Audit of
Accounts Payable

July 2003

Audit and Evaluation Branch

Environment Canada Environnement Canada

Canada

Report Clearance Steps

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Acronyms used in the report

$K	thousand dollars
AEB	Audit and Evaluation Branch
AMEX	American Express
ATL	Atlantic Region
BA	Branch Administrators
DAEC	Departmental Audit and Evaluation Committee
EC	Environment Canada
ECB	Environment Conservation Branch
EMAN	Ecological Monitoring and Assessment Network
FAA	Financial Administration Act
FAS	Financial Accounting System
FMS	Financial Management Services
FORD	Finance Officer Recruitment Development
LPO	Local Purchase Order
LPOA	Local Purchase Order Authority
MSB	Management Services Branch
MSC	Meteorological Service of Canada
NCR	National Capital Region
NWRI	National Water Research Institute
ONT	Ontario Region
PNR	Prairie and Northern Region
PYR	Pacific and Yukon Region
RC	Responsibility Centres
TB	Treasury Board
TAA	Travel Authority and Advance

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1. Executive Summary

The Audit of Accounts Payable was conducted as part of the 2002-2005 Audit and Evaluation Plan. The services of Consulting and Audit Canada were retained to conduct the audit.

The objective of the audit was to determine whether accounts payable existing controls and practices were in line with the *Financial Administration Act* (FAA), Treasury Board (TB) policies and regulations, and Environment Canada (EC) policies.

The scope of the audit included an assessment of the internal financial and administrative controls over the accounts payable function of the Atlantic, Ontario, Prairie and Northern, and Pacific and Yukon Regions. The period covered by the audit included all accounts payable transactions from April 1, 2001 to September 30, 2002. The National Capital Region and the Quebec Region were planning to restructure their accounts payable function at the time of the audit; therefore, they were excluded from the audit.

The audit was conducted using a combination of interviews, documentation review, process mapping and sampling. The sampling methodology used was very precise and rigorous allowing the audit team to find any error in the processing of accounts payable, thus providing the Department with a high level of assurance in the quality of accounts payable management. It should be noted that the tolerable error rate was set at 5% representing no more than one error per audit criteria per Region. The audit team appreciates that the Accounts Payable function in these four regions processes a high volume of transactions. In total, more than 315,000 transactions for a value in excess of $185 million had been processed in the regions during the 18 months covered by this audit.

The management of the accounts payable function is decentralized from Headquarters to the Regions and in each Region it is administered in a centralized environment. Headquarters provides functional direction to the Regions on policy development and interpretation.

In the professional opinion of the audit team, no control deficiencies were found. Further, the team concluded that the controls and practices in place were in line with the FAA, TB policies and regulations and EC policies.

However, the testing for the Atlantic region has shown that their current practices resulted in a level of error in excess of the tolerable limit set at 5%, in the areas of signing authorities and supporting documentation. These errors were not considered to be significant and can be alleviated with tightening up of internal procedures.

Although, there were some omissions in processing travel claims, overall, accounts payable staff was generally vigilant in obtaining supporting documentation. Furthermore, the interview results indicated that accounts payable staff has a good understanding of the relevant policies and procedures. Some staff has long-term work experience while others are pursuing professional accounting designations.

In the audit team's professional judgment, sufficient and appropriate audit procedures have been conducted and evidence gathered to support the accuracy of the conclusions reached and contained in this report. The conclusions are based on a comparison of the situations against the audit criteria, as they existed at the time.

Key Findings and Recommendation

Signing Authority under section 34

Acquisition Cards

It is the departmental accepted practice that managers and above can sign Section 34 for their own purchases. Although not specifically forbidden by TBS and EC policies, it goes against the "spirit" of the FAA. Some guidance is provided in the TB Policy on Account Verification (Section 4.f), which states that "No person shall exercise spending authority (section 34) with respect to a payment from which he or she personally can benefit, directly or indirectly". In these cases, there is no clear segregation of duties between the person authorizing the transaction and the person taking custody of the asset. This practice could result in potential misuse of cards.

This practice was evident in the Atlantic and Pacific and Yukon Regions, as well as in the Prairie and Northern Region until February 2002 when they ceased this practice.

Recommendation 1

The Director General, Financial Services Directorate, should as the functional authority, review and clarify EC procedures on acquisition cards to ensure compliance with the "spirit" and requirements of the FAA and TB Policy on Account Verification.

Management Response

Quebec Region, who is leading the development of a departmental acquisition card policy, and the Financial Services Directorate are currently completing the policy for proper distribution to users. This new policy will apply to Environment Canada as a whole.

The objective of a departmental acquisition card policy is to inform managers and cardholders on the utilization of an acquisition card and to set out a framework containing the parameters for the procurement, use and control of acquisition cards.

The purpose of the policy is to provide an easy, practical way of procuring low-value goods and services and optimizing the payment process, while maintaining effective financial control and abiding to existing principles and policies governing acquisitions and material management. For example, the policy will aim at improving control and monitoring, clarifying restrictions and obligations of acquisition card use, implementing a purchase log book accompanied by all relevant supporting documentation to be signed by the Manager of the cardholder.

Hospitality

TB policy as well as EC's own guidance on Hospitality is very explicit as to the level of authority required for these expenses. Some omissions were found with respect to obtaining the required level of approval for this type of expenses. In addition, the audit team found instances where individuals had signed for Responsibility Centres for which they had no delegation of authority.

Details of these observations and recommendations are provided in the Regional Findings (Section **3.2**).

Supporting Documentation

Travel

The audit team noted that supporting documentation relating to travel, such as airline ticket/itinerary, was not always attached to the travel claim. Furthermore, original receipt or personal declaration required when receipts have been lost was not always obtained.

Details of these observations and recommendations are provided in the Regional Findings (Section **3.2**).

Blanket Travel Authority and Advance

The audit team noted that Blanket Travel Authority and Advance (TAA) Forms were sometimes used incorrectly. Also, the team found cases where the TAAs were not completed or authorized.

Details of these observations and recommendations are provided in the Regional Findings (Section **3.2**).

2. Introduction

The *Environment Canada Financial Controls Audit Strategy,* conducted in 2001, and previous audits identified issues relating to accounts payable function. Furthermore, Treasury Board recommends that an audit of this function be done on a regular basis. The Departmental Audit and Evaluation Committee approved the conduct of an audit of the accounts payable function in the *2002-2005 Audit and Evaluation Plan*.

2.1 Environment

The management of the accounts payable function is decentralized from Headquarters to Regions and in each Region, it is administered in a centralized environment. Headquarters provide functional direction to the Regions on policy development and interpretation.

Although the management of the function is centralized in each Region, the Ontario Region (ONT) operates two separate accounts payable offices. The ONT and Pacific and Yukon Region (PYR) have administrative staff assisting managers with the financial coding and application of Section 34. In the Atlantic Region (ATL) and Prairie and Northern Region (PNR), there is no administrative staff dedicated to this function. The detailed verification of travel claims, for all regions, is undertaken solely by the accounts payable staff.

2.2 Objective

The objective of the audit was to determine whether the accounts payable existing controls and practices in the four Regions under study, were compliant with the FAA, TB policies and regulations and EC policies.

2.3 Methodology

The audit was conducted using a combination of:
- Interviews;
- Documentation review;
- Process mapping of the accounts payable function for the four Regions under study; and,
- Audit testing of accounts payable transactions.

The sampling methodology used was very precise and rigorous allowing the audit team to find any error in the processing of accounts payable, thus providing the Department with a high level of assurance in the quality of accounts payable management. It should be noted that the tolerable error rate was set at 5% representing no more than one error per audit criteria per Region. The audit team appreciates that the Accounts Payable function in these four regions processes a high volume of transactions. In total, more than 315,000 transactions for a value in excess of $185 million were processed in the regions during the 18 months covered by this audit.

The testing included an attribute and a selected sampling to ensure a balanced analysis of data. Attribute sampling is a statistical method used to estimate the proportion of items in a population containing a characteristic or attribute of interest. These characteristics or attributes reflected the audit criteria.

The selected sample was used to ensure that specific items considered to being of higher risk or of special interest to senior management were audited. This sample testing focused on the following type of expenditures:

- Acquisition/ARI cards;
- International travel;
- Isolated posts travel;
- Relocation;
- Hospitality;
- Year-end payments; and,
- Miscellaneous items (e.g. high value damage claims, numbered companies, unassigned line objects, and unassigned vendors).

The testing was used to determine the effectiveness of the controls in place and compliance with relevant policies and procedures. In total, 553 transactions were tested made up of 372 from the attribute sampling and 181 from the selected sampling.

2.4 Scope

The scope of the audit included an assessment of the internal financial and administrative controls over the accounts payable function of ATL, ONT, PNR and PYR. ONT has two offices, Burlington and Downsview, and they were reviewed separately. The National Capital Region (NCR) and the Quebec Region were planning to restructure their accounts payable function at the time of the audit and were therefore excluded from the audit.

The audit covered transactions from April 1, 2001 to September 30, 2002.

2.5 Criteria

The criteria used to assess the compliance of the accounts payable transactions were the Financial Administration Act (FAA), Treasury Board (TB) policies and regulations and Environment Canada (EC) policies. The Regions under review were informed of these criteria. In addition, Regions were provided with the relevant information used to conduct the testing.

The FAA outlines the requirements for payment and settlements. Account verification is undertaken as per the requirements of Section 34 of the FAA. The responsibility for the system of account verification and related financial controls rests with officers who have been delegated payment authority (Section 33 of the FAA). The TB Policy on *Account Verification* provides additional guidance, as well as the TB Policies/Directives related to specific expenditures, such as hospitality, isolated posts, and payables at year-end.

Departments are responsible for establishing policies and procedures to ensure staff who has been delegated authority as per Sections 32, 33 and 34 of the FAA, is in fact exercising these responsibilities in accordance with the FAA.

3. Findings and Recommendations

3.1 Overall Findings

Overview

The results of the attribute sampling conducted in each region indicated that the level of errors was within the acceptable tolerable limit of five percent for all regions, with the exception of ATL where the level of error was slightly in excess of the tolerable limit in the areas of Section 34 signing authorities, Travel Claims processed without a Travel Authority or Advance (TAA) form or a proper TAA, and Travel Claims without the required receipts/backup.

The results of the selected sampling conducted in each Region indicated errors involving hospitality and travel (foreign conferences). With respect to hospitality, errors related to Section 34 authorizations. In the case of travel transactions, travel claims did not always have the required supporting documentation including a properly completed TAA.

It was also noted that the NCR Financial Services Directorate is currently working with the Regions to improve current processes or implement new ones, such as statistical sampling of accounts payable transactions, with a view to standardize financial practices across the Department (Environment Canada).

The audit team observed a number of good practices (for details, refer to Regional Findings under Section **3.2**). Here are some examples:

- Intranet sites providing sound financial information to regional staff in a user-friendly manner;
- Departmental training and development initiatives;
- Progressive work environment for accounts payable staff, including buddy system, employee shadowing/mentoring and job rotation; and,
- The requirement for accounts payable clerks to initial documentation as evidence that the verification has been conducted.

All regions have similar internal service standards in terms of time required to process a transaction. Based on the testing, the audit team was able to determine that all regions were respecting their turn-around time standards for the various types of accounts payable.

The audit team reviewed the sampled transactions to ensure that they were adequately documented. It was observed that the accounts payable staff was generally vigilant in obtaining supporting documentation.

The audit team also found that the quality of the accounts payable staff was generally high. Some of the staff has long-term work experience, while others are pursuing various accounting designations. Based on interviews, the staff has a good knowledge of the relevant policies and procedures.

Overall, the audit did not disclose any control deficiencies. Further we concluded that the controls and practices in place were in line with the FAA, TB policies and regulation and EC policies. The testing in the Atlantic Region did result in an error rate slightly higher than the acceptable 5% tolerance limit however tightening up of internal procedures will address this. The following observation and recommendation is address to the Departmental Headquarters. Recommendations to address regional issues are provided under each regional section in section **3.2**.

Observations

Signing Authority under Section 34

Acquisition Cards

Our audit showed that in ATL and PYR, acquisition cardholders, who are managers and above, are signing Section 34 for their own purchases. Although not specifically forbidden by TBS and EC policies, it goes against the "spirit" of the FAA. Some guidance is provided in the TB Policy on Account Verification (Section 4.f), which states:

> *"No person shall exercise spending authority (section 34) with respect to a payment from which he or she personally can benefit, directly or indirectly."*

In these cases, there is no clear segregation of duties between the person authorizing the transaction and the person taking custody of the asset. This practice could result in potential misuse of cards.

It is noted that a separate review of acquisition cards was conducted internally in PNR during the summer of 2001. The report concluded that there were a number of weaknesses in the existing policies and procedures relating to the acquisitions cards. The report further stated that PNR's Section 34 signing authorities have a high degree of autonomy in making individual purchasing decisions and there is a lack of overall accountability for the program expenditures authorized by Section 34 signing authorities. In February 2002, PNR ceased the practice where managers and above could sign Section 34 for their own purchases. ONT never followed this practice. Although accounts payable staff does scrutinize acquisition cards purchases, they are not always in a position to assess if these purchases are appropriate for the RC's operations.

It is the audit team's understanding that the interpretation of EC's Policy on Acquisition Cards with respect to signing authorities is unclear. If EC permits managers and above to sign for their own purchases, EC must consider the risks involved in devolving this responsibility.

Recommendation 1

The Director General, Financial Services Directorate, should, as the functional authority, review and clarify EC procedures on acquisition cards to ensure compliance with the "spirit" and requirements of the FAA and TB Policy on Account Verification.

Management Response

Quebec Region, who is leading the development of a departmental acquisition card policy, and the Financial Services Directorate are currently completing the policy for proper distribution to users and readers. This new policy will apply to Environment Canada as a whole.

The objective of a departmental acquisition card policy is to inform managers and cardholders on the utilization of an acquisition card and to set out a framework containing the parameters for the procurement, use and control of acquisition cards.

The purpose of the policy is to provide an easy, practical way of procuring low-value goods and services and optimizing the payment process, while maintaining effective financial control and abiding to existing principles and policies governing acquisitions and material management. For example, the policy will aim at improving control and monitoring, clarifying restrictions and obligations of acquisition card use, implementing a purchase log book accompanied by all relevant supporting documentation to be signed by the Manager of the cardholder, etc.

Hospitality and Travel

The audit team observed that management and staff attempted to have a strong control over signing authorities. Staff is required to know who can sign at any given point in time, as signing authorities are often changed on a temporary basis due to absences, etc. Although there is good control by the Regions, the audit revealed some errors due to omissions/oversights. In addition, there were some areas where signing authority was not always being executed in accordance with TB policies, including the areas of hospitality and travel.

Details of these observations and recommendations are provided in the Regional Findings (Section **3.2**).

Supporting Documentation

Travel

Our review revealed that there were omissions with respect to supporting documentation relating to travel transactions. In addition, it was observed that appropriate TAAs were not always completed and authorized.

Details of these observations and recommendations are provided in the Regional Findings (Section 3.2).

3.2 Regional Findings

3.2.1 Atlantic Region

Overview

The Atlantic Region (ATL) operates with a centralized accounts payable function under the responsibility of the Management Services Bureau (MSB). All accounts payable are processed in Dartmouth. Over the years, ATL has implemented automated tools to assist managers and employees with financial coding, procurement, requisition, etc. As a result, the role of Branch Administrators (BAs) was eliminated. ATL has two levels of review prior to releasing the payment of any invoice (Section 33).

The Director, MSB, signs contribution agreements on behalf of the Director of Environmental Conservation Branch (ECB) for the Science Horizons Youth Internship Program. This is being done because the Science Horizon program is managed from the Dartmouth office, and the Environmental Conservation Director is physically located in Sackville, N.B. Furthermore, the agreements for this Program are low dollar amounts, involving the universities and after assessing the risk associated with MSB signing the agreements, ATL felt it was not necessary to send these to Sackville. MSB has established this practice only for the Science Horizons Youth Internship Program, to ensure that the contribution agreements are done in accordance with MSB criteria. It should be noted that all other transactions related to this Branch have the Section 34 applied by ECB. Although ATL is not in non-compliance with the FAA, the audit team is of the opinion that this is not a good practice and that the RC should be responsible for signing these agreements, as they are accountable for program results.

The audit team tested 93 transactions using attribute sampling that resulted in 9 errors. This percentage of errors exceeded the acceptable tolerable limit of five percent in the areas of:

- Signing authority under Section 34;
- Lack of documentation/Supporting Documentation
    - Travel Claims processed without a TAA or a proper TAA; and,
    - Travel Claims with insufficient documentation.

A selected sampling of 31 transactions was also tested. The results of this specific sampling raised concerns with respect to signing authorities for hospitality and acquisition cards expenditures and supporting documentation for TAA.

There is training and job sharing for accounts payable clerks, allowing for rotation of tasks every six months, as well as assignments with financial planners and procurement officers. This initiative results in broadening the clerks’ experience and increasing the flexibility of the team.

The observations resulting from the testing have been regrouped under two heading namely ‘Signing Authority’ and ‘Supporting Documentation’.

Observations

Signing Authority

Acquisition Cards

In this region, managers and above, can approve their own expenses charged on their acquisition cards. Although not specifically forbidden by TBS or EC policies, it goes against the "spirit" of the FAA. The current audit is recommending to the Department Headquarters to review the practices surrounding acquisition through credit cards.

Hospitality

The TB *Hospitality Policy*, as well as EC's own guidance on Hospitality, is very explicit as to the levels of signing authority required and expenditure amounts. There was one omission in ATL with regards to obtaining the required level of approval for Hospitality.

Additionally, there were two instances where an individual signed Section 34 for an RC for which he had not been delegated the authority, and a third instance where an individual had signed for an RC for which the delegated signing authority had expired.

Recommendation 2

Director, Management Services Bureau, Atlantic Region, should ensure that:
- ***Accounts Payable staff monitor more closely the level of signing authority under Section 34***

Management Response

All accounts payable staff have been briefed on this AP audit. The importance of verifying that signing authorities are up to date and accurate has been stressed. We have also made plans to add a Post Audit position to the unit to further enhance our internal controls.

Supporting Documentation

Travel Claim and Blanket TAA

Section 1.9.1 of the Travel Directive in effect at the time of the audit stated that *'receipts must be attached to the "Travel Expense Claim" form to support all travel expenditures, including transportation ticket stubs'*. Additionally, Section 1.9.3 of the Travel Directive stated that when travelers certified that the receipt was lost, a personal declaration may replace the receipt. Finally, Section 1.5.2 of the revised Travel Policy states that travelers should *'complete and submit travel expense claims with necessary documentation'*.

The audit team found two instances where the travel claim was not fully supported as per the Travel Directive.

In addition, it is the Department's practice to have "blanket" TAA forms to cover program-related travel. These TAAs are specific as to what type of travel is covered and what is not covered.

In ATL, there three errors in total relating to blanket TAAs:

- one cases where the travel expense claim was processed without a TAA; and
- two cases where a blanket TAA was inappropriately used.

Recommendation 3

The Director, Management Services Bureau, Atlantic Region, should:

- ***ensure that A/P staff closely monitor travel claim expense for supporting documentation; and***
- ***as the functional authority, remind all staff in the region that travel needs to be pre-authorized and that travel claim needs to have all supporting documentation, including transportation ticket stub before being processed. Declarations are required when original receipts cannot be located.***

Management Response

Revised blanket travel authorities were implemented for 2003-2004 as a result of this audit. Travelers will also be reminded of the need to provide original receipts or statutory declarations for lost receipts

Call-ups/LPOs (outside the accounts payable function)

The purpose of a call-up against a standing offer is to acquire goods/services with a supplier that has already been approved. The sign off of a call-up is done by Procurement and the document is signed when the call-up is undertaken. Local Purchase Orders (LPO) are instruments that Procurement signs to obtain goods/services that are under the $5K threshold. The audit team observed that although the employee signing for call-ups and LPO during the period under review was assigned as the procurement officer, the delegation of signing authority had not been completed as such. They also noted that call-ups were signed and/or dated when the invoice was received.

Recommendation 4

The Director, Management Services Bureau, Atlantic Region, should:

- ***ensure that signing authority for delegated procurement officers are on file.***

Management Response

As previously mentioned, all accounts payable staff have been briefed on the results of this audit. The importance of verifying that signing authorities are up to date and accurate has been stressed. We have also made plans to add a Post Audit position to the unit to further enhance our internal controls.

Best Practices

Although improvements are required in some areas of the accounts payable function, ATL has implemented a series of best practices. These practices are:

- Initiative with MasterCard allowing the review of transactions online, thus reducing the timeline to process the invoice and obtaining a rebate when paid within ten days;
- Training of regional managers regarding procurements and accounting operations by MSB.
- Use of automated regional tools to assist staff in completing various tasks, such as completion of travel claims, identification of Section 34 signing authority, and completion of requisition on line.

3.2.2 Ontario Region

Overview

The Ontario Region's (ONT) Management Services Branch (MSB) has two Financial Management Services (FMS) Offices, Burlington and Downsview, that process accounts payable. Both offices report to the same Director. In addition to their standard role, each office is responsible for additional functions. The Downsview office handles the Meteorological Service of Canada (MSC) and the Burlington office handles the National Water Research Institute (NWRI) and Ecological Monitoring and Assessment Network (EMAN). It is worth noting that MSC and NWRI also have offices in other Regions.

The accounts payable function is not as centralized in ONT as it is in the other regions. Responsibility Centres (RC) use administrative staff to assist with the financial coding, application of Section 34 and undertaking an initial "vetting" of the documents, which are then forwarded to MSB for accounts payable processing. However, the detailed verification of travel claims is undertaken solely by the accounts payable staff; thus, ensuring compliance to policies and procedures.

The process mapping conducted during the audit show differences within the two offices with respect to processing of accounts payable. However, these differences have no impact on the end result. In both offices, there are two-levels of review prior to the release of payment (Section 33). The two offices work well together in regards to the sharing of information and staff.

It is the Department's procedure to enter contractual commitments into MERLIN. The Audit of Contracting dated August 2002, prepared by the Audit and Evaluation Branch of EC found that contractual commitments were not entered into MERLIN in the Downsview office. Because the audit covered the period of April 1, 2001 to September 30, 2002, the contracts reviewed were not committed in MERLIN by Procurement. The Downsview's FMS advised the audit team at the end of November that the situation remained unchanged due to staffing in Procurement not being completed.

The audit team tested 93 transactions using attribute sampling, resulting in 3 errors and no major areas of concern. Selected sampling of 78 transactions (45 in Burlington and 33 in Downsview) was also tested, resulting in 10 errors of which 5 related to supporting documentation.

Observations

Supporting Documentation

Travel

Our review of travel revealed that it was the Burlington Office's practice for RCs not to submit airline tickets/itineraries with travel claims. Instead, the tickets were retained in the RC to be matched to AMEX statements. The audit team considers this practice to be in conflict with Section 1.9.1 of the Travel Directive in effect at the time of the audit which states that 'Receipts must be attached to the "Travel Expense Claim" form to support all travel expenditures, including transportation ticket stub'. Furthermore, Section 1.5.2 of the revised Travel Policy states that travelers should 'complete and submit travel expense claims with necessary documentation'.

Four out of the sixteen selected tests in travel, conducted in Burlington, had this error.

Furthermore, Section 1.9.3 of the Travel Directive in effect at the time of the audit stated that when travelers certified that the receipt was lost, a personal declaration may replace the receipt. The audit team found one instance where a credit card receipt was used to pay a hotel bill and no declaration had been attached to the claim. In doing so, it was not impossible to verify the nature of the expenses.

Recommendation 5

The Director, Management Services Branch, should ensure that:

- **staff *obtains all supporting documentation before processing Travel Expense Claim including a declaration when original receipts are not available; and,***

- ***as the functional authority, advise all staff in the region of the requirement to provide all supporting documentation, including transportation ticket stub/itinerary and a declaration when original receipts are not available.***

Management Response

Since the audit, the Burlington Office Financial Management Services staff is advising travelers and their administrative support that all prepaid expenses, especially transportation must be documented and supported by receipt, ticket stub or itinerary before travel claims will be reimbursed for travel. The practice of ensuring receipts for travel claims are attached now includes prepaid expenses as well as employee incurred expenses.

The observed practice of a section head or other manager signing AMEX Bank of Canada statements or other invoices that included tickets for their own use has ceased in the Burlington Financial Management Services office. The change was initiated shortly after the practice was observed and noted in the preliminary audit review. Accounts Payable staff and financial officers signing section 33 have been trained to be aware of these situations and to no longer process such payments. Payments are being held until statements have been approved by another individual with section 34 for the respective Cost Centre.

Burlington financial staff have also been reminded of the importance of following up on items where more information on payments are required such as inappropriate use of acquisition cards including purchases exceeding 5K (now 10K) and obtaining complete detailed information for travel receipts, not just a credit card receipt.

Best Practices

Although minor adjustments to some regional practices are required, the management of the accounts payable function is sound and the Region has implemented a series of best practices. These practices are:

- Training and development initiatives for the staff, including:
    - Hospitality Authorization Presentation to RCs by MSB (Downsview);
    - Buddy system among accounts payable clerks, employee shadowing and mentoring;
    - Peer review (Burlington);
    - Job rotation for the petty cash function (Downsview); and,
    - The Financial Management Advisory Group, working in partnership with Financial Management Services (FMS), to attract Finance Officer Recruitment Development (FORD) recruits for both offices.
- Communication of information encouraged through:
    - Weekly staff meetings (Burlington); and,
    - Systematic e-mail distribution of changes to RC managers and administrative officers.
- Proactive implementation and use of the new Travel Expert System.
- Review of Grants and Contributions payments performed by senior MSB staff.

3.2.3 Prairie and Northern Region

Overview

The accounts payable function of the Prairie and Northern Region (PNR) is centralized. There are six site offices located in Calgary, Iqaluit, Regina, Saskatoon, Winnipeg and Yellowknife. Although there is financial staff in some site offices, all accounts payable transactions are processed and paid in Edmonton. Financial staff in site offices is generally the first point of entry for an invoice. This Region does not have Branch Administrators (BAs) located in the RCs to review and code documentation prior to forwarding invoices to Finance Accounting Systems section (FAS).

Account clerks process accounts payable transactions. Their work is then reviewed by the Head, Payment Services in FAS, who then undertakes the payment of the invoice (Section 33).

In addition to providing training and support to the RCs, FAS has developed a guide for managers entitled *Signing Authorities, Accounting Information and Forms.* This information is also available on-line on the PNR's Intranet. This facilitates a higher level of awareness regarding the payment process.

The audit team tested 93 transactions using attribute sampling, which resulted in four errors. Two out of these errors related to incorrect Section 34 signature exceeding the five percent tolerable level. However, one of these errors involved an individual who has signing authority for its RC, approving his own expenditure on an AMEX Statement. The Region took corrective action during the audit period and employees can no longer sign for their own expenditures (Section 34). Therefore, no recommendation is necessary.

The audit team also conducted a selected sampling of 41 transactions. Five errors were found in the travel category. These errors were partially due to new staff and were not considered material.

In this region, until February 2002, managers and above, could approve their own expenses charged on their acquisition cards. Although not specifically forbidden by TBS or EC policies, it goes against the “spirit” of the FAA. PNR has since abandoned this practice and managers are now required to obtain approval from their superiors for their expenses charged on acquisition cards. Furthermore, the current audit is recommending to the Department Headquarters to review the practices surrounding acquisition through credit cards.

Best Practices

Although some small lapses were discovered during a time period of having new staff, the management of the accounts payable function is sound and the Region has implemented a series of best practices. These practices are:

- The Financial section (FAS) provides training to RCs with a view of increasing the level of awareness with respect to payment process requirements, including:
    - A guide entitled Signing Authorities, Accounting Information and Forms for managers to assist them in exercising Section 34 authority and provide an overview of the accounts payable process in the Region; and,
    - Training courses on Section 34 provide by FAS staff.
- The use of blue/sealed bags for easy identification, in transmitting financial documents from Winnipeg and Yellowknife, ensures mail is directed to the FAS in a timely manner.
- Sound financial information is available on the Intranet site.

3.2.4 Pacific and Yukon Region

Overview

The accounts payable function of the Pacific and Yukon Region (PYR) is centralized. Responsibility Centres (RC) have Branch Administrators (BA) who vet invoices/financial documentation, provide financial coding and obtain the Section 34 approval prior to such documentation being forwarded for accounts payable processing. For travel claims, BAs provide the financial coding and obtain the Section 34 approval. Accounts payable clerks conduct the actual Section 34 verification and process the invoices. The Accounts Supervisor who undertakes the release of the payment under Section 33 reviews their work.

The audit team tested 93 transactions using attribute sampling, resulting in three errors; however, no attribute had more than one error. This is within the acceptable tolerable limit of five percent. The audit team also conducted a selected sampling of 31 transactions, which indicated omissions in supporting documentation relating to travel.

While the testing of year-end transactions did not show any errors, the practice to segregate AMEX charges between two fiscal years is not in place. This differs from the other three regions under study and is not considered material.

In the case of relocation files, the Accounts Supervisor conducts the verification with no further review. Since relocation is complex, it is advisable to have another individual vet the file.

The audit team observed that employees in this Region do not always claim per diems and incidentals when they are clearly entitled to do so, and in PYR the accounts payable clerks do not make corrections for this.

The TB policy as well as the regional documentation on hospitality, is very explicit regarding the level of signing authority required, expenditures limits, and required supporting documentation. The audit team found instances in PYR where hospitality claims were signed at the incorrect level. These situations were corrected in the summer of 2002. Therefore, no recommendation is necessary.

Observations

Signing Authority

Acquisition Cards

Our audit showed that in PYR, acquisition cardholders, who are managers and above, are signing Section 34 for their own purchases. Although not specifically forbidden by TBS and EC policies, it goes against the “spirit” of the FAA.

A recommendation is made at the corporate level.

Supporting Documentation

Travel

Section 1.9.3 of the Travel Directive in effect at the time of the audit stated that when travelers certified that the receipts were lost, a personal declaration may replace the receipt. Furthermore, Section 1.5.2 of the revised Travel Policy states that travelers should *‘complete and submit travel expense claims with necessary documentation’*. The audit team found two instances where the claim was not fully supported with original receipts and hotel bills.

Recommendation 6

The Director, Management Services Branch, should ensure that:

- ***staff obtains all supporting documentation before processing Travel Expense Claim including a declaration when original receipts were lost; and***

- ***as the functional authority, advise staff in the region of the requirement to provide all supporting documentation including transportation ticket stub and/or a declaration if original receipts were lost.***

Management Response

The Director, Finance Branch, is ensuring that Finance staff obtains all the necessary supporting documentation, and will undertake to advise all regional staff of this need. Among others, a 'travel quick reference sheet' to help travelers understand the policy requirements is being developed.

Blanket TAA

It is the Department's practice to have "blanket" Travel Authority and Advance (TAA) forms to cover program-related travel. These TAAs are specific as to what type of travel is covered and what is not covered. Training, conferences or international travel are excluded from the "blanket" TAA and a separate TAA is required. The audit revealed two instances where the claim was processed without an appropriately authorized TAA.

Recommendation 7

The Director, Management Services Branch, should ensure that:

- ***staff obtains the appropriate Travel Authority and Advance Form and authorization prior to processing travel expense claims; and***
- ***as the functional authority, ensure that regional staff is made aware of the requirement to fill out a TAA when the travel relates to training, conferences or international travel.***

Management Response

The Director Finance Branch has ensured that Finance staff obtains all the necessary supporting documentation, and will undertake to advise all regional staff of this need.

Best Practices

Although minor adjustments to some regional practices are required, the management of the accounts payable function is sound and the Region has implemented a series of best practices. These practices are:

- The Finance Branch is proactive in developing training for regional staff and conducts training sessions in the different offices. These training sessions cover the following:
    - Signing Authorities for the Regional Management Committee;
    - Acquisition Cards;
    - Travel Directives;
    - Isolated Posts Travel;
    - Contracting for Materiel Management;
    - Finance for Financial Planning and Review;
    - Grants and Contributions; and,
    - Collaborative Agreements (O & M).
- The Accounts Division also conducted training sessions for accounts payable staff relating to travel, signing authorities and isolated posts travel.

- Sound financial information is available on the Intranet site.

3.3 Other Observations

Some findings outside the scope of this audit were noted and are listed below:

Late Invoices

The audit team identified that RCs do not forward all invoices on a timely basis to ensure there is no interest penalties. This occurred in 28 out of 553 transactions reviewed.

Date Stamp

The audit team found 37 out of 553 transactions where the invoices had not been stamped when received in the accounts payable section. Therefore, it becomes difficult to ensure that the payments are processed according to the service standards.

Proper date stamping also allows to determine where delays occurred, if any. Should interest charges be applied, without proper date stamping it would be difficult to determine if delays were caused within AP function or in the RCs.

Local Purchase Order Authority (LPOA)

The purpose of a LPOA is to expedite the purchase of goods. LPOAs are to be signed by the RC when the procurement of the goods is initiated and signed again when the goods are received. Generally, the threshold level of an LPOA is $5K. RCs have been delegated authority to sign LPOAs.

Although outside the scope of the audit, the audit team observed the following issues in all regions except PYR:
- LPOAs signed and dated after receipt of invoice.
- LPOAs were incomplete.

Appendix A: Methodology

The audit involved a preliminary review of background information as well as interviews in the four Regions. Detailed interviews were conducted with Regional Directors of Finance, Regional Managers responsible for accounts payable and Accounts Payable Staff as noted below. Interviews focused on roles and responsibilities, and processes and procedures relating to accounts payable as well as specific expenditures (such as contracting, travel, and relocation).

Regional Office	Number
Atlantic Region	9
Ontario Region (Burlington)	10
Ontario Region (Downsview)	9
Pacific and Yukon Region	8
Prairies and Northern Region	13
Total	**49**

Detailed process mappings were conducted of accounts payable for the four Regions. Controls and practices were identified and assessed to ensure expenditures incurred are complete, accurate, properly authorized and in compliance with existing authorities.

A verification of attribute and selected samples of accounts payable for the four Regions was undertaken. The audit team conducted a selected sample based on higher risk or special interest transactions. This included:

- Acquisition/ARI cards;
- International travel;
- Isolated posts travel;
- Relocation;
- Hospitality;
- Year-end payments; and
- Miscellaneous items (e.g. high value damage claims, numbered companies, unassigned line objects, and unassigned vendors).

Attribute sampling is a statistical method used to estimate the proportion of items in a population containing a characteristic or attribute of interest. These characteristics or attributes reflected the audit criteria. This proportion is referred to the error and is the ratio of the items containing the specific attribute to the total number of the population items. A 95 percent confidence level was chosen resulting in only one error per each of the Region’s attributes being tolerable (accepted).

The testing determined the effectiveness of the controls in place for the transactions sampled and compliance with relevant policies and procedures. The selected sample was conducted to ensure that those items that were considered to be of higher risk or special interest were selected.

The audit team verified all (attribute and selected) sampled transactions to ensure that they had been authorized. Specifically, transactions were verified for the following:

- Was the delegated authorized Section 34 signature on the invoice?
- Was the signature per the Specimen Signature Card?
- Did the Section 34 signature have the appropriate delegation of signing authority in accordance with EC's guideline?

In total, 553 transactions were testing made up of 372 transactions from the attribute sampling and 181 transaction from the selected sampling. Of the 181 selected samples, 55 transactions were tested against all the criteria. For the remaining 126 transactions, the testing was limited to the criteria specific to the transaction type (e.g. travel, hospitality etc.). The detailed findings for each region were tabulated and communicated to the Regions. Regional managers were debriefed on matters relating to their particular Region by teleconference after the fieldwork had been completed.

Detailed Sampling Methodology

1. Data
    - Source of data: Paid invoices from MERLIN.
    - Time period – April 1, 2001 to September 30, 2002.
    - Five data files obtained from Environment Canada as detailed below:

Regional Office	**Population Size**	
	# of Entries	**Dollar Amount**
Atlantic Region	43,405	$39,240,728
Ontario Region (Burlington)	66,310	$50,682,859
Ontario Region (Downsview)	78,880	$89,697,557
Pacific and Yukon Region	43,747	$44,573,983
Prairie and Northern Region	83,507	$50,515,793

2. Review and Analysis of Data

    Steps performed on the data files included:
    - Summarized and reviewed data by Line Object (LOBJ)
    - Summarized and reviewed data by Vendor
    - Reviewed stratified data by dollar amount
    - Reviewed extreme values (very high and very low dollar values)
    - Reviewed stratified data by invoice date

3. Methodology

Based on the results of the data review and discussions with Environment Canada, data files were segregated into three main groupings: High Risk/Special Interest, Population for Sampling, and Low Risk/High Volume. Different audit procedures were applied to each of these groups.

Group	**Audit Procedures**
High Risk/Special Interest	Review account details and vendors Inquire and discuss with staff Select and target Conduct selected sampling
Population for Sampling	Conduct attribute sampling
Low Risk/High Volume	Review account details and vendors Inquire and discuss with staff

4. Attribute Sampling

Confidential Level:	95%
Sampling Population Size:	See Table Below
Expected Error Rate:	1%
Tolerable Error Rate	5%
Sample Size for the Region:	93

5. Attribute Sampling

Regional Office	**Population Size**	
	Number of Entries	**Dollar Amount**
Atlantic Region	24,996	$34,722,204
Ontario Region (Burlington)	39,333	$41,529,025
Ontario Region (Downsview)	53,544	$80,067,935
Pacific and Yukon Region	20,621	$38,450,236
Prairie and Northern Region	37,909	$38,243,958

6. High Risk/Special Interest – Selected Sampling per Region

Regional Office	**Population Size**	
	# of Entries	**Dollar Amount**
Atlantic Region	13,715	$3,170,111
Ontario Region (Burlington)	18,083	$8,805,196
Ontario Region (Downsview)	15,783	$8,768,132
Pacific and Yukon Region	18,149	$4,823,377
Prairie and Northern Region	27,148	$9,846,969

7. Low Risk/High Volume

Regional Office	**Population Size**	
	# of Entries	**Dollar Amount**
Atlantic Region	4,694	$1,348,413
Ontario Region (Burlington)	8,894	$ 348,638
Ontario Region (Downsview)	9,553	$ 861,490
Pacific and Yukon Region	4,977	$1,300,370
Prairie and Northern Region	18,450	$2,424,866