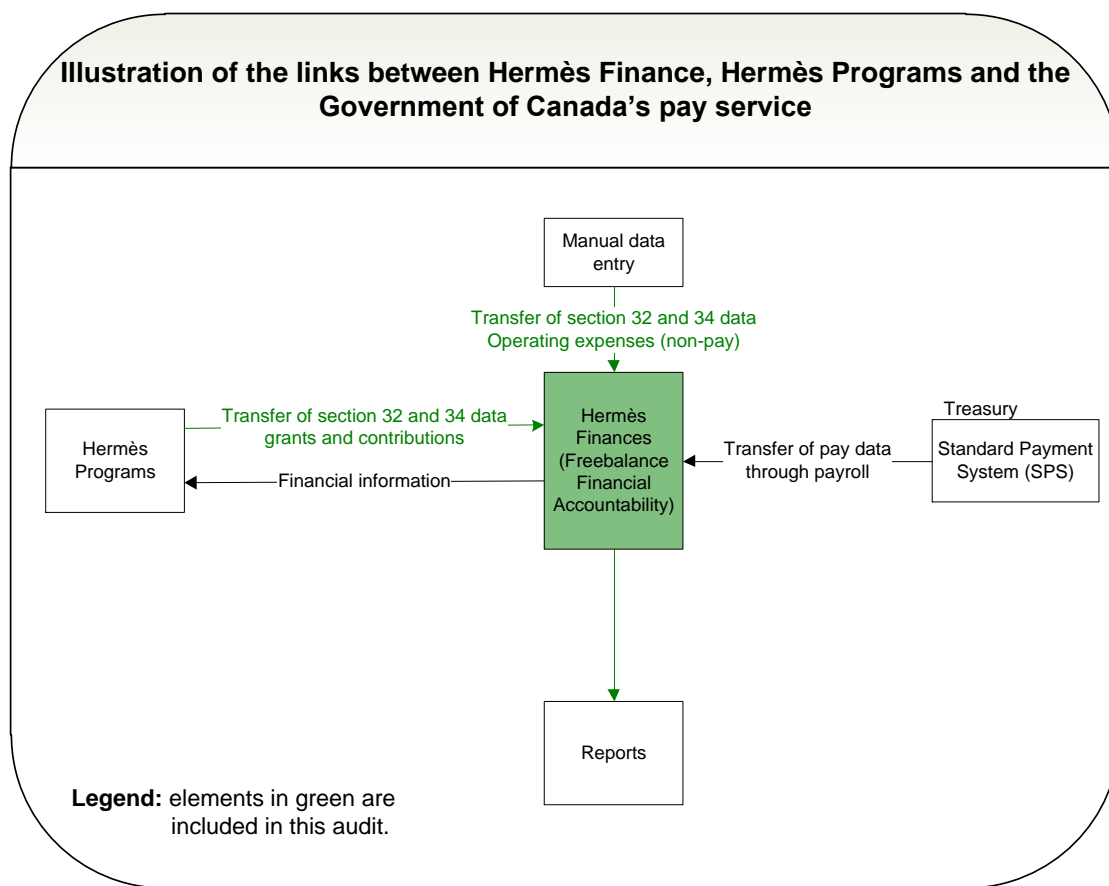
André Bolduc, CA
Chief Audit Executive

2. INTRODUCTION

2.1 Background

Hermès Finance is the Agency's financial management system. All of the Agency's expenses are accounted for in this system. The non-pay operating expenditures are authorized under sections 32 (commitment of funds) and 34 (certification and verification of payments) of the *Financial Administration Act* (FAA), while expenditures associated with grants and contributions programs are imported into Hermès Finance when authorized under section 32 (commitment of funds) or 34 (certification and verification of payments) in the Hermès Programs management system. Information regarding actual salary expenditures is imported into Hermès Finance from the Standard Payment System (SPS) of Public Works and Government Services Canada (PWGSC). In summary, Hermès Finance is the Agency's base of financial information and is the system used for financial management, including producing reports and making decisions.

The project to audit the integrity of the information in the Hermès Finance system was included in the *Risk-Based Internal Audit Plan (2010-2011 to 2012-2013)*. The last audit of the Hermès system took place in 2005, following the implementation of the system in 2002. Hermès Finance is the basis of the Agency's financial management. It is therefore an important system for the Agency in terms of the Agency's audit priorities. Within the Agency's auditing, this project is associated with the following subjects: information resources and integrity of the financial information in the Hermès system.



2.2 Audit objective and criteria

The main objective of this audit is to provide the assurance that Agency has implemented effective control mechanisms to ensure the integrity of data saved in the Hermès Finance system.

During the audit planning, we identified various risks associated with the integrity of a financial information system such as Hermès Finance. These risks were defined using the following working documents and audit reports: *Audit of the Hermès System and Related Topics (2004-2005)* and the *Internal audit of the integrity of data in the Hermès Programs system (2009)*. In addition to the documents associated with these audits, Treasury Board Secretariat's (TBS) *Policy on the Stewardship of Financial Management Systems*, *Policy on Management of Information Technology* and *Policy on Internal Control* helped to document the potential risks.

Throughout the audit, the risks and their impacts were analyzed according to the criteria used and the Agency's situation. We were assured that all of the controls in place reduce the possibility that the risks will become reality.

The objective and criteria of this audit take into account relevant risks identified in the three-year internal audit plan.

Objective	Verify the effectiveness of internal control to ensure the integrity of data saved in the Hermès Finance system.
Criteria	<ol style="list-style-type: none">1. Tasks are shared according to the skills required, the roles, responsibilities and accountability of personnel.2. Procedures are in place to ensure the integrity of financial data in accordance with the policies of the Agency and the Government of Canada.3. Hermès Finances is configured to automate control of access to information in order to ensure data integrity and security.4. Adequate information technology infrastructure, both hardware and software, exists to ensure the security and safe storage of Agency financial data in the short and long term.5. A monitoring process is in place to ensure the quality of the information at its source when information is entered and retrieved.

2.3 Scope of the audit

The scope of the audit includes the transactions carried out in the Hermès Finance system, namely how the Agency ensures that the information is retained with full integrity after it is saved in the system until reports are extracted from Hermès Finance. The financial statements are excluded because they are not extracted directly from the Hermès Finance system. Furthermore, salary expenditures were not included in the sample of transactions selected because these transactions are not conducted in Hermès Finance. The audit took place from October 2010 to April 2011.

2.4 Methodology

The approach used for this audit is based on the COBIT methodology. Interviews were done, as were tests on a sample of financial data, and a sample of users was carried out to confirm that the controls in place were working. All of the non-salary transactions entered in Hermès Finance in August 2009 and in November 2010, as well as all of the commitments in grants and contributions entered into the system from April to December 2010, served as a population for the tests carried out during this audit. Moreover, we conducted tests on two users' access to the Hermès Finance system.

The approach used involved the following steps:

1. Planning the risk-based audit;
2. Developing audit criteria and program;
3. Defining the tests to conduct in order to audit the controls in place;
4. Carrying out the audit program;
5. Conducting interviews and discussions with key representatives;
6. Validating findings with the stakeholders concerned;
7. Preparing the audit report;
8. Obtaining senior management's action plan;
9. Presenting the audit report to the Departmental Management Committee;
10. Presenting the report to the Departmental Audit Committee.

2.5 Acknowledgements

We would like to thank our Agency colleagues for their collaboration and interest during the conduct of the audit.

3. AUDIT RESULTS

Opinion of the Chief Audit Executive

In my opinion, the internal controls in place are effective to ensure the integrity of the data in the Hermès Finance system. A minor improvement in the proactive disclosure process for the awarding of grants and contributions is required.

Audit findings and recommendations

3.1 Tasks are shared according to the skills required, the roles, responsibilities and accountability of personnel.	
Finding	<p>The audit has confirmed the existence of controls in place to ensure that incompatible duties are not combined.</p> <p>The Hermès Finance and Hermès Programs systems can be configured for different classes of user, and access to the system can be restricted according to user roles and responsibilities to ensure that tasks are segregated according to the Agency’s delegation chart. Furthermore, control functions can be configured to restrict users’ access to their centres of responsibility and to operations in keeping with their positions within the Agency.</p> <p>The application of sections 32 (commitment of funds) or 34 (certification and verification of payments) of the FAA for all grants and contributions payments is carried out using the Hermès Programs system, and the information is transferred into Hermès Finance. All other expenditures not associated with grants, contributions and pay are approved under sections 32 (commitment of funds) or 34 (certification and verification of payments) directly within Hermès Finance.</p> <p>Section 33 (payment) approval of the FAA is done in Hermès Finance for all expenditures except pay. Three financial officers are empowered by the Receiver General of Canada to approve the issuance of payments and cheques.</p> <p>Tests were carried out on a sample of data from both systems. These tests showed the following:</p> <ul style="list-style-type: none"> • All of the transactions show the user code of a person authorized under the delegation chart; • The user codes of those who sign under sections 33 and 34 belonged to people with separate responsibilities; • Supplier names appearing in the files were legal entities bound

3.1 Tasks are shared according to the skills required, the roles, responsibilities and accountability of personnel.	
	<p>by contracts or agreements;</p> <ul style="list-style-type: none"> • The payment dates matched the dates included in the contracts. <p>Electronic signatures do not exist in Hermès and, during the tests, we were unable to confirm whether the name appearing in Hermès was the name appearing on the signed document. This step had been carried out in the audit of Hermès Programs and no irregularity had been noticed.</p> <p>The tests conducted allowed us to find that Hermès Finance is adequately configured.</p>
Risks/Impacts	The controls in place are adequate and reduce the risks. The system's configuration allows the risks associated with the shared responsibilities granted in the system to be managed.
Recommendation	We have no recommendations to formulate regarding this criterion.

3.2 Procedures are in place to ensure the integrity of financial data in accordance with the policies of the Agency and the Government of Canada.	
Finding	<p>Procedures are in place to ensure secure access to Hermès Finance and to train officers in financial operations.</p> <p>There is a framework of security policies and procedures. The creation, modification and closing of a user account are monitored. An arrival and departure form acts as an account creation request. The officers responsible for creating or deleting a user have a procedure in place to ensure proper and effective management of access according to the orders of the managers responsible and the senior finance officers.</p> <p>Since November 2010, secure passwords have been mandatory on all Agency workstations. (<i>Internal audit of the integrity of data in the Hermès Programs system</i>, June 2009). This new requirement has reduced the risk of intrusion by an unauthorized user into Agency systems. However, there is still a risk of access by an unauthorized user through the access of an authorized Hermès Finance user since, once a session is opened in Hermès Finance, it does not lock automatically after a certain period of time. Furthermore, the passwords used in Hermès Finance are not the most secure. An update of Hermès</p>

3.2 Procedures are in place to ensure the integrity of financial data in accordance with the policies of the Agency and the Government of Canada.	
	<p>Finance is planned for summer 2011, and implementing secure passwords is part of the update.</p> <p>To control its financial operations, the Agency follows Treasury Board policies and internal procedures for data entry and monitoring operations. The Treasury Board policies have become more conceptual, and the Agency decided to create internal policies or directives to better follow the policies issued by the Treasury Board. A list of business process priorities was created, and the Finance group is currently preparing documents that will clarify the procedure to use to ensure government regulations are adequately followed.</p> <p>Training of personnel assigned to new duties is done with internal procedures and using persons who have previously performed these duties.</p> <p>Generally speaking, we found that significant efforts are made to supervise personnel and that procedures are in place to ensure the integrity of financial data in accordance with Agency and Treasury Board policies. The current team is making satisfactory progress with providing the Agency with a framework of internal policies and procedures that will improve the documentation of procedures to ensure the integrity and security of financial operations.</p>
Risks/Impacts	Progress is being made to provide the Agency with a policy and procedures framework to better monitor the business processes that ensure the integrity of financial data, in particular in the event of a change in responsible incumbents.
Recommendation	We have no recommendations to formulate regarding this criterion.

3.3 Hermès Finances is configured to automate control of access to information.	
Finding	<p>Hermès Finance is configured to maximize the automation of controls, such as control of access and users.</p> <p>The information entered in a file is in effect and available in the system as of</p>

	<p>the date the data is entered, and the system saves the image of the transaction data. The date, time and username that carried out a transaction are saved in the system. Funds must be committed before carrying out the payment of an invoice. The system will therefore reject any transaction that would be higher than the amount committed.</p> <p>An interface connects Hermès Finance and Hermès Programs to allow certain financial transactions to be transferred. For all transactions approved under section 32 (commitment of funds) or 34 (certification and verification of payments) of the FAA in Hermès Programs, a text file containing the transaction is created and allows this transaction to be written into Hermès Finance. A daily error report is created for all transfers that reportedly fail, and the errors are reviewed. Furthermore, once an approval is transferred, it cannot be modified using Hermès Programs.</p>
Risks/Impacts	The risks associated with unauthorized access to sensitive or confidential information because of deficient security have been reduced to an acceptable level.
Recommendation	We have no recommendations to formulate regarding this criterion.

<p>3.4 Adequate information technology infrastructure, both hardware and software, exists to ensure the security and safe storage of Agency financial data in the short and long term.</p>	
Finding	<p>The Hermès database holds the Agency’s financial transactions. The data is encrypted and stored on a single separate server. The hardware and software environment, as well as the security measures implemented by the Agency, are compliant with the reference criteria in the field (COBIT).</p> <p>The audit team visited the server room and found that the physical security of the premises is adequate. An automatic archiving procedure exists and ensures that the data is saved daily. The physical media used to archive the data are kept in two separate locations to reduce the risk of loss in the event of a disaster. A recovery plan is in place should an incident force the evacuation of the premises for a prolonged period. This plan would allow the Agency to continue its critical operations from another site in less than 24 hours.</p> <p>Adequate measures are in place to prevent attempted infiltration into the Agency’s servers and workstations. An information security officer is responsible for checking the logs of the monitoring software every day.</p>

3.4 Adequate information technology infrastructure, both hardware and software, exists to ensure the security and safe storage of Agency financial data in the short and long term.	
	<p>Since November 2010, all Agency workstations that are inactive for more than 20 minutes are automatically locked by the system. This procedure reduces the risk of an unauthorized person using Hermès Finance on an open workstation. A Hermès system update planned for the summer of 2011 will force a user out of the system after a certain period of inactivity in order to further reduce the risk of an unauthorized person using a colleague's access.</p> <p>Hermès user passwords must be changed every 90 days, and the system ensures that this measure is taken. Secure passwords that meet industry standards are not yet implemented at the Agency for Hermès Finances. During the summer 2011 update, the switch to secure passwords should be implemented. Secure passwords are mandatory for all Agency workstations.</p>
Risks/Impacts	The measures in place ensure the confidentiality and security of the Agency's financial information.
Recommendation	We have no recommendations to formulate regarding this criterion.

3.5 A monitoring process is in place to ensure the quality of the information at its source when information is entered and retrieved	
Finding	<p>The departmental Finance group includes individuals responsible for monitoring financial operations and establishing various validation points.</p> <p>The interviews and documentation processes allowed us to find that strategic activities such as the submission of the trial balance and the closure of the fiscal year were within the framework of a definite process and were subject to periodic monitoring.</p> <p>The Hermès system automatically creates error reports, which are reviewed regularly. These reviews ensure that erroneous transactions or intrusions are quickly detected so that the necessary corrections can be made in order to preserve data security.</p> <p>Procedures exist to review accounts in order to ensure that the Agency's accounts match those of the Receiver General of Canada. There are also year-end procedures.</p>

3.5 A monitoring process is in place to ensure the quality of the information at its source when information is entered and retrieved	
	<p>Since October 2005, following the government’s commitment to proactively disclose the awarding of grants and contributions over \$25,000, the Agency has been publishing this information quarterly on its Web site. We carried out a test to ensure that the financial information of this disclosure was identical to the information in Hermès Finance. We found two exceptions out of 20 disclosures. These exceptions concerned amendments to approved agreements.</p> <p>The process that leads to disclosing a grant or contribution is initiated through Hermès Programs. Hermès Programs sends a list to the Quality Operational Coherence Directorate, which forwards the information to the Communications Branch for it to be published. In both exceptions, the automated monitoring in the system did not detect the amendment. Following an analysis of the cause of these anomalies, we believe that the system’s integrity has not been compromised. However, it is missing a control to confirm all of the information to be disclosed regarding the awarding of grants and contributions.</p>
Risks/Impacts	<p>This lack of control increases the risk of giving the impression of being less transparent than we claim to be in terms of the awarding of grants and contributions, which would lead to a loss of public confidence in the Agency. Although the impact would not affect the integrity of the financial system, it is important to take into consideration because it affects the Agency’s accountability.</p>
Recommendation (level of risk of finding: moderate)	<p>We recommend that the Departmental Finance Branch take measures to ensure that all of the information on the awarding of grants and contributions is disclosed on the Agency’s Web site.</p>

4. CONCLUSION

The audit allowed us to determine that the controls to ensure the integrity of the financial information in the Hermès Finance system, from the entry of a transaction to the production of a report, are in place and functioning effectively.

We have found that only one change to the process of proactively disclosing the award of grants and contributions is required to ensure that the Agency is communicating all of the information subject to disclosure.

ACTION PLAN

<p>Recommendation</p>	<p>Management Response</p>	<p>Person Responsible and Planned Completion Date</p>
<p>We recommend that the Departmental Finance Branch take measures to ensure that all of the information on the awarding of grants and contributions is disclosed on the Agency's Web site. (level of risk of finding: moderate)</p>	<p>The process in place for disclosing the awarding of grants and contributions appears adequate to us and reflects the assistance authorized. However, some amendments were not published when they occurred.</p> <p>In collaboration with the Quality Operational Coherence Directorate and the Technology Directorate, the Departmental Finance Branch will review the process that leads to the disclosure of an amendment in the authorized assistance of a grant or contribution to ensure that the information is published as required.</p>	<p>DG Departmental Finance August 31, 2011</p>