



National
Defence

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Chief Review Services Chef - Service d'examen

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AUDIT OF MANAGEMENT OF LOCAL FUNDS

January 2004

7050-8-25 (CRS)



Canada 

SYNOPSIS

Prudent, compliant, transparent management of funds is fundamental to responsible government; as such, resource management, in the broadest sense, has been an on-going area of focus of internal audit attention within the Department of National Defence. This audit is one of several recent Chief of Review Services initiatives examining funds management, procurement practices, and oversight and monitoring mechanisms relating to resource management. While other audits will report on management related to large, centrally managed budgets, this audit sought to provide assurance relating to the management of those funds devolved to organizations, particularly Units, Bases and Wings, to carry out their day-to-day activities. The annual budgets involved amount to over \$1B and the need for enhanced control is essential.

Among visited locations, the extent of compliance with government and Departmental policy varied from reasonably high to less than acceptable. The current environment in DND intends to allow reasonable flexibility in management practices, but demands ultimate accountability in the management of local funds. However, this accountability is hindered by inconsistent, often inadequate monitoring, and the absence of any Departmentally-defined acceptable level of compliance, or performance measures for the sound, efficient management of local funds. While certain improvements in the control framework were observed, and the vast majority of local transactions were appropriately executed, observed weaknesses and the variation in the diligence applied to funds management, prevent a conclusion on the overall acceptability of the Department's management of local funds.

Recommendations focus on increasing the use of technology as a means to enhancing accountability and control, to provide improved processing efficiency, and to ensure that more accurate, complete information is available for risk analysis and management decision-making. Recommendations also address verification to ensure compliance with applicable legislation. Additionally, some Departmental policies need to be reviewed in light of recent changes in the processes used to manage local funds. Any enhanced policy needs to be attentive to the current operating environment and public expectations for demonstrated sound control. As well, an integrated approach to risk-management, including the design of effective delegated authorities and the automated monitoring of financial management/control performance, should be developed.

We are convinced that there are substantial efficiency gains, in the rough order of \$12M annually, which can be achieved through the increased use of acquisition cards and the consolidation of invoice processing resources. Measures to achieve these savings are also consistent with improved control. This report captures a number of best practices within other jurisdictions.



Ultimately, there have been improvements in the management of local funds since our prior audits of Local Procurement and the Management of Operating Budgets. However, it is evident that efforts are required to consolidate gains in comptrollership and to achieve accelerated progress toward a regime of risk-based Smart Controls. As indicated in the management action plan (see Report Annex G), the Department is indeed launching initiatives to revitalize Comptrollership and to address many of the recommendations contained in this report. On-going enhancements to the Department's financial management and procurement information systems, should provide more complete, integrated information and allow for a more automated/smart control system. Revitalization of the roles and responsibilities of Comptrollers, at all levels within the organization, should aid in ensuring that all expenditure transactions demonstrate compliance and due diligence.



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RESULTS IN BRIEF

INTRODUCTION

1. Enhanced resource management, responsible spending and active monitoring are receiving increased attention across the federal government. Key initiatives such as the Modernization of Comptrollership in the Government of Canada, the Financial Information Strategy and *Results for Canadians* identify these areas as priorities. Within the Department of National Defence (DND)¹, resource management has been an ongoing theme in several audits and assessments over the past 15 years. Through these reviews, Chief of Review Services (CRS) has identified opportunities and proposed numerous recommendations for improvement in the management and control of public funds. It is within this context that an audit of the “Management of Local Funds” was included in the 2000–2001 CRS review plan.

BACKGROUND

2. The Department’s approach to resource management has been subject to significant change – evolving from a rules-based to an accountability-based control framework. This new framework has been accompanied by:

- increased devolution of authority;
- decentralization of administrative responsibility;
- adoption of a more encompassing vision of comptrollership; and
- development of technology intended to streamline processes, and improve controls, as well as to provide desktop access to current information.

3. As articulated in *Results for Canadians*, the challenge is to ensure the resulting framework is “flexible enough ... to support initiative and common sense – but tight enough on standards and control systems to ensure clear accountability”².

¹ A list of abbreviations and acronyms is included at Annex F.

² Results for Canadians: A Management Framework for the Government of Canada, Treasury Board of Canada Secretariat, http://www.tbs-sct.gc.ca/res_can/rc_1_e.asp#pre.



4. The objective of this audit was to determine whether local operating and maintenance funds are being managed in accordance with the Financial Administration Act (FAA), Treasury Board (TB) and Departmental resource management policies. The accuracy and adequacy of management information, and the appropriateness of risk management strategies and practices were examined, as well as the efficiency and effectiveness of the processes in place to support budget planning, procurement, and monitoring. The audit focused on local funds managed by the three environmental commands (Chief of the Maritime Staff (CMS), Chief of the Land Staff (CLS), and Chief of the Air Staff (CAS)) during FYs 2001 and 2002. These comprised \$1.1B in FY 2001 and \$1.2B in FY 2002. Nine site visits were included in the audit conduct, representing a cross-section of environments, functions, and budget sizes. Results of statistical and judgmental sampling, focus groups, and interviews at these sites, were combined with comprehensive data analysis and benchmarking, to reach audit conclusions.

OVERALL ASSESSMENT

5. In the course of the audit, we observed wide variation in the diligence paid to the management of local funds. All visited locations were making good use of resource management committees to prioritize expenditures, reallocate funds, and monitor the overall budget status. However, at the more detailed transaction level, the extent of compliance with government and Departmental policy varied from reasonably high to less than acceptable. The wide variation in results among the visited sites precludes us from providing a conclusive statement of *assurance* regarding department-wide financial management practices.

6. The variation was due to several factors. Inconsistent policies, unclear authorities, and varying amounts of experience and training regarding financial management were partially responsible. Additionally, there appeared to be a relationship between the level of compliance and the emphasis placed on transaction-level monitoring and oversight. Locations with a strong, pro-active comptroller organization, and a robust method of monitoring, including reporting and follow-up, demonstrated higher levels of compliance. A Department-wide, standardized approach to monitoring, including the definition of acceptable performance standards for financial administration, is a critical mechanism to increasing compliance, which in turn mitigates the risk of misuse of funds.

7. Opportunities exist to increase the accuracy and adequacy of management information, to improve risk management practices, and to increase the efficiency of processes used to manage local funds. These will be realized principally through the definition and monitoring of standards for financial administration, increased use of acquisition cards and consolidation of the invoice processing function. The potential resource savings are substantial. These opportunities are discussed in the detailed results and recommendations that follow. While the audit conduct focused on management of local funds within the three Environmental Chiefs of Staff (ECS's), it is our view that other Level One managers (L1's) could also benefit by considering the reported recommendations.



PRINCIPAL OBSERVATIONS/ISSUES

8. **Compliance with Policy.** Statistical sampling during site visits determined that 7.4 per cent of local fund dollars expended either:

- did not comply with the FAA (in particular Section 34 which requires documented confirmation of receipt and price prior to payment);
- were not contracted in accordance with TB contracting policy;
- were not adequately supported with source documentation; and/or
- were erroneous payments (wrong payee, wrong amount).

Further information regarding the sampling methodology used, and the extent and nature of non-compliant transactions observed, are documented in the detailed results.

9. Significant variation in the extent of non-compliance – from four per cent at one location to as high as thirteen per cent at another – demonstrates that the problem is greater at some locations than others. The underlying causes varied. In some cases, conflicting, incomplete or confusing policy exists, either at the Departmental level or locally. In other cases, training has been inadequate. In still other cases, individuals chose to ignore policy for the sake of expediency. This highlights the requirement for more effective monitoring and clearer direction on acceptable practices from both the National Defence headquarters (NDHQ) policy centers and ECS senior management.

10. The audit examined compliance in relation to the FAA and TB contracting policy. Traditionally, implementation of these policies has been the separate mandate of the Assistant Deputy Minister Finance and Corporate Services (ADM(Fin CS)) and the Assistant Deputy Minister Material (ADM(Mat)) respectively, (and, at the base level, of the Comptroller Branch and the Supply Section). However, decentralization of purchasing and invoice payment has blurred the distinction, and has resulted in individuals requiring knowledge of the policies and procedures governing both disciplines. For these individuals, procurement is seen as a continuum involving contracting, purchase initiation, receipt, and payment. As a result, ADM(Fin CS) and ADM(Mat) should integrate their efforts to identify weaknesses and enhance control throughout the procurement/payment process. As the same underlying causes – including unclear delegations and inconsistent policies – were found in both disciplines, an integrated approach to resolving the issues should produce the optimal result.



11. **Delegation of Authority.** An effective financial control framework must start with clear accountabilities. In response to previous audit observations, the Department has promulgated a comprehensive, consolidated delegation matrix outlining the maximum authorities permitted. This is a valuable tool, but the benefits are not yet fully realized due to weaknesses in implementation. For example, the term commonly used in the Department's delegation matrix and in financial policies – Responsibility Centre (RC) Manager – is not well defined, or understood. We observed situations where administrators were signing as RC managers, and where distribution account (DA) holders were initiating purchases through Supply on the assumption that they had the purchasing authority of an RC manager. In the absence of clear delegations, it is impossible to confirm that all transactions are properly authorized. There is inconsistency in the recording of authorization for individuals. In most cases, specimen signature cards contained very limited information on the financial authorities an individual had been granted, or on the limitations thereto. While several locations were currently developing databases and other innovative approaches to documenting authorities, a Department-wide approach is lacking.

12. **Accuracy and Adequacy of Information.** Overall, the focus remains on controlling individual budgets and processing transactions, rather than on providing integrated, results-focused management information. Efficient integration of information, particularly financial and non-financial performance information, is an on-going challenge. The audit observed that:

- While 98 per cent of the sampled expenditure transactions were appropriately recorded initially, given that there is no direct linkage between original transactions and subsequent adjustments, the capacity to confirm the accuracy of expenditure information in FMAS is affected. Situations were observed where, to track expenditures for a particular exercise or event, all related expenditures were transferred to an account that normally would not be used. While perhaps serving the local purpose, this reduces the accuracy of Departmental accounts. Efforts to compare costs, or to evaluate results, are further complicated by the fact that inconsistent – although not “incorrect” – coding approaches are used for similar activities.
- Inconsistent and incomplete recording of financial commitments in FMAS results in reduced visibility of available funds, i.e., ‘free balances’. This hinders the timely reallocation of those funds beyond the local level.
- Lack of system interfaces and use of localized approaches, including ‘black books’³, further diminish the reliability and completeness of Departmental information, and impact the ability to produce results-based reports. A lack of consolidated information regarding devolved purchases has resulted in requirements being evaluated incrementally, rather than from a Base-wide or Departmental perspective. This practice reduces the Department's ability to determine where increased use of national or local standing offers, and/or increased contracting authority, could produce better value.

³ Recording financial information in spreadsheets or other forms that can only be accessed locally, rather than in the Department's financial and managerial accounting system (FMAS).



13. **Identifying and Assessing Risk.** Ad-hoc approaches to mitigating risks in the management of local funds are evident, including varying authorization requirements and varying levels of oversight according to the nature and value of transactions. However, an overarching approach to identifying and mitigating risks has not been developed. Although monitoring is seen as a critical attribute of effective risk management, the extent and thoroughness of monitoring varies considerably among locations. As well, variation in the approaches yields results that cannot be aggregated or used to identify areas of either heightened risk or where increased authorization (reduced risk-aversion) might be warranted.

14. **Efficiency of Processes.** Opportunities exist to improve efficiencies in the procurement/payment process. It was observed during the audit that:

- While the Department encourages and has increased the use of acquisition cards, no target usage rates have been established and the extent of use varies considerably among locations. Results from benchmarking payment methods used by other governments/departments indicate that significant savings – a US Department of Defense (DoD) study quotes \$30 per transaction including rebates – can be achieved by maximizing the use of acquisition cards. As a result, some organizations are targeting, and achieving, as high as 95 per cent use of cards for low-value payments. Further study is required to determine potential savings per transaction within the DND/CF. However, if the DoD experience applies, maximizing the use of acquisition cards within the 3 ECS's could result in savings of over \$12 million annually.
- Best practices tend to support the devolution of responsibility for the initiation of expenditures. However, consolidated or centralized invoice payment increases process efficiency. A consolidated approach lessens training requirements, alleviates backfill and succession issues, and should result in a higher degree of policy compliance. More consistent, reliable and complete information should also result from using a consolidated approach. One Defence agency reported that its centralized bill payment service increased productivity by 35 per cent in the last three years. While this agency used 591 staff to pay 4.4 million invoices, by comparison, more than 1700 individuals were involved in paying 0.5 million invoices for the 3 ECS's in FY 2002. If these individuals spend 10 per cent of their time processing invoices, a conservative estimate of the value of a 35 per cent productivity gain exceeds \$4 million dollars⁴. If the savings are extrapolated to the 3000 individuals within the department with accounts payable user-IDs, the potential efficiency gains exceed \$7 million.

⁴ Based on \$71,000 approx full cost of a Pte/Cpl or civilian indeterminate employee, as listed in 2003-2004 Cost Factors Manual.



PRINCIPAL RECOMMENDATIONS

15. A number of opportunities exist to increase process efficiencies, accountability and control, both in the short and longer term through enhanced technology and through e-commerce/e-business solutions. Examples include:

- automating documentation of delegated authorities and changing authorization signatures from manual to electronic;
- maximizing the use of acquisition cards for low-risk payments;
- establishing and monitoring standards for financial administration;
- reducing system duplication and improving interfaces among the various DND procurement-related systems, e.g., FMAS, CFSSU, CFEMS, thereby improving transaction visibility, accuracy and processing efficiency, and reducing time-consuming reconciliation of various data systems; and
- examining opportunities and benefits through consolidation of invoice processing.

16. Policies in several areas need further development and/or clarification, in particular, contracting, accounting for user-pay transactions and commitments, and Section 33 account verification requirements. In addition, a method should be developed for reporting and rectifying conflicting or outdated policies and references. Enhanced policy in these areas would improve management information, facilitate compliance, and decrease the risk of erroneous or fraudulent payments.

17. A more integrated approach to risk-management should be developed which would define critical risks and acceptable tolerance levels with respect to management of local funds. A comprehensive, automated approach to monitoring would help identify higher risk areas and would facilitate the development of mitigating strategies.

18. The ‘Summary of Recommendations’ included in the report identifies the principal parties responsible to take action on these recommendations. These parties, primarily ADM(Fin CS) and ADM(Mat) organizations, should take the lead in developing or refining policy and procedures in support of the recommendations. Successful implementation of the solutions, however, will be dependant on the input and support of the ECSs and other Level Ones.

MANAGEMENT ACTION PLAN

19. As the management action plan, included at Annex G, indicates, action has been initiated to address many of the recommendations included in this report. On-going upgrades and enhancements to existing systems, including improved interfaces, should serve to improve reporting capabilities, thereby providing management with information that is complete, and sufficiently integrated to meet their changing needs. Enhanced guidance in the areas of financial coding and expenditure management is being



developed. Combined with an upcoming strengthened certification process for resource managers, these steps will help to ensure those entrusted with funds management have the necessary basic tools. Additionally, renewed functional direction to Comptrollers, and reinforcement of their roles and responsibilities, will occur with a view to ensuring adequate oversight and challenge is applied to local funds management.



INTRODUCTION

AUDIT OBJECTIVES

To determine whether:

- Local funds are managed in accordance with FAA, TB and Departmental policies;
- Information to support reporting, performance monitoring, and management decision-making is both accurate and adequate;
- Risk management strategies and practices relating to management of local funds are appropriate; and
- Opportunities exist to increase efficiency in the management of local funds.

Key criteria used to assess these objectives can be found in **Annex A**.

SCOPE

The audit examined expenditures — for local operating and maintenance purposes — of funds controlled by ECS managers⁵. These expenditures totaled \$1.1B in FY 2001, \$1.2B in FY 2002.

METHODOLOGY

The following were conducted to gain sufficient evidence to conclude on the audit objectives:

- ▶ A risk assessment to identify potential areas of concern;
- ▶ Visits to nine sites representing a cross-section of environments, budget sizes and roles (headquarters, bases, wings and operational units). Site visits included a combination of:
 - detailed examination of documentation relating to payment transactions selected using both statistical and directed sampling,
 - focus groups to quantify opinions of individuals directly involved in local procurement process,
 - interviews with comptrollers, support group managers (CE, supply, transport), and other RC managers, and
 - debriefs to local management to highlight and discuss findings.

⁵ More specifically, the audit examined transactions identified in FMAS as expenditures of local ‘L’ funds (as opposed to Corporate ‘C’ funds) within standard objects 02-09, where the Fund Centre (fund owner) is within the 3 ECS’s (i.e., either CMS, CLS, or CAS).



- ▶ Data analysis using Computer Assisted Audit Tools and Techniques (CAATTs), to begin development of indicators for ‘continuous monitoring’ by CRS and base staff;
- ▶ Examination of past reports to identify trends, and continuous improvement in the management of funds; and
- ▶ Benchmarking with other government departments and other militaries to identify potential best practices.

REPORT STRUCTURE

For reporting purposes, the issues have been divided into five topic areas:

- Compliance with Policy;
- Delegation of Authority;
- Accuracy and Adequacy of Information;
- Identifying and Assessing Risk; and
- Efficiency of Processes.

These areas are interdependent. For example, a thorough assessment of the risk involved in a particular type of transaction, based on accurate and adequate information, should be completed before delegation of authority occurs. Subsequently, delegation decisions can affect the efficiency of the process and potentially the degree of compliance with policies. As a result of these interdependencies, some of the detailed supporting information presented could arguably fit in other sections as well.

While the report focuses on the areas of potential improvement, it is recognized that significant advancement has already been made in the management of local funds. **Annex B** identifies many of the significant events and improvements introduced since 1986.

A key recommendation is that risks, within the management of local funds, be identified and assessed through the use of enhanced monitoring tools. This report discusses possible techniques in this regard including proactive, or directed, monitoring and the use of indicators for continuous monitoring. While further developmental work is required, a prototype of indicators that could be used for continuous monitoring is presented at **Annex C**. Enhanced monitoring will allow the Department to assess whether investments in training, communication, and technology have been effective, and will also serve to highlight areas of risk that warrant increased attention.

Throughout the body of the report, reference is made to focus group responses. While not statistically conclusive, these measures give insight into the opinions and concerns of those closest to the issues. A summary of focus group results is in **Annex D**.



The audit sought to benefit from the experiences of others. Benchmarking was conducted to determine potential best practices in the area of funds management. While some of these practices may not be directly transferable to the Defence environment, they have been included for consideration throughout the report, and are summarized at **Annex E**.

A summary of acronyms used in the report is provided in **Annex F**. **Annex G** provides management's detailed action plan in response to the report recommendations.



DETAILED RESULTS AND RECOMMENDATIONS

COMPLIANCE WITH POLICY

While the vast majority of sampled transactions were executed in compliance with the FAA as well as Treasury Board and Departmental resource management policies, the level of non-compliance – 7.4 per cent – appears significant and exceeds the targets established by some other federal government departments.

Non-compliant characteristics observed	Frequency of Occurrence
Wrong payment – wrong vendor, wrong amount	0.4 %
Non-compliant with FAA – missing or insufficient Section 34* <ul style="list-style-type: none"> – 2 large (\$600K and \$700K) and 8 lesser advance payments. – Thoroughness of Section 34 varied considerably, often with no apparent means to confirm receipt or price – One \$630K PAYE established without evidence of delivery before year-end, several months later reversed 	4.2 %
Non-compliant with other policies – exceeding \$5K contracting authority <ul style="list-style-type: none"> – Includes cases of split contracting, exceeding call-up limits, and inappropriate use of standing offers 	2.7 %
Administrative errors – missing documentation	1.4 %
Any of above	7.4 %
<ul style="list-style-type: none"> – 521 transactions examined in total, – some contained more than one non-compliant characteristic 	

Statistical samples chosen from six locations were evaluated for accurate payment, proper authorization, valid contracting, and sufficient supporting documentation.

The table to the left shows that the combined rate of non-compliance for the six locations was 7.4 per cent. Among locations, the rate of non-compliance varied from 4 per cent to 13 per cent. Significant variation in the frequency of errors was also observed among units within a Base/Wing.

When the combined rate of non-compliance is legitimately extrapolated to the \$320M sampled population, the resulting estimated value of non-compliant transactions is \$23M.

If the same rate of non-compliance is extrapolated to the entire \$1.1B local funds managed by the three ECS's, the projected value of non-compliant transactions is \$81M. However, this cannot be done with a high degree of confidence due to the large variation observed among locations.

* FAA Section 34 authorities are to confirm contract performance and price.



COMPLIANCE WITH POLICY (Cont.)**CURRENT SITUATION**

In contrast to two other departments which we interviewed, DND has not established a target compliance-rate; nor clearly defined ‘critical’ characteristics for compliance. As a result, each visited location is applying different standards, and the results of any local verification cannot be aggregated to determine a Departmental compliance rate, nor compared to determine locations where increased scrutiny and corrective action is required.

Appropriateness of Contracting

We observed, and focus group responses support, that local managers strive to obtain value for money in their purchasing. At all locations, competitive purchasing is emphasized and quotes, for the most part, are documented. The majority of contracting problems observed in the audit were in transactions under \$25K in value. Greater attention is appropriately being paid to large dollar value transactions.

At all visited locations, contracting irregularities, including exceeding contracting authority, split contracting, exceeding call-up limits, and inappropriate use of standing offers, were observed to some degree. Expediency was often given as the reason for non-compliance. However, the resulting purchases – for example, split purchasing of furniture at year-end – did not appear operationally urgent.

Repetitive purchases are sometimes not perceived as involving contracts over \$5K. For example, there is not a clear understanding of the contracting authority required when several individuals attend a training course that costs less than \$5K per individual, but the collective cost is over this threshold. Recurring requirements, such as those in the food services area, create similar confusion as to the total contracted value and the required contracting authority.

For transactions under \$5K, we could not confirm that proper contracting authority was exercised due to incomplete delegated contracting authority records, and/or insufficient supporting documentation. The requirement to document contracting authority for low dollar value, non-acquisition card transactions, has not been clearly defined.

Adherence to FAA Requirements

Compliance with the Section 32 requirements of the FAA – expenditure initiation and commitment control – is difficult to confirm because delegation of this authority is either not clearly documented, or there is no clear audit trail documenting the individual who initiated the transaction. This is particularly true for low dollar value, non-acquisition card purchases.

Compliance with Section 34 requirements of the FAA – confirmation of contract performance and price – varied considerably. Within the sampled transactions, we observed ten instances where payment was made before goods were received, including two large prepayments– totaling \$1.3M – of utilities at year-end. We also observed two locations that were routinely prepaying cleaning invoices with no contractual obligation to do so.

We observed several instances where information on invoices or packing lists, and the process in place to document the receipt of goods, were insufficient to confirm that goods were received and that the price was in agreement with contract. This was particularly evident in Construction Engineering sections where payment was sometimes made on non-itemized invoices, without benefit of any further substantiating documentation. Overall, at the visited sites, Section 34 signatures are usually completed, but the thoroughness of validation prior to certification varies widely.



COMPLIANCE WITH POLICY (Cont.)

Requirements of Section 33 of the FAA – authorization of payment – were inconsistently applied. Some locations had mature verification processes in place, while others were struggling to design an approach, or stated they had insufficient resources to complete this function.

UNDERLYING CAUSES OF NON-COMPLIANCE

Authorities are often not clearly delegated and documented, raising confusion regarding individuals’ authority. This is further discussed in the next section of this report.

Policies in some cases are inconsistent or misleading. An example of this is the Departmental delegation document which limits Section 33 signing authority for transactions over \$100K to ranks above Warrant Officer or equivalent, and FAM 1016-4 Payment – FAA Section 33, which states transactions under \$250K are considered low risk. A further example is CFAO 209-24, which specifies that Section 34 on travel claims must be certified by a rank of at least Sergeant or equivalent. However, travel claims meet the low risk requirements of FAM 1016-3, implying they can be certified by a lesser rank. Some policies relating to contracting authority, and in particular split contracting, are similarly vague.

In other cases, insufficient training or insufficient experience may have led to non-compliant behaviour. While Annex B attests to the improvements that have occurred in this area, some focus group participants indicated that their training requirements have not yet been fully met.

Role of Account Verification

A comprehensive, consistent method of Section 33 account verification is required to increase the level of compliance and to identify and

address the underlying causes of non-compliance. Locations with a robust system of account verification, including reporting and follow-up, exhibited higher rates of compliance in our statistical sampling. The respective roles of the RDAO comptroller, unit comptroller, supply officer, local review staff and command staff regarding verification must be clear in order to ensure adequate coverage and minimal duplication.

Importance of Compliance

The importance of adherence to policy must be stressed, not merely for compliance sake, but as a means of ensuring Departmental funds are spent in a transparent, fair and accountable fashion; and to reduce the risk of inappropriate, unsubstantiated or even fraudulent transactions. Focus group participants commented that they are sometimes in the dilemma of following either the policies or the request of their senior officer to ‘make it happen’. Overall, only 39 percent of focus group participants felt that individuals are held accountable for their financial decisions (see Annex D). Addressing this concern may be fundamental to improving compliance.

BEST PRACTICES

One federal government department has developed an extensive policy on account verification that is currently applied in the National Capital Area. They have established a target compliance level of 96 per cent. They stated that challenges remain in implementing the policy across all regions.

Another federal department regularly consolidates the results of statistical sampling, using clearly defined errors, and a documented target compliance rate of 95 per cent. Regions whose results fall outside the acceptable range are required to document corrective action taken.



COMPLIANCE WITH POLICY (Cont.)



RECOMMENDATIONS

<p>DFPP DCPol</p>	<p>A more detailed, comprehensive approach to Section 33 verification should be developed:</p> <ul style="list-style-type: none"> - the approach should give adequate attention to ensuring contracting requirements are appropriately met; - it should ensure a consistent standard is applied at all locations, allowing results to be aggregated, and compared; and - follow-up should occur if results are not reported, or if results are outside the acceptable range.
<p>DFPP DMMD</p>	<p>When new policy is developed, a mechanism should exist to document all related policies that need updating, or deleting. The mechanism should also allow Bases and units to formally report conflicting or outdated policies and references. Interim advice should be made available, and the contradictions rectified in a timely fashion.</p>



DELEGATION OF AUTHORITY

Discussions with individuals and review of financial documentation, indicated inconsistent application of delegated financial authorities across the Department. Misunderstanding of who may carry out the role of RC Managers hampers accountability.

CURRENT SITUATION

RC Managers and Administrators

At the local level, Responsibility Centre (RC) managers are key individuals in funds management. The delegation document grants RC managers the authority to contract, to initiate purchases, to confirm performance and price, and to appoint administrators to assist in their financial management responsibilities. However, at many locations, it is not clear who the RC managers are.

The definition in the delegation matrix states that “an RC manager is the incumbent of a position that is allocated a budget and who has spending authority under the FAA for that budget”. The confusion lies in whether an individual has been *allocated* a budget, or is simply *administering* a portion of the budget. For example, at one location, each of three section heads were considered by the Base Transport officer to be RC managers, allocated funds within an internal order to accomplish their function. However, this authority was not documented. At most other locations, only the Base Transport officer was considered an RC manager, while several others within the group had administrative responsibilities relating to financial management. While one location had documented their RC managers, and the funds that they had been allocated, this was rare, and does not seem to be a current requirement.

Similarly, the authorities of RC administrators are not clearly documented or understood. We observed many situations where

administrators are assuming the authorities of RC managers, for example signing acquisition card applications, initiating purchases either directly with suppliers or through Base Supply, without written authority to do so.

In interviews and focus groups, many individuals confirmed that they were unclear as to their delegated authority. (See Annex D). This undermines accountability, and makes it difficult to confirm whether all transactions have been properly authorized.

Fragmented, Incomplete Documentation

The documentation of delegated authorities that does exist is very fragmented, with several OPI's:

- the Comptroller Branch maintains specimen signature cards documenting Section 34 and 33 authorities;
- the Base Administration Branch often maintains lists of individuals with Section 32 and 34 authority for travel claims;
- in some cases, Supply maintains a listing of individuals with the authority to initiate purchases against particular funds, in other cases, it was assumed all DA holders had this authority;
- either Supply or the Comptroller group held information on authorities devolved in relation to acquisition card purchases – however, there was confusion as to whether



DELEGATION OF AUTHORITY (Cont.)

these authorities also applied for non-acquisition card purchases; and

- DCPol maintains documentation on cases where increased contracting authority has been delegated to specific base personnel.

As the majority of these delegations involve paper-based approaches, which cannot readily be accessed, the end result is confusion as to whether individuals have the requisite authority and no easy method of verification.

Further complicating the issue, individuals who electronically authorize documents often are not the same individuals with the delegated authority.

DFPP has recently developed a template for documenting each individual’s authorities, however, at the time of the audit, this had not been widely implemented.

BEST PRACTICES

A few Bases/Wings have begun developing automated databases that document delegated authorities. One location has incorporated an electronic image of signatures for verification purposes. None of the observed approaches is, of yet, a comprehensive solution.

Three interviewed federal government departments have developed department-wide electronic databases that document each individual’s authorities. Transactions are routed for electronic authorization based on these databases. In two cases, additional manual signatures are still required. The databases contain an electronic image of signatures for verification purposes.

RECOMMENDATIONS

DFPP	<p>A Department-wide automated approach to documenting an individual’s authorities should be developed and implemented. The approach should:</p> <ul style="list-style-type: none"> - clearly identify the RC managers, and administrators, and the funds for which they have authority; and - include electronic images of signatures to eliminate the need for specimen signature cards.
DGFA DFPP DMMD	<p>In the longer term, methods of linking authorizations to system privileges should be explored. Transactions should be routed to the appropriate authority to approve electronically. Electronic signatures should become standard.</p>



ACCURACY AND ADEQUACY OF INFORMATION

While 98 per cent of the sampled expenditure transactions were appropriately recorded initially, given that there is no direct link between the original transaction and subsequent adjustments, the extent to which the accuracy of expenditure information in FMAS can be confirmed is affected. Furthermore, the continued reliance on localized approaches, including 'black books', and the existence of multiple, non-integrated sources of financial and operational information, leave managers with less than optimal information.

CURRENT SITUATION

Accessibility of information is an area that has improved substantially (see Annex B). Managers now have real-time desktop access to a wide range of information. Improvements in technology and a willingness on the part of managers to adapt to the changing environment make the possibilities in this area almost limitless. The challenge is to ensure the information managers receive is accurate, complete, and sufficiently integrated to meet their changing needs.

Accuracy of Expenditure Information

Of the sampled expenditures, 98 per cent were recorded to the appropriate financial codes within FMAS. However, inappropriately recorded subsequent adjustments (SA's), as were frequently observed, clearly have an impact on the overall accuracy of FMAS information.

The recording of 'user-pay' transactions, where one unit provides services to another for a fee, causes particular concern. At one location all Construction Engineering projects completed using Departmental resources, but paid for by the receiving unit, were recorded as contracted maintenance (with an offset to SWE and construction materials). At another location, local direction was inappropriately given to record these internal transactions as revenue.

Inappropriate coding was also used to increase local visibility of some expenditures. For example, one headquarters charged over \$4M in expenditures related to a particular exercise, to the GL 'technical aids for the disabled' on the assumption this GL would not be used for any

other purpose. The actual expenditures were for salaries, food, materials, etc.

While these limitations may not significantly affect the overall accuracy of Departmental accounts, they can have a material impact on trend analysis or cost comparisons at the local level. As well, Departmental reports on specialty areas – such as support to the disabled and revenue – can be materially affected.

Reliability of FMAS Commitment Information

Recording financial commitments in FMAS allows the 'free balance' of funds to be monitored, and facilitates the timely reallocation of funding.

It was observed that few locations are accurately recording commitments in FMAS. Many, because of difficulty clearing commitments in FMAS once established, are recording commitments in localized systems or 'black books'. Other locations are creating 'bulk' commitments in FMAS before a legal obligation to pay exists.

CFSSU (which establishes an FMAS commitment upon creation of a purchase order) and the acquisition card U19 role (which creates a commitment for outstanding AC transactions) are not being widely used for local purchases.

This affects the reliance that can be placed on FMAS information in determining the Departmental 'free-balance'.



ACCURACY AND ADEQUACY OF INFORMATION (Cont.)

Adequacy of Management Information

Currently, much of the information that managers require to make decisions is recorded in non-integrated systems. Many transactions must be recorded twice – in FMAS and in functional management information systems (MIS) such as CFEMS, for Construction Engineering information, and Unitrack, for Food Services information. Not only does this create an administrative burden in terms of recording and reconciling, it also increases the likelihood that information will be inaccurate or incomplete.

As previously mentioned, many managers continue to rely on ‘black book’ solutions. Departmental systems often are not used to their full capability because of lack of awareness and/or resistance to change. While the ‘black book’ solutions often meet current local requirements, reliance on them limits visibility of information at the Departmental level, and may delay refinement of the Departmental systems.

As a result of devolved purchasing, there is much less aggregate information on base-wide requirements. This limits the Supply Sections’ ability to establish or renegotiate appropriate contracts or standing offers. While this information could be provided by CFSSU, at the time of this audit, that system was not being widely used for purchases involving local funds.

While the Business Planning process allocates funds to activities and outputs, FMAS primarily records expenditures based on the type of resource consumed. There is little ability, at the Base/Wing level, to relate the resources consumed to output produced. This limitation hampers performance measurement, and limits the usefulness of FMAS information in downstream resource management decisions.

BEST PRACTICES

At least three interviewed organizations use a procurement module for all non-AC purchases, creating a financial commitment for each authorized purchase order and providing organization-wide procurement information.

One federal government department enters AC commitments daily, using an electronic download of transactions provided by the bank.

E-Catalogue system used by one Agency creates default financial coding for cost centre and GL.

One organization recently adopted a more enterprise-approach, implementing a new system for finance, supply and personnel, which replaced 64 systems (local or regional) and helped standardize the information available.

RECOMMENDATIONS

DFPP	<p>Clearer direction should be provided regarding correct coding, in particular for user-pay situations, and commitments. The importance of accurate recording should be reinforced.</p> <p>The developed approach for Section 33 verification should include validation of appropriate coding.</p>
<p>◇</p> <p>DGFA DMMD</p>	<p>In the longer term, strategies for more fully integrating financial and operational information should be developed, along with a mechanism to document and reduce system duplication.</p>



IDENTIFYING AND ASSESSING RISK

Ad-hoc approaches to risk-management are evident, including varying authorization requirements and varying levels of oversight. However, an overarching approach to identifying and mitigating risks, in the area of local funds management, has yet to be developed. An approach that maximizes the use of continuous and high-risk monitoring is suggested.

Current Situation

As Annex B illustrates, monitoring to detect and mitigate risk areas, is increasing. All environments are completing some degree of staff assistance visits, or command inspections. Several locations are using a risk-based approach to their local monitoring, giving increased scrutiny to transactions involving, for example, new users, unusual vendors, or high dollar value. However, the approaches are inconsistent and of varying thoroughness, and therefore cannot be relied upon to identify all areas of heightened concern.

As an additional means of reducing risk, both Departmentally and locally defined authorities vary by commodity. For example, only a few individuals at each location can authorize hospitality, memberships, temporary help and other services. As well, many managers have restricted the commodities that staff can procure to common, recurring items. However, with unclear delegations and limited oversight, it is difficult to ensure these restrictions are adhered to.

Resource Management Committees serve an active role in reviewing and challenging both requirements and expenditures, which mitigates the risk of over or inappropriate spending. However, again, thoroughness varies among locations, and current monitoring and reporting practices hamper headquarters' ability to discern those locations applying inadequate scrutiny.

In all, a more rigorous, Department-wide approach to risk management is required. Automated approaches, involving techniques such as CAATs, offer significant future benefits. Two such approaches are discussed in this section – “*Indicators for Continuous Monitoring*”, and “*High Risk Monitoring*”.

Indicators for Continuous Monitoring

Automated indicators can be a powerful tool to track changes in processes, or to give a signal that changes are needed. Used effectively, these indicators facilitate decision-making and provide an impetus against inertia. They provide a means to measure performance against benchmarks and targets. With appropriate analysis and responsive action they can be effective in managing risk.

This audit explored electronic indicators that might be useful in highlighting areas warranting attention (See Annex C). These indicators provide a preliminary view of variations between locations and/or over time in the areas of efficiency, budget management, and compliance. Many mitigating circumstances affect results at a given location. With continued use and experience, management should become increasingly adept at knowing when variation is explainable and when it warrants attention.

In establishing indicators, it is important that consideration be given to the behaviour that may be prompted. As an example, in the statistical sample, we observed on the timeliness of payments. Within the FMAS system, interest is automatically paid (with some exceptions) on any invoice taking more than 30 days to clear. At one location, invoices were being entered with the wrong date, in order to avoid interest payments. In such circumstances, if interest paid is used as the only indicator of timeliness, the wrong picture may be presented. Within the overall statistical sample, 49 per cent of sampled invoices either



IDENTIFYING AND ASSESSING RISK (Cont.)

were not date stamped when received (leaving correct payment date impossible to determine) or the wrong date was entered in FMAS. As a result, the indicator relating to timely payment is currently of questionable accuracy.

Monitoring of indicators, combined with appropriate follow-up action, should prompt increased accuracy and efficiency.

High Risk Monitoring

The audit piloted the use of high risk monitoring as an efficient means of confirming the existence and minimal value of particular errors within a ‘high-risk’ population. Samples were

chosen based on characteristics that suggest increased probability of error. For example, multiple payments on the same date, to the same vendor, from the same cost centre were perceived as being at risk of involving split contracting, and therefore of exceeding contracting authority.

The table below gives results of four areas of high risk reviewed in this audit. The results of this type of testing cannot be used to extrapolate an error rate, however, they do provide the minimum value of errors within the population. While no characteristics were identified which unfailingly identify errors, the approach provides an efficient method for focusing on transactions with increased risk of errors.

<u>Quantitative Summary of High Risk Monitoring:</u> Errors/Inappropriate Actions	Identifying Characteristics	Cases Examined	Errors/ Inappropriate Cases
<u>Invalid or Questionable Year-End Payments</u> Includes 2 large pre-payments of utilities, PAYE for PILT and PAYE on incomplete construction projects	A large payment at year-end or a vendor with majority of sales at year-end	57	28 \$3,363,000
<u>Wrongly Entered or Unsubstantiated Payments</u> Includes 2 cases over \$75K where purchasing and contracting authorities were not clearly documented	Largest payment to vendor at least 10 times the value of the second largest payment	42	7 \$244,000
<u>Split Payments</u> Most cases were relatively low total dollar value – between \$6K and \$12K	Two or more invoice or AC payments with same cost centre, document date and vendor, total payment >\$5K	113	27 \$226,000
<u>Duplicate Payments</u> All errors were relatively small dollars. They were often as a result of paying both faxed and original copies of invoice	Same invoice number and dollar value	57	28 \$49,000



IDENTIFYING AND ASSESSING RISK (Cont.)

FUTURE CONSIDERATIONS

Increased capability to monitor and manage risk, might allow the Department to consider increasing authorities in several areas. One area in particular, where many focus group participants and managers felt increased authority was warranted, was contracting. The current \$5K contracting limit placed on RC managers and administrators was felt by many to be overly risk-averse. An increased capability to monitor for split-contracting, or inappropriate contracting may provide support for increasing this authority.

There is considerable potential to use automated monitoring approaches as a risk management strategy. As discussed, in the

course of the audit a preliminary attempt was made to define two approaches – “*High Risk Monitoring*” and “*Indicators for Continuous Monitoring*”. With refinement, these tools offer significant benefit. Success factors in their refinement include:

- determining the key risk areas for monitoring;
- involving stakeholders in defining thresholds and benchmarks;
- reviewing preliminary results for factors that skew the information; and
- refining, revising and continually updating the process.

RECOMMENDATIONS

DGFA DMMD	Develop an overarching approach to identifying and mitigating risks in the management of local funds. The approach should involve a technology-driven capability to continuously monitor key performance areas, and to allow directed monitoring to be focused on areas of high-risk. CRS is prepared to assist in this endeavor.
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EFFICIENCY OF PROCESSES

Several practices were identified which could improve the efficiency of local funds management. Some of these practices are achievable in the short term, with little incremental investment. Others involve longer term planning and more significant commitment to change fundamental business processes. Implementation will principally fall on ADM(Fin CS) and ADM(Mat), however, other functional heads must be involved if the optimal solution is to be achieved.

Two areas were identified where there are opportunities for increased efficiency in the short-term — increased use of acquisition cards for low-risk and low-dollar value purchases, and consolidation of the invoice payment process.

In the longer term, technological advancements towards e-commerce/e-business, including electronic delegation, authorization and validation, provide a host of opportunities.

INCREASED USE OF ACQUISITION CARDS

Current Situation

Across DND there is a wide range in the current volume of acquisition card (AC) usage, as shown by the indicators for continuous monitoring (see Annex C).

Of the sites visited in this audit, one location used ACs for more than 85 per cent of FY03 transactions under \$5K; a second location used ACs for less than 13 per cent of similar transactions. AC’s vary from being the payment method of choice, to being for emergency use only.

In FY 2003, ECS overall usage of ACs for transactions under \$5K was 40 per cent.

Case for Change

When an AC is used, the transaction details are electronically transferred into DND’s financial system for payment. Incorrect payments, late payments, and duplicate payments, as a result of manual data entry errors, are considerably reduced.

All Departmental AC purchases for a month are paid in a single payment resulting in a large reduction in the volume of cheques, and in the requirement for individuals trained to process invoices. As a result, one DoD study indicates savings of \$20US for each transaction paid by AC rather than by invoice.⁶ While additional study is required to determine comparable DND/CF savings, if similar results are realized, the ECS’s could save over \$12M annually by maximizing the use of acquisition cards.

BEST PRACTICES

One Canadian Federal Government department stated that they are currently using ACs for 90-95 per cent of ‘low-risk’ transactions (i.e., \$5K goods, \$10K services, to limit of call-ups). They receive a daily download from the bank so that commitments can be updated on a timely basis.

A 2003 report of the United States General Accounting Office states that the Department of Defense had estimated 95 per cent of their purchases under \$2.5K were made on purchase cards in FY 2001.

⁶Department of Defense Charge Card Task Force Final Report, 27 June 2002.



CONSOLIDATION OF INVOICE PAYMENTS

Current Situation

A mix of approaches for paying invoices is currently in place. Some Bases/Wings have created ‘processing centres’ for data entry of invoices. Units with a significant volume of purchases, such as CE and supply, have their own ‘processing centre’, while units with a low volume use a ‘processing centre’ located in the Comptroller office. Other locations use a totally devolved approach with each RC manager responsible for their own invoice payment. For some of these managers, it is a low priority, secondary duty. As well, the resulting low volume of invoices per individual makes it difficult for some to maintain proficiency, and accuracy. In some cases, late payments could be related to the absence of the sole individual responsible for a unit’s invoice payments.

In FY02, more than 1,700 individuals (i.e., distinct user-ids) were involved in paying 500,000 invoices for the three ECS’s. Within all DND, more than 3,000 individuals have a user-ID allowing invoice payment.

Processing cost per invoice has not been measured and productivity targets in this regard have not been established.

Case for Change

By consolidating the invoice payment function, the number of specially trained individuals required to complete this task is reduced. Backfill and succession become less problematic, as the resources are in fewer locations, and on-the-job training becomes a

more feasible option. In turn, the incidence of both late payments, and inaccurate payments will likely be reduced.

If the individuals currently processing invoices for the ECS’s spend 10 per cent of their time on this task, increasing productivity by 35 per cent through consolidation – as was the MoD experience – would conservatively result in \$4M decreased process cost⁷. If the savings are extrapolated to the 3000 individuals within the department with accounts payable user-IDs, the potential efficiency gains exceed \$7M.

BEST PRACTICES

The Defence Bill Agency (DBA) offers centralized accounting, bill payment and invoicing service to the United Kingdom Ministry of Defence (MoD). In FY02, 591 individuals paid 4.4 million bills, a productivity gain of 35 per cent over three years. MoD has targeted to further reduce cost per invoice by 15 per cent by 2004.

Previous CRS benchmarking studies showed that 75 per cent of surveyed companies used a ‘shared services’ or consolidated approach to accounts payable.

One corporation consolidated eight accounts payable sections into a single shared service centre, reducing accounts payable staff from 1200 to 110. They process 20-25 million accounts payable transactions yearly.

⁷Based on \$71,000 approx full cost of a Pte/Cpl or civilian indeterminate employee, as listed in 2003-2004 Cost Factors Manual.



ADVANCEMENTS TOWARD E-COMMERCE/ E-BUSINESS

While progress on the previous two practices can be achieved in the short-term, e-commerce/e-business implementation will require longer term effort. To date, progress toward e-commerce/e-business within the Department has focused mainly on the payment process. Longer-term planning and more significant commitment of resources are required to exploit the benefits of end-to-end electronic processes. However, it can be approached in incremental steps, many of which are already in place within other departments. Electronic delegation, authorization and validation should be explored in the short-term.

Current Situation

As discussed in a previous section, within DND, documentation regarding delegations is for the most part paper-based, and often is not consolidated.

Electronic authorities are not normally linked to delegated authorities – for example FMAS Section 34 is not a valid FAA Section 34. Individuals performing electronic Section 34 currently do not require delegated FAA authority. An exception to this is Claims-X where claims are electronically

routed for authorization to an individual with delegated Section 32 and/or Section 34 authorities. Despite this, a paper-based signature is also required. With the introduction of EnTrust (DND PKI), the FAA financial authorization could now be performed electronically. For the most part invoice validations are manual – use of electronic validation is not being maximized. The recently introduced CFSSU system is an enabler for electronic verification. When an invoice is received, electronic matching to both purchase order and receipt document is required before payment. At the time of this audit's conduct, this functionality was not yet widely used.

Case for Change

With adequate sign-on security, electronic authorization would ensure that individuals with the appropriate authority authorize all transactions. Also, segregation of duties can be enforced through the assignment of authorities. Maximizing the use of electronic matching of purchase orders and receipt documents would allow individuals to focus their attention on the exceptions, rather than each individual transaction.



BEST PRACTICES

Most interviewed organizations are encouraging the use of a procurement module for all non-acquisition card purchases. This ensures a record of the purchasing authority. Invoices are electronically matched to purchase orders before payment.

One government agency has made great strides in this area. For many of their purchases:

- Items are selected from an electronic catalogue based on pre-negotiated contracts and standing offers.
- A purchase order is electronically routed to the appropriate manager for authorization.
- Upon authorization, the purchase order is electronically

transmitted to the supplier, and a commitment is entered in the financial system based on default coding linked to the item and purchaser.

- Receipt of goods is documented in the system after the receiver verifies items received against the purchase order.
- An invoice is transmitted electronically from the supplier.
- The price and quantity on the invoice are electronically matched to the purchase order and the receipt document.
- If a complete match occurs, the invoice is paid (sometimes through electronic funds transfer), the commitment is cleared, and the expense recorded in the financial system.
- Manual intervention is required only when an electronic match does not occur.

RECOMMENDATIONS

DGAPPP DFPP DMMD	Efficiency should be monitored and enhanced: <ul style="list-style-type: none"> - Increase use of acquisition cards. Target acquisition card usage rates should be established, and progress towards the target monitored. - Invoice processing should be further consolidated. Performance measures, such as processing cost per invoice, and number of individuals entering invoices, should be developed to monitor process efficiency.
DMMD DCPol DMASP DFPP DGFA	Consideration should be given to using CFSSU for most non-acquisition card purchases. In this way, the CFSSU capability for matching purchase orders, receipts, and invoices can be maximized, and more comprehensive procurement information will be available.
DMASP DMMD DFPP DGFA	In the longer term, continued progress toward e-commerce/e-business should be explored to create an end-to-end electronic procurement payment process.



SUMMARY OF RECOMMENDATIONS

Our audit examined the management of local funds within the three ECS's, however, we believe that additional L1's could benefit by considering the findings and subsequent recommendations. The offices of primary interest (OPI's) must take the lead role in implementing these recommendations through the development and refinement of policies and procedures. Offices of collateral interest (OCI's) must be involved to ensure all stakeholder's requirements are met. ECS's and other L1's have an important role to play in providing input, vetting changes, communicating the requirements, and providing support during the implementation process. Management response to these recommendations, and their action plans including responsible parties as identified by management, are included at Annex G.

Recommendations

- ★ – Suggested OPI's
- – Suggested OCI's

	ADM(Fin CS)			ADM(Mat)		
	DFPP	DGFA	DGAPPP	DCPol	DMMD	DMASP
<p>A more detailed comprehensive approach to Section 33 verification should be developed:</p> <ul style="list-style-type: none"> - the approach should give adequate attention to ensuring contracting requirements are appropriately met; - it should include validation of appropriate coding; - it should ensure a consistent standard is applied at all locations, allowing results to be aggregated, and compared; and - follow-up should occur if results are not reported, or if results are outside the acceptable range. 	★			●		
<p>In the longer term, a technology-driven capability to continuously monitor key performance areas should be developed. This would allow directed testing to be focused on areas of high-risk. CRS is prepared to assist in this endeavour.</p>		★			●	
<p>A dept-wide automated approach for documenting individuals' authorities should be implemented. The approach should:</p> <ul style="list-style-type: none"> - clearly identify the RC manager, and administrators, and the funds for which they have authority; and - include electronic images of signatures to eliminate the need for specimen signature cards. 	★					
<p>In the longer term, methods of linking authorizations to system privileges should be explored. Transactions should be routed to appropriate authority to approve electronically. Electronic signatures should become standard.</p>	●	★			●	



SUMMARY OF RECOMMENDATIONS (Cont.)

Recommendations

★ – Suggested OPI’s
● – Suggested OCI’s

	ADM(Fin CS)			ADM(Mat)		
	DFPP	DGFA	DGAPP	DCPol	DMMD	DMASP
Some policies/procedures relating to management of local funds need updating and/or clarification: <ul style="list-style-type: none"> - clearer direction should be provided regarding correct coding, in particular for user-pay situations, and commitments. The importance of accurate recording should be reinforced; - when new policy is developed, a mechanism should exist to document all related policies that need updating, or deleting. The mechanism should also allow Bases and units to formally report conflicting or outdated policies and references. Interim advice should be made available, and the contradictions rectified in a timely fashion. 	★			●	●	
Efficiency should be monitored and enhanced: <ul style="list-style-type: none"> - Use of acquisition cards should be increased. Target acquisition card usage rates should be established, and progress towards the target monitored. - Invoice processing should be further consolidated. Performance measures, such as process cost per invoice, and number of individuals entering invoices, should be developed to monitor process efficiency. 	●		★		●	
Consideration should be given to using CFSSU for most non-acquisition card purchases. In this way, the CFSSU capability for matching purchase orders, receipts, and invoices can be maximized, and more comprehensive procurement information will be available.	●	●		●	★	●
In the longer term, strategies for more fully integrating financial and operational information should be developed, along with a mechanism to document and reduce system duplication.		★			●	
Continued progress toward e-commerce/e-business should be explored to create an end-to-end electronic procurement payment process.	●	★			●	★



ANNEX A – KEY CRITERIA

MANAGEMENT CONTROL FRAMEWORK

The control framework is sound and key controls are functioning as intended

- Authorities regarding local funds are appropriately delegated, clearly defined and documented
- Contracting is in accordance with policy
- FAA requirements are met (Sections 32, 34, 33) and documents are retained
- Payments are accurate and timely
- An efficient procurement process is in place

INFORMATION FOR DECISION MAKING

Appropriate information is provided to successive levels of management

- Expenditures and commitments are recorded accurately and consistently
- Adequate information exists to support management decision-making and results-based reporting

RISK MANAGEMENT

Risk are understood and effective mitigating strategies are in place

- Risks are identified and assessed on their likelihood and significance
- Effective processes are in place for planning and monitoring budgets
- Monitoring of procurement process is efficient and effective



ANNEX B – TRENDS IN MANAGEMENT OF LOCAL FUNDS

This Annex depicts significant events within the Department between 1986 and 2002 related to the management control framework, the information available for decision-making and the risk management processes. The objectives in these areas have remained the same – efficient processes, accurate information, clear direction, etc. – but advances in technology and management practices have changed the environment, the expectations and the possible solutions to attaining the goals. While, the Department has achieved measurable progress in many areas, the Annex highlights further challenges and opportunities that exist.

The following CRS reports provided information for this annex:

- Report on the Review of Departmental Financial Signing Authorities under FAA (January 1987);
- Post Implementation Review of FIS MK III (May 1989);
- Financial Management and Control (February 1993);
- Audit of Local Procurement and Supply (March 1999); and
- Review of the Management of Operating Budgets (February 2001).



TRENDS IN MANAGEMENT OF LOCAL FUNDS (Cont.)

ANNEX B



Change from Rules-based to Accountability-based Control Framework

1986

2002

Expenditures controlled at the “GL” level and Comptrollers managing “stove-piped” funds limits flexibility in use of funds

Comptrollers established in each NDHQ Group

RC Managers manage Operating Budgets increasing accountability at point of consumption

Some increased ability to carryover funds, increases decision - making ability

Increased delegated authority increases responsibility at local level

Development of tools for managers to monitor high risk transactions

Ethics program recognition of the importance of “soft” controls

Introduction of Financial Attestation process allows clearer accountability

Expenditures “controlled” at fund centre level increases flexibility in use of funds

Challenges:

- Roles and responsibilities clearly reflect current environment
- Controls appropriate to current environment

Opportunities:

- Potential for increased authorities in some areas
- Movement to ‘result-based’
- Eventual optimization of resources



TRENDS IN MANAGEMENT OF LOCAL FUNDS (Cont.)

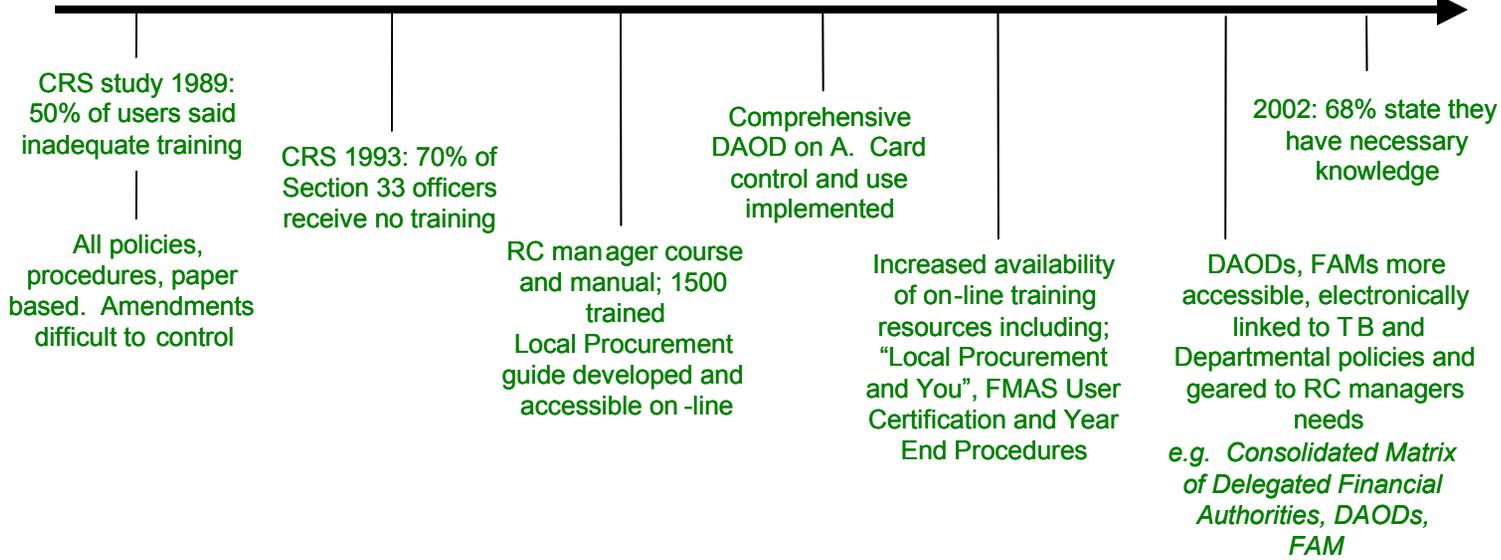
ANNEX B



Accessibility of Training and Reference Materials has Improved

1986

2002



Challenges:

Ensuring Training:

- Meets current expectations/requirements
- Effectively addresses capability gaps, and
- Maximizes user's knowledge of systems

Opportunities:

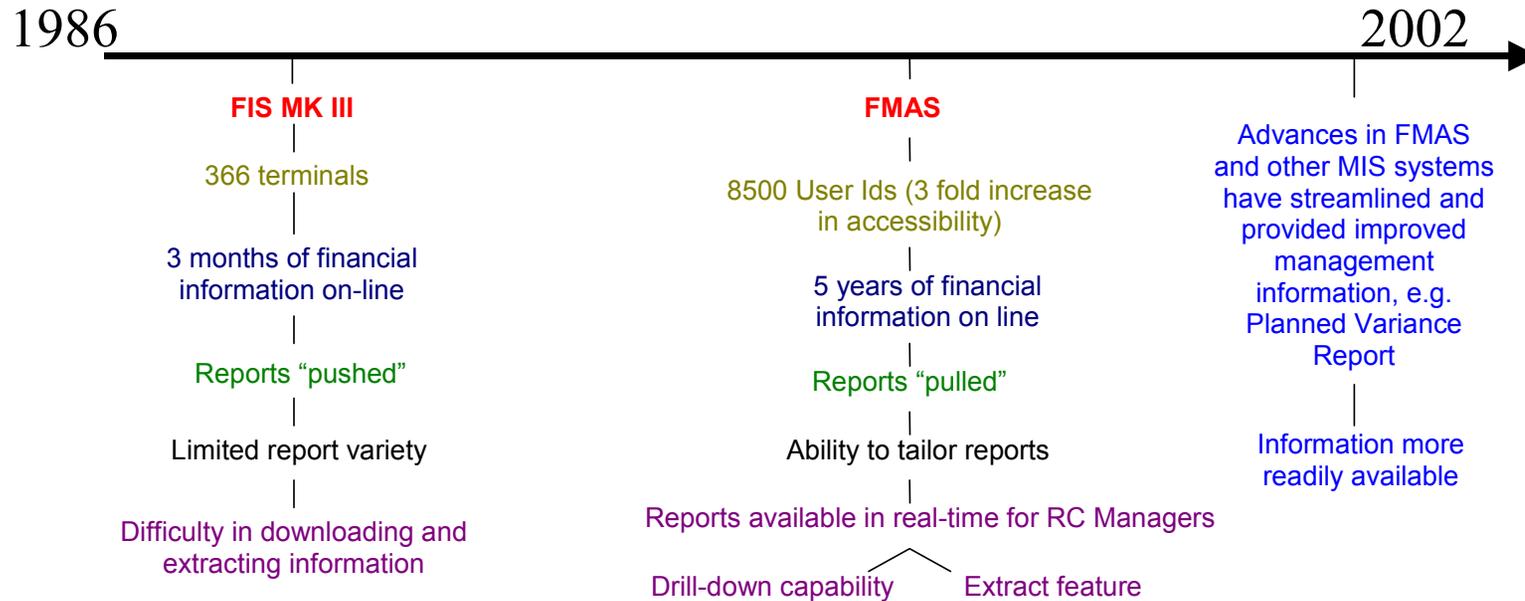
- Technology and re-designed processes (consolidation, A.Cards, E-Commerce) decrease some training demands
- Financial management becomes integral part of professional development

TRENDS IN MANAGEMENT OF LOCAL FUNDS (Cont.)

ANNEX B



Improved Access, Adequacy and Timeliness of Information



Challenges:

- Accuracy/adequacy of information in financial systems
- Complete, accurate commitment and free balance information
- Decrease/eliminate reliance on ‘black books’
- Integration of financial & operational info.

Opportunities:

- “Result-based” information focus
- Adoption of “Enterprise Approach”

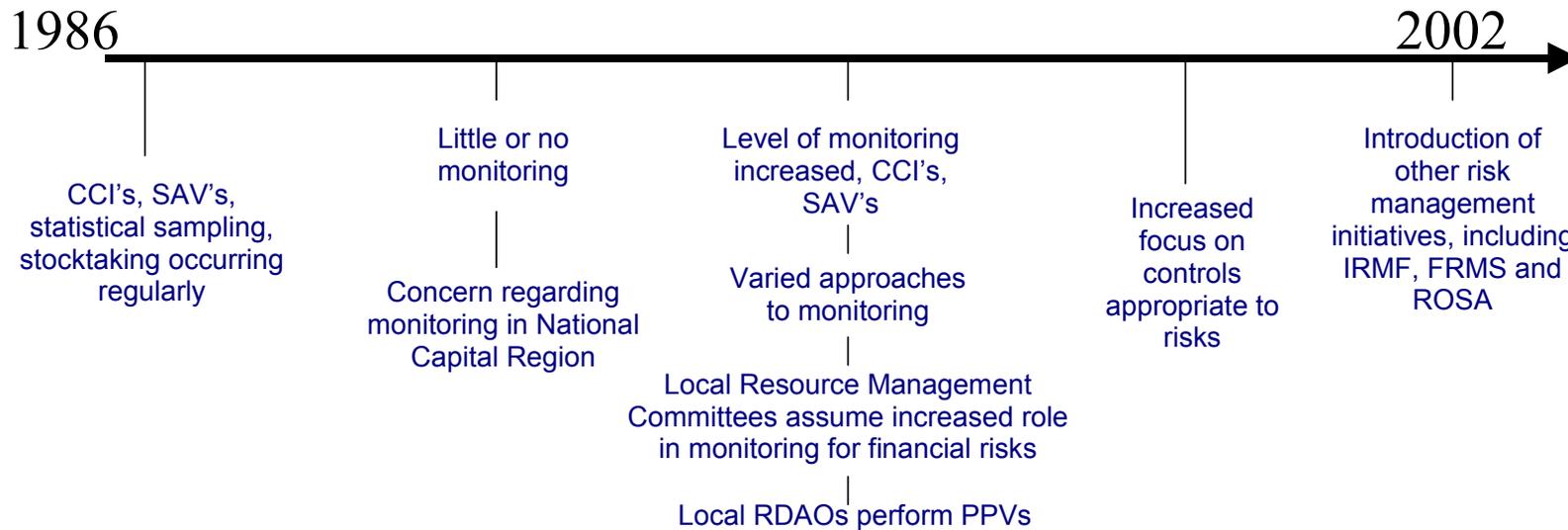


TRENDS IN MANAGEMENT OF LOCAL FUNDS (Cont.)

ANNEX B



Progress in Risk Management Practices



Challenges:

- Defining “critical” risks
- Developing integrated dept-wide approach, including enhanced monitoring
- Defining tolerance levels

Opportunities:

- Technology driven approaches to monitoring risk
- Increased authority in “low-risk” areas
- Resources better focused on mitigating strategies for “high-risk” areas

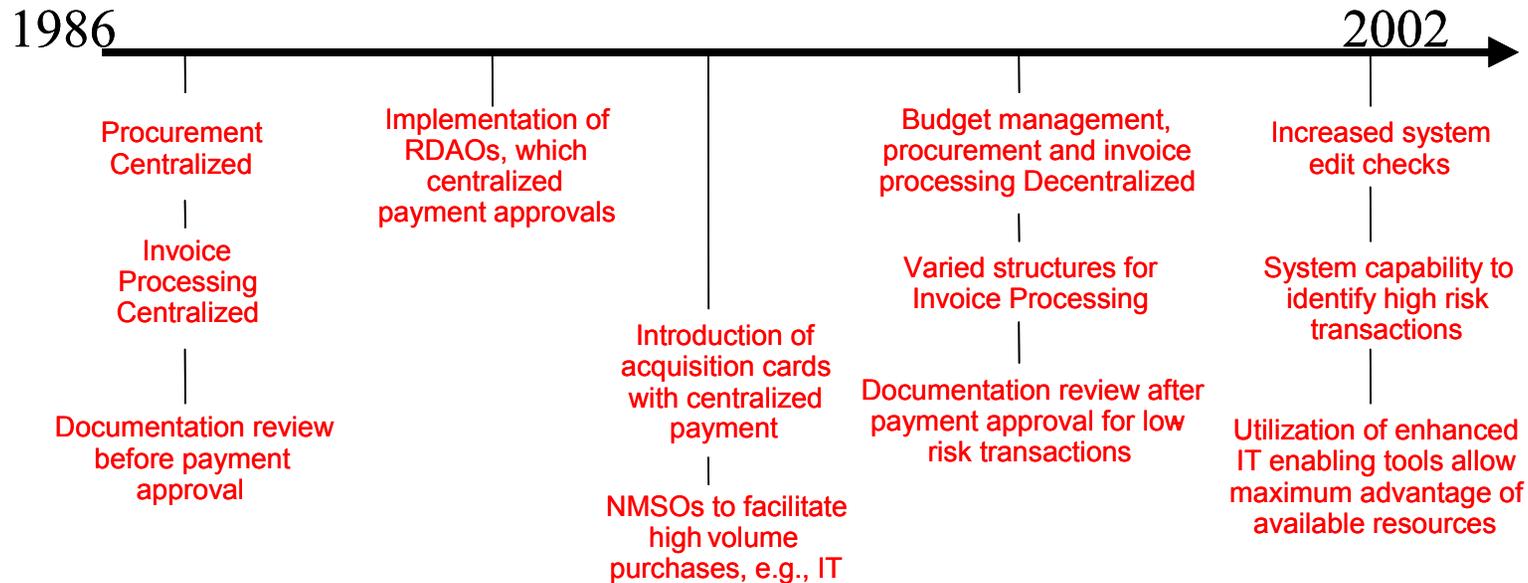


TRENDS IN MANAGEMENT OF LOCAL FUNDS (Cont.)

ANNEX B



Evolution to More Efficient Processes



Challenge:

- Ensuring compliance
- Policy consistency
- Continuous review of policy, procedures and training

Opportunities:

- Electronic databases to document individuals' authorities
- Authorities integrated with system approvals (electronic signatures)
- Maximize use of Acquisition Cards in interim
- E-Commerce
- Electronic Data indicators to allow managers to monitor effective and efficient use of funds



ANNEX C – PROTOTYPE FOR CONTINUOUS MONITORING OF THE MANAGEMENT OF LOCAL FUNDS

This audit explored electronic indicators that might be useful in highlighting areas warranting attention. These results are examples only; they are not meant to be conclusive, nor do they necessarily measure all the important attributes of funds management. Due to changes in FMAS, some indicators are not measurable in both fiscal years.

- The following table gives results for 6 Bases/Wings visited during audit conduct as well as consolidated results for the 3 ECS’s.
- The colors represent our auditor judgment on which results would be acceptable (green), which would be cautionary (yellow), and which would require further investigation (red).
- The results are useful in highlighting both potential best practices and locations where increased attention may be warranted. For example:
 - Relative use of acquisition cards (AC). One location used ACs for over 85% of small dollar transactions, while another used them for only 12 per cent.

	Processing Efficiency				Budget Management			Compliance	
	% of Invoices taking >60 days to pay		% use of AC (vs invoices) for purchases < \$5K		4th quarter expenditures as % of Total		% PAYE unconsumed within 6 months	% Late Payments (over 60 days) with no Interest Paid	
	FY 02	FY 03	FY 02	FY 03	FY 02	FY 03	FY02	FY 02	FY 03
CMS	2.72	3.23	62.01	64.33	41.26	30.74	21.6	42.41	57.12
Formation A	2.83	1.54	82.79	85.71	42.6	35.61	17.9	54.45	94.3
CLS	3.29	2.47	29.04	30.52	37.92	34.9	30.4	61.03	54.69
Base A	1.62	1.53	39.73	41.59	33.17	32.52	22.2	30.47	60.89
Base B	4.41	2.8	21.76	26.88	35.54	31.19	80.9	81.52	80.24
CAS	1.25	1.32	31.92	32.95	42.9	37.37	51.2	57.03	49.44
Wing A	0.59	0.86	46.27	52.45	40.5	32.15	30.2	51.16	27.99
Wing B	1.04	1.37	11.85	12.45	38.72	33.38	68.4	62.67	52.81
Wing C	0.22	0.37	23.82	16.69	38.87	37.71	16.1	28.97	30.44

Additional information is available on request

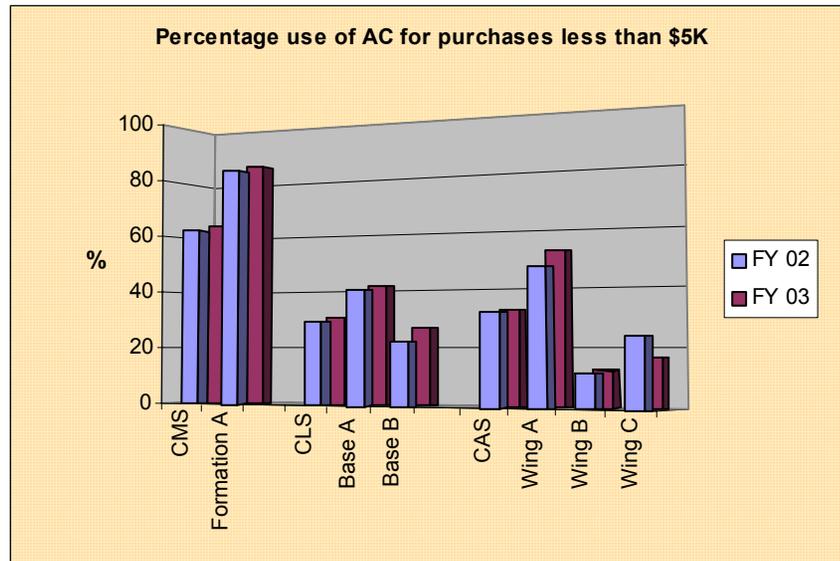
Acceptable	Cautionary	Investigate
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PROTOTYPE FOR CONTINUOUS MONITORING (Cont.)

ANNEX C

As previously explained, these results are not meant to be conclusive. Analysis of these results must take into account other influencing factors. The following is an example of analysis of the results on acquisition card usage and some factors that may be taken into account:



Further Consideration of the Usage of AC for Purchases of less than \$5K.

- Usage of AC's overall is increasing; however Wing C dramatically reduced usage in FY 2003.
- In addition to the per centile change of usage, actual volume of transactions and the total value of the transactions could be considered.
- Usage rate is influenced by factors such as:
 - Absence of targets or performance measures for the use of AC, degree of use is at local managers' discretion. Some locations advocate their use while others restrict use.
 - The results of one site are affected by their decision to stop all AC usage two weeks prior to YE to ensure that all transactions would be reflected in the YE reports by the fiscal cut off date.
 - Local vendors' acceptance of AC payment method.
- Research indicates that usage of AC reduces payment processing costs.
- Under DND's method of paying AC statements, late payments are eliminated.
- As with any method of payment, there is risk of misuse. Effective controls can mitigate this risk to an acceptable level.
- Initial conclusion: Sites with low usage should conduct further analysis to identify and alleviate any impediments to AC usage.

This example should demonstrate that indicators for continuous monitoring are useful in highlighting locations where increased attention may be warranted. Managers would have to explore influencing factors, possible impact of change, and methods of achieving improvements.



ANNEX D – SUMMARY OF FOCUS GROUP RESULTS

Focus groups were held during five of the site visits. The objective of the focus groups was to solicit opinions and promote discussion regarding the current state of local funds management, including the appropriateness of guidance/enablers, and the adequacy of controls/monitoring.

Each location was requested to select participants from various units, who had significant involvement in either the purchasing or payment process, or who had responsibility for monitoring these processes. In total, 73 individuals participated.

During the sessions, participants were asked to indicate their level of agreement with a series of statements. Option Finder technology was used to record the responses. This annex provides summary results from these sessions. For each of the highlighted statements, the most positive group response is shown first, followed by the consolidated result for all participants, and by the least positive group response.

The three different results are shown to support one of the audit's primary conclusions – that there is significant inconsistency among locations in the current management of funds. This inconsistency makes it very difficult to conclude on the overall state of funds management.

Compliance with Policy

Degree of Compliance

Several statements solicited participant opinion regarding their degree of compliance with policy, and the due diligence applied to spending. Generally, as shown in the following diagram, participants rated their performance as high, however, as mentioned, variation in opinions among locations is evident.

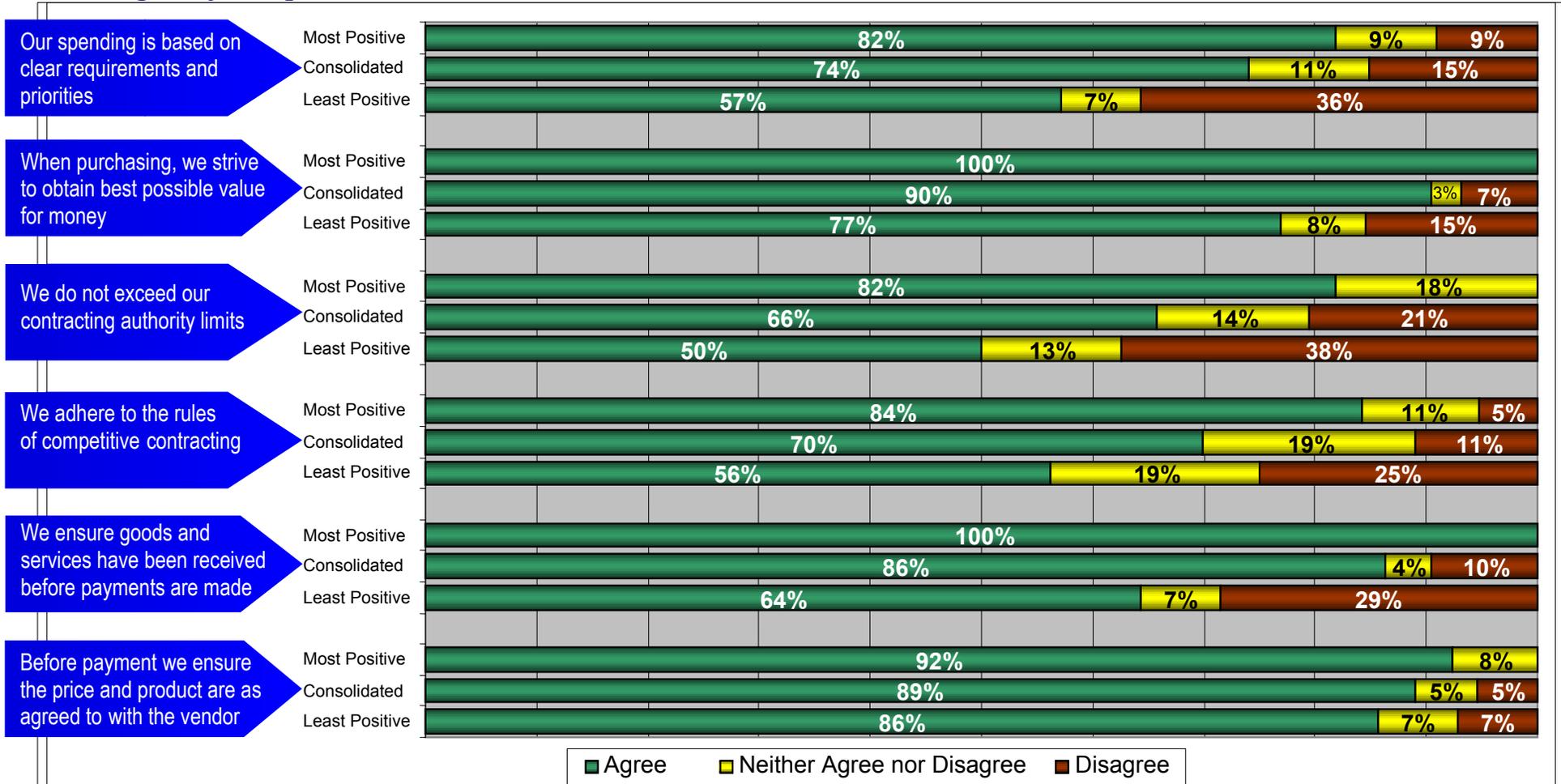
Opinions were not always aligned with the results of statistical sampling. While the location with the highest rate of non-compliance in statistical sampling tended to rate themselves less positively than other locations, (perhaps recognizing their weaknesses), the location with the fewest instances of non-compliance did not rate themselves more positively than other locations.



SUMMARY OF FOCUS GROUP RESULTS (Cont.)

ANNEX D

Degree of Compliance



For each statement 3 group results are presented:
 The most positive group response on top
 The consolidated result for all participants in the middle
 The least positive group response on the bottom



SUMMARY OF FOCUS GROUP RESULTS (Cont.)**ANNEX D*****Causes of Non-compliance***

Many of the causes of non-compliance identified during audit conduct relate to insufficient guidance/enablers, or inadequate monitoring. Several statements solicited participant opinion in these areas.

The results, as shown in the following diagram, highlight the role that policies, and training/experience play in ensuring compliance.

Of particular note is the widely varying opinion regarding the appropriateness of controls over acquisition card purchases. This variance may relate to particular local instances, and may in part be responsible for the wide range in use of acquisition cards.

The response to the statement regarding sufficient monitoring relates directly to our observation that some locations have a very robust, mature account verification process in place, while other locations are still struggling to implement this process.

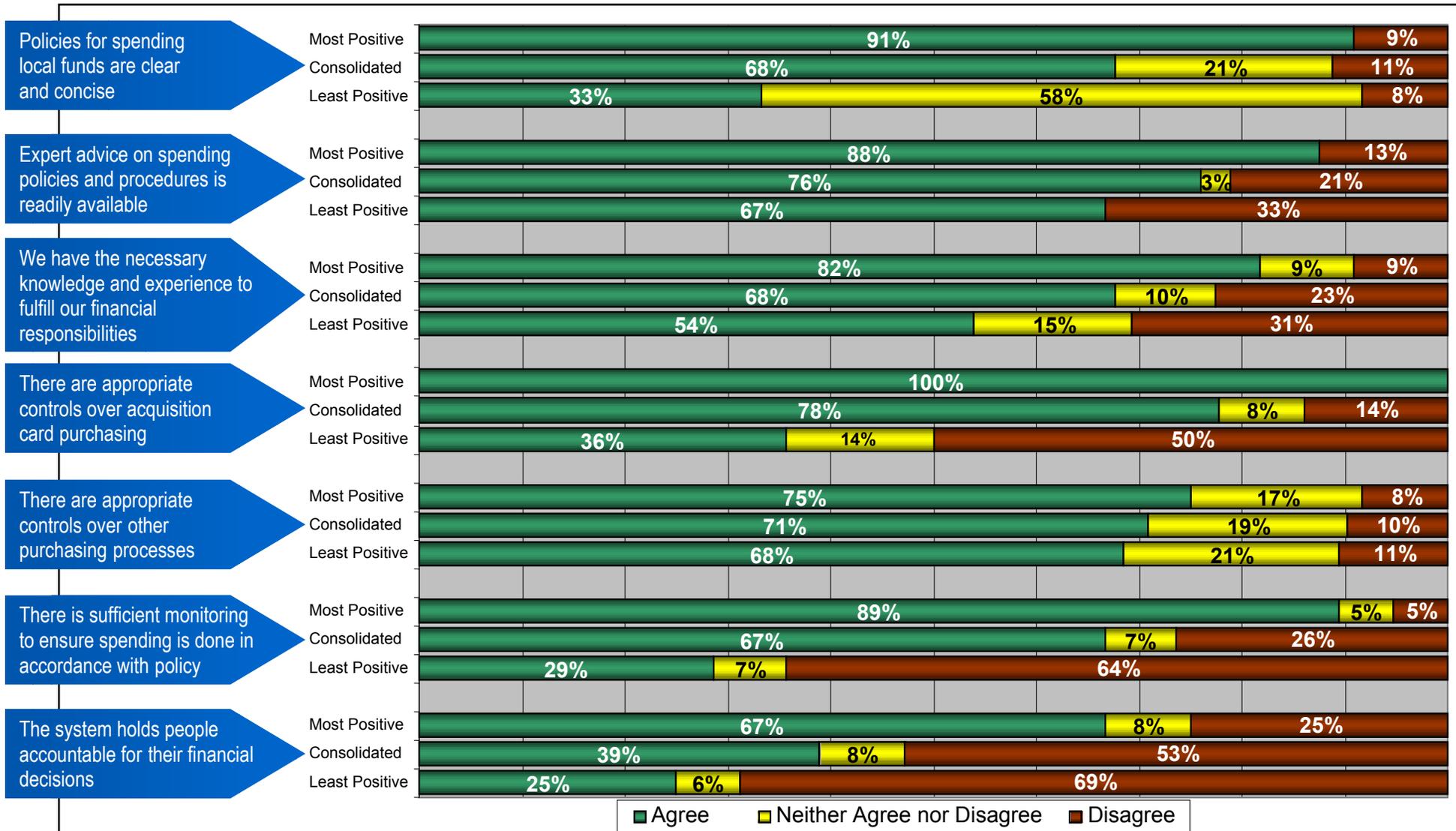
The statement regarding accountability received one of the most negative responses at all locations. This may be a fundamental issue to address before substantially improved results are possible.



SUMMARY OF FOCUS GROUP RESULTS (Cont.)

ANNEX D

Causes of non-Compliance



For each statement 3 group results are presented:

The most positive group response on top

The consolidated result for all participants in the middle

The least positive group response on the bottom

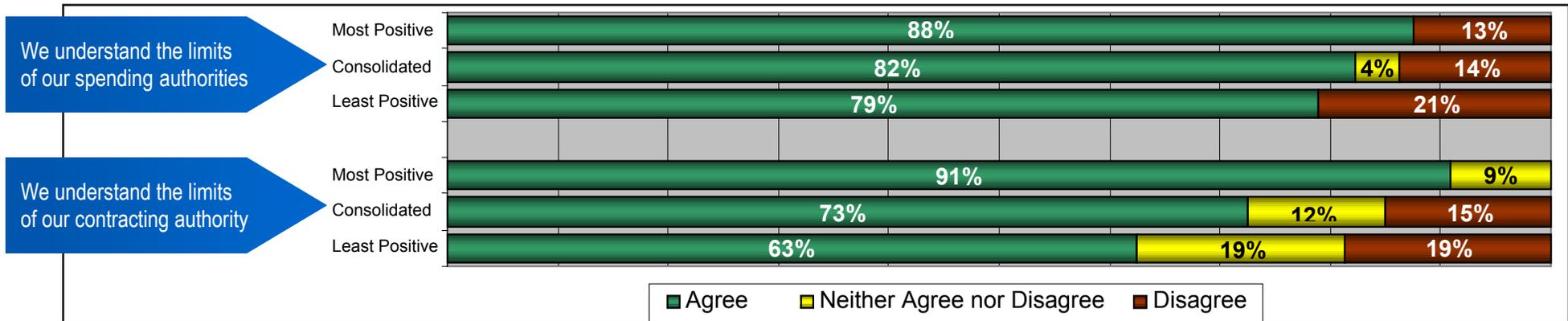


SUMMARY OF FOCUS GROUP RESULTS (Cont.)

ANNEX D

Delegation of Authority

Two statements solicited opinions regarding understanding of delegated authorities. While the results were generally positive, the results do indicate that a significant number of participants are unclear as to the limits of their authorities.



For each statement 3 group results are presented:
 The most positive group response on top
 The consolidated result for all participants in the middle
 The least positive group response on the bottom

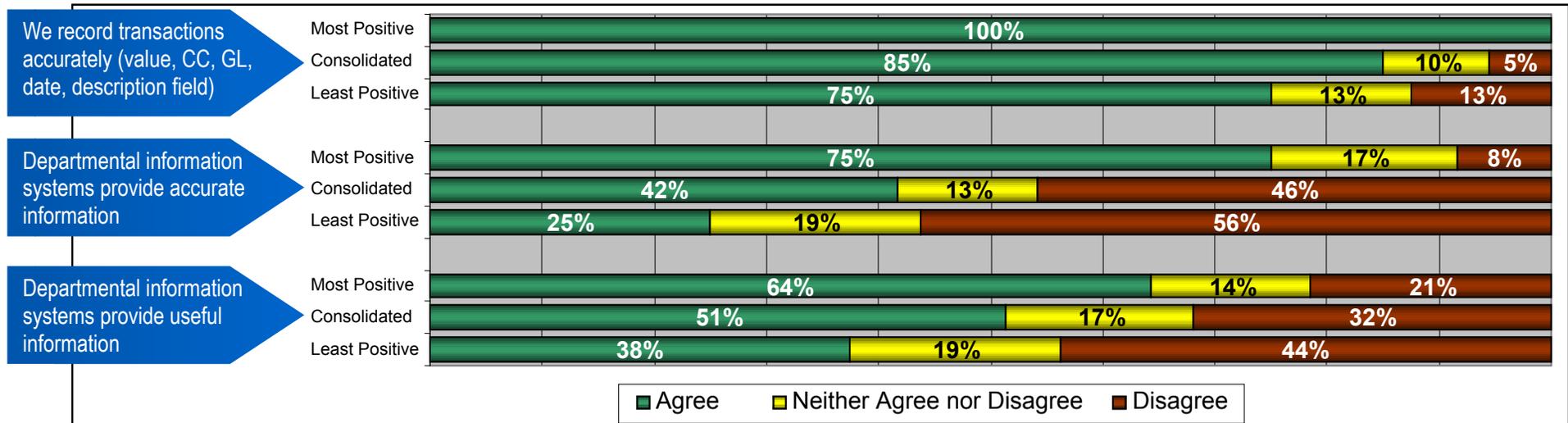


SUMMARY OF FOCUS GROUP RESULTS (Cont.)

ANNEX D

Accuracy and Adequacy of Information

While participants were generally positive regarding the accuracy of their transactions, they were less positive regarding the overall accuracy and adequacy of information in Departmental systems.



For each statement 3 group results are presented:
 The most positive group response on top
 The consolidated result for all participants in the middle
 The least positive group response on the bottom

The focus groups did not address the areas of Identifying and Assessing Risk, and Efficiency of Processes.



ANNEX E – BENCHMARKING/BEST PRACTICES



The purpose of this benchmarking exercise was to compare practices in DND, which impact the management of local funds, with practices in other federal government departments and organizations. Information was obtained through interviews conducted with audit and/or finance staff at: Royal Canadian Mounted Police, Canada Post, Indian and Northern Affairs Canada, Human Resources Development Canada, Health Canada, Department of Fisheries and Ocean, Natural Resources Canada and Public Works and Governmental Services Canada. A Web-based literature search was also performed to collect information regarding practices within US-General Accounting Office (GAO), US-Dept of Defense (DoD), UK-Defence Billing Agency (DBA), UK-Minister of Defence (MoD), as well as private sector companies. The following table highlights the key findings:

	DND	General situation	Best Practices
<p>Compliance with Policy –</p> <p>FAA Requirements (Section 32 & Section 34)</p>	<ul style="list-style-type: none"> ▪ In many cases, it is impossible to confirm that proper authority to initiate expenditures/commit funds was exercised: <ul style="list-style-type: none"> - RC Administrators with Section 32 authority not clearly documented; and/or - L.P.O. or call-up forms are not used/kept with the invoice. ▪ Thoroughness in exercising Section 34 varies – often, insufficient information to confirm receipt, or correct quantity and price. ▪ While CFSSU permits electronic match of purchase order, receipt voucher and invoice, CFSSU is currently not widely used for local purchasing. 	<ul style="list-style-type: none"> ▪ Apart from acquisition card (A.C.) transactions, all interviewed organisations require an appropriately authorized L.P.O., contract or call-up form. ▪ In most cases, procurement software must be used for non-A.C. transactions, thereby creating an electronic record of the purchase order. These are generally printed, signed and retained. 	<ul style="list-style-type: none"> ▪ One organization has a complete electronic approval process, with level of authority linked to User Id. Invoice is electronically matched to purchase order and receipt before payment authorized. ▪ A second organization electronically matches price and quantity on invoices with those on the purchase order.



BENCHMARKING/BEST PRACTICES (Cont.)

ANNEX E

	DND	General situation	 Best Practices
<p>Compliance with Policy – Verification</p>	<ul style="list-style-type: none"> ▪ Increase in extent of verification has occurred – frequency and thoroughness varies. ▪ No Departmental targets have been established or communicated. ▪ Variation in approaches prevents aggregating results, measuring against targets, or identifying high-risk areas. ▪ Confusion in roles and responsibilities sometimes leads to duplication of efforts and/or insufficient coverage. 	<ul style="list-style-type: none"> ▪ Three interviewed organizations have a centralized AP function and do pre-payment verification as opposed to post-payment verification. ▪ For those doing post-payment verification, challenges remain in terms of consistency of the process, definition of an error, and an acceptable error rate, and/or aggregating results at national level. 	<ul style="list-style-type: none"> ▪ One department regularly consolidates results of statistical sampling, using clearly defined errors, and a documented target error rate (5 per cent). Regions whose results fall outside acceptable error-range are required to document corrective action taken. ▪ Another department has also developed an extensive policy on account verification that is currently applied in the National Capital Area. Challenges remain in implementing it across all areas. (Target error rate = 4 per cent) ▪ DBA sets and measures achievement of performance targets for timely payment, processing costs, and adherence to service level agreements (SLA).
<p>Delegation of Financial Authorities</p>	<ul style="list-style-type: none"> ▪ The Departmental Delegation of Authority for Financial Administration Matrix, introduced in 1997, provides a consolidated record of authority by generic position. ▪ At the local level, confusion remains regarding the definition of RC manager and RC administrator – documentation of these authorities is often incomplete or fragmented. 	<ul style="list-style-type: none"> ▪ In most cases, financial authorities are electronically documented, either generically by positions, or specifically by individuals. ▪ Organizations using paper-based documentation either intend, or have begun, to move towards an electronic format. 	<ul style="list-style-type: none"> ▪ Three interviewed organizations have developed department-wide electronic databases that document each individual’s authorities and which correspond to their approval-level in the financial system. ▪ In two cases, additional manual signatures are still required; databases contain electronic image of signature for verification purpose.



BENCHMARKING/BEST PRACTICES (Cont.)

ANNEX E

	DND	General situation	 Best Practices
<p>Accuracy and Adequacy of Information</p> <p>Accuracy</p>	<ul style="list-style-type: none"> ▪ Transactions recorded relatively accurately. Some opportunities for improvement identified. ▪ Commitments not adequately recorded in FMAS, reducing accuracy/visibility of free balance. 	<ul style="list-style-type: none"> ▪ Few organizations evaluating accuracy, but acknowledge it could be improved. 	<ul style="list-style-type: none"> ▪ E-Catalogue system used by one Agency creates default financial coding for cost centre and GL based on User Id and item procured. ▪ At least three groups require ‘procurement module’ to be used for all non-acquisition card purchases. Authorization of the purchase order creates a commitment in financial system, adjusting free balance. (CFSSU does this but not widely used for local purchases). ▪ One department uses bank download to create acquisition card commitments daily.
<p>Adequacy</p>	<ul style="list-style-type: none"> ▪ Much duplication of effort occurs due to non-existent or unreliable interfaces – Reconciliation is time-consuming. ▪ Reliance on shadow systems/black books remains substantial. 	<ul style="list-style-type: none"> ▪ Most interviewed organizations stated the use of shadow systems/black books is decreasing. ▪ Integration of systems is a challenge for most. 	<ul style="list-style-type: none"> ▪ One organization recently adopted a more enterprise-approach, implementing a new system for finance, supply and personnel, which replaced 64 systems (local or regional) and helped standardize the information available.



BENCHMARKING/BEST PRACTICES (Cont.)

ANNEX E

	DND	General situation	 Best Practices
Efficiency of Process	<ul style="list-style-type: none"> ▪ Efficiency varies among sites as measured by late payments, acquisition card use and degree of centralization of the payment function: <ul style="list-style-type: none"> - Overall, 38 per cent of low \$ ECS transactions (< \$5K) were paid by acquisition card – varied from 5 per cent to 83 per cent at visited locations. - 2.5 per cent of invoices took more than 60 days to be paid – varied from 0.2 per cent to 4 per cent at visited locations. - While several Bases/Wings have consolidated part their AP function, over 1700 staff involved in paying 0.5M ECS invoices. ▪ Within DND, more than 3000 individuals have a User Id allowing bill payment. 	<ul style="list-style-type: none"> ▪ Use of acquisition cards is generally encouraged, sometimes through a written policy or establishment of targets. ▪ Many companies have re-engineered their Accounts Payable, consolidating into one shared service centre. Previous CRS benchmarking studies showed that 75 per cent of surveyed companies used this approach. 	<ul style="list-style-type: none"> ▪ In one Dept, acquisition cards are used for 90 – 95 per cent of low-risk transactions. (\$5K goods, \$10K services, to limit of call-up). ▪ In a 2003 GAO report, the DoD estimated that 95 per cent of their purchases under \$2.5K were made on purchase cards in FY01. ▪ A private sector company decreased AP staff from 1200 to 110 by moving to a shared service concept. ▪ DBA offers centralized accounting, bill payment and invoicing service to the MoD – increased Productivity by 35 per cent in last three years. Targeted to reduce cost by further 15 per cent by 2004. ▪ In 2000/01, DBA paid 100 per cent of bills within 11 calendar days of receipt. ▪ Within DBA, consolidating AP allows 591 individuals to pay 4.4 million bills. ▪ One Cdn agency is moving to e-commerce using an e-catalogue with pre-approved items and vendors and in some cases e-invoicing.



ANNEX F – SUMMARY OF ACRONYMS IN THIS REPORT

AC	Acquisition Card	FAM	Financial Administration Manual (previous to FMAS)
ADM	Assistant Deputy Minister	FMAS	Financial and Managerial Accounting System
ADM(Fin CS)	ADM of Finance and Corporate Services	FRMS	Fraud Risk Management Strategy
ADM(Mat)	ADM of Material	FY	Fiscal Year (April 1 to Mar 31) e.g., FY03: Apr 1/02 to Mar 31/03)
AP	Accounts Payable	GAO	United States – General Accounting Office
CAATT	Computer Assisted Audit Tools and Techniques	GL	General Ledger
CAS	Chief of the Air Staff	IRMF	Integrated Risk Management Framework
CCI	Command Comptroller Inspection	IT	Information Technology
CDS	Chief of Defence Staff	L1	Level One (reports directly to either DM or CDS)
CE	Construction and Engineering	LPO	Local Purchase Order
CFAO	Canadian Forces Administrative Orders	MIS	Management Information System
CFEMS	Canadian Forces Engineering Management System	MoD	United Kingdom Ministry of Defence
CFSSU	Canadian Forces Supply System Update	NDHQ	National Defence Headquarters
CLS	Chief of the Land Staff	NMSO	National Master Standing Offer
CMS	Chief of the Maritime Staff	OPI	Office of Primary Interest
CRS	Chief Review Services	PAYE	Payable At Year End
DA	Distribution Account	PILT	Payment In Lieu of Taxes
DAOD	Defence Administrative Orders and Directives	PPV	Post Payment Verification
DBA	United Kingdom – Defence Billing Agency	RC Manager	Responsibility Centre Manager
DCPol	Director Contract Policy	RDAO	Regional Departmental Accounting Office
DFPP	Director Financial Policies and Procedures	ROSA	Risk and Opportunity Self Assessment
DM	Deputy Minister of Defence	SA	An FMAS transaction that adjusts an original transaction
DND	Department of National Defence	SAV	Staff Assistance Visit
DoD	United States Department of Defense	SWE	Salary Wage Envelope
ECSs	Environmental Chiefs of Staff (Land, Maritime, and Air)	TB	Treasury Board
FAA	Financial Administration Act		



ANNEX G

CRS Recommendation	OPI(s) and OCI(s)	Management Action Plan
<p>b. including validation of appropriate coding;</p> <p>c. ensuring a consistent standard is applied at all locations so as to aggregate and compare results; and</p> <p>d. following-up if results are not reported or are outside the acceptable range.</p>	<p>DFPP</p> <p>DB</p> <p>DFPP</p> <p>Comptrollers</p>	<p>b. A Financial Administration Manual Chapter on the Classification of Accounts (FAM Chapter 1015-1) was issued in March 2003. Further, work is underway to develop a departmental coding manual that will provide specific details to those involved in the coding of financial transactions. Proper recording of transactions has been emphasized through different forums to those entering transactions. For example, the importance of using the correct codes formed part of the training on year-end procedures, and has been emphasized in workshops conducted at the various Comptrollership conferences in Cornwall.</p> <p>In addition, the Directorate of Budget will commence active monitoring of all accounts to strengthen post-payment verification: DB will conduct logic checks on expenditure and revenue transactions within the FMAS for anomalies; DB will ascertain the appropriateness of the combination of Fund and General Ledger usage and the appropriate usage of commitments.</p> <p>c. The existing Expenditure Management FAM Chapters will be reviewed and revisions made as required. Consultation will be undertaken with the Level One Comptrollers so as to ensure their concurrence with proposed changes and the application of these changes.</p> <p>d. C Fin O as Departmental Comptroller will provide functional direction to all Comptrollers in the Department to reinforce their responsibilities related to Section 33 payment authorization and in particular the requirement for finance officers to provide assurance of the adequacy of the Section 34 account verification and be in a position to state that the process is in place and is being properly and conscientiously followed.</p>



ANNEX G

CRS Recommendation	OPI(s) and OCI(s)	Management Action Plan
	<p>DFPP</p> <p>CMD</p> <p>DC Pol</p>	<p>A policy series outlining the roles and responsibilities of Comptrollers at the various levels within the organization is to be developed. At present, the roles and responsibilities, of which compliance is one, are defined in the 31 October 2000 memorandum signed by the DM/CDS. C Fin O will review the finance functional direction, strengthen it where necessary and reissue it.</p> <p>The financial management module of the current Resource Manager’s course, that prepares resource managers to meet their responsibilities for resource management and control, will be strengthened in the area of financial certification. By 1 April 2004, a mandatory three-hour financial management module will be available for all resource managers in DND. Resource managers will be required to re-certify every three years. Comptrollers will be responsible for ensuring that all resource managers certifying Sections 32 and 34 have current certification.</p> <p><i>ADM(Mat) response:</i></p> <p>ADM(Mat) fully concurs with this observation. DC Pol is available to assist DFPP.</p>
<p>2. In the longer term, a technology-driven capability to continuously monitor key performance areas should be developed. This would allow directed testing to be focused on areas of high-risk.</p>	<p>DGFA</p>	<p><i>ADM(Fin CS) response:</i></p> <p>The Department has a well-established FIS-Compliant, Integrated Financial and Managerial Accounting System (IFMAS) that integrates financial and non-financial information from a strategic perspective. It has been used to project and report the costs or savings associated with several Departmental initiatives. IFMAS is not a static system and continues to be refined and will be upgraded to SAP Version 4.7 Enterprise next year. In addition, a relational database is being developed which integrates financial information with non-financial information providing a three dimensional projection of the strategic financial environment to the Department’s Level One Advisors to assist in their Business Planning and in informed decision-making.</p>



ANNEX G

CRS Recommendation	OPI(s) and OCI(s)	Management Action Plan
	DMMD	<p>A second initiative that has interdependency with the upgrade activity is the Data Warehouse/Financial Analytics activities that are under the Modern Comptrollership mandate. The objective of these activities is to improve reporting capabilities for managers and provide information to a manager that is complete, and sufficiently integrated to meet their changing management needs.</p> <p>Management of local funds rests with the RC managers. DGFA ensures that appropriate system controls are in place and provides assurance that the financial transactions have been adequately recorded. Risk assessment and monitoring have been incorporated in our quality assurance procedures.</p> <p>We concur that more active and continuous monitoring may be implemented, but this would fall under the mandate of the active monitoring unit that C Fin O is considering.</p> <p><i>ADM(Mat) response:</i></p> <p>ADM(Mat) fully concurs with this observation. The MASOP project is working to develop a more focused performance measurement system to help manage inventory within the CFSS. DMMD is available to assist DGFA.</p>
<p>3. A Department-wide automated approach for documenting individuals' authorities should be implemented. The approach should:</p> <p>a. clearly identify the RC manager, and administrators, and the funds for which they have authority; and</p>	DFPP	<p><i>ADM(Fin CS) response:</i></p> <p>a. Through the Comptrollership Action Plan, C Fin O will remind all Comptrollers of the requirement to review on an annual basis the financial signing authorities (FAM Ch 41 – Financial Signing Authorities, para 57 refers), and to amend as required.</p>



ANNEX G

CRS Recommendation	OPI(s) and OCI(s)	Management Action Plan
<p>b. include electronic images of signatures to eliminate the need for specimen signature cards.</p>		<p>C Fin O will issue further direction concerning the replacement of the current signature cards by Delegation of Authorities forms. DFPP has developed Delegation of Authorities forms for Responsibility Centre Managers (DND 2295) and Responsibility Centre Administrators (DND 2289), which list all the authorities delegated to these positions (including Section 34 of the FAA). These forms require the signature of the individual and their superior and identify the area of authority for which the individual is responsible.</p> <p>b. The use of electronic images of signatures will be adopted once resources are available. In the interim, a hardcopy of forms will still be required as a source document and to provide for the certification by the individual and their superior that they have the necessary knowledge and training. In the longer term, the use of electronic signatures will also be explored.</p> <p>Auditor’s Note: CRS will request a specific milestone for the availability of electronic images of signatures to facilitate validation. Manually-stored specimen signature cards are awkward and inefficient.</p> <p>ADM(Mat) response: ADM(Mat) fully supports this recommendation.</p>
<p>4. In the longer term, methods of linking authorizations to system privileges should be explored. Transactions should be routed to appropriate authority to approve electronically. Electronic signatures should become standard.</p>	<p>DFPP/DGFA</p>	<p>ADM(Fin CS) response: We concur with the recommendations, however it should be noted that the current FMAS “system privileges”, i.e., roles, relate to an individual’s ability to process transactions in FMAS only. Section 34 – confirmation of contract performance and price is much more than a system control.</p>



ANNEX G

CRS Recommendation	OPI(s) and OCI(s)	Management Action Plan
	DMMD	<p>That being said, the manager that has been delegated Section 34 authority may, in fact, not necessarily have authorized “system privileges”. The linking of the authorizations and electronic signatures to the FMAS roles/system privileges will need to be analyzed closely to ensure there is a method to capture all types of Section 34 authorization scenarios, or an alternative developed. Further, the impact in terms of increased system users and the associated impact would need to be assessed.</p> <p>ADM(Mat) response:</p> <p>The CFSS currently maintains extensive levels of authorizations and profiles for different types of system access that are centrally controlled. The development of such a system to ensure compliance with the FAA signing authorities would have to be scoped and costed to see whether or not it is achievable and affordable. If it is determined by DGFA that the CFSS should form part of the solution, we would be more than willing to participate in this endeavour.</p>
<p>5. Some policies/procedures relating to management of local funds need updating and/or clarification:</p> <p>a. Clearer direction should be provided regarding correct coding, in particular for user-pay situations, and commitments. The importance of accurate recording should be reinforced.</p>	DFPP	<p>ADM(Fin CS) response:</p> <p>a. As indicated above, the proper recording of transactions has been emphasized through different forums to those entering transactions. For example, the importance of using the correct codes formed part of the training on year-end procedures, and has been emphasized in workshops conducted at the various Comptrollership conferences in Cornwall. Further, DFPP personnel are working on a financial coding manual. It is expected that a draft manual, addressing expenditure codes, will be available by late March 2004.</p>



ANNEX G

CRS Recommendation	OPI(s) and OCI(s)	Management Action Plan
<p>b. When new policy is developed, a mechanism should exist to document all related policies that need updating or deleting. The mechanism should also allow Bases and Units to formally report conflicting or outdated policies and references. Interim advice should be made available, and the contradictions rectified in a timely fashion.</p>	<p>DMMD</p>	<p>b. When new policy is developed, every effort is made to indicate which other policy documents (e.g., older Financial Administration Manual (FAM) Chapters, Financial Administrative Directives, etc.) are superseded by the issuance of the new policy. When such is not the case, Level One Comptrollers, or Bases/units through their Level One Comptroller, may advise DFPP of apparent inconsistencies and/or references that are missed. This communication can take place via e-mail, through meetings of the Financial Management Working Group or through the General Enquiries and Feedback section of the DFPP website. Action would be taken as soon as possible to remedy the situation. Interim advice is often provided, in the absence of a formal FAM Chapter (for example, there have been several memorandums addressing such issues as the offering of gifts and mementos and the extension of hospitality).</p> <p><i>ADM(Mat) response:</i> ADM(Mat) fully supports this recommendation. DMMD is available to assist DFPP.</p>
<p>6. Efficiency should be monitored and enhanced:</p> <p>a. use of acquisition cards should be increased. Target acquisition card usage rates should be established, and progress towards the target monitored.</p>	<p>DFPP/DGAPPP/DGFA</p>	<p><i>ADM(Fin CS) response:</i></p> <p>a. The use of acquisition cards has and continues to be promoted as a payment tool. The policy on its use has recently been updated, and is expected to be formally issued.</p> <p>On the issue of the Acquisition Card (AC) process, as part of the Enterprise Upgrade initiative across the SAP shared system cluster of departments, the AC process was one of the processes chosen and supported in terms of development of a standard process to be included in the CORE footprint.</p>



ANNEX G

CRS Recommendation	OPI(s) and OCI(s)	Management Action Plan
<p>b. Invoice processing should be further consolidated. Performance measures, such as process cost per invoice, and number of individuals entering invoices, should be developed to monitor process efficiency.</p>	<p>DMMD</p>	<p>Internally, as a part of that process a ‘user’ Working Group has been established to look at areas of improvement/enhancement to the current DND AC process. This should help with user acceptance and increased usage of the acquisition cards as a procurement/payment method.</p> <p>Auditor’s Note: We anticipate that target usage rates will be established along with risk-based edits and monitoring.</p> <p>b. The subject of consolidating invoice processing will need to be addressed in light of best practices, resource availability and the concept of modern comptrollership.</p> <p>Auditor’s Note: In view of apparent efficiency, resource re-allocation and control advantages, CRS will monitor this closely for rationale.</p> <p>ADM(Mat) response:</p> <p>ADM(Mat) fully supports this recommendation. The use of the acquisition card provides an auditable means of tracking accountable materiel that is purchased, which enables us to verify whether or not it has been recorded in the supply system. Without some means of tracking and verifying the purchases made this would be difficult to achieve. DMMD is available to assist DGAPPP.</p>
<p>7. Consideration should be given to using CFSSU for most non-acquisition card purchases. In this way, the CFSSU capability for matching purchase orders, receipts and invoices can be maximized, and more comprehensive procurement information will be available.</p>	<p>DMMD/DC Pol/ DMASP</p>	<p>ADM(Mat) response:</p> <p>ADM(Mat) fully supports this recommendation. DMMD is conducting a review of its policies with respect to the use of the CFSS for local procurement. Based on the results of that review, and input from the Environmental Chiefs of Staff, it is anticipated that use of the CFSS for local procurement, in the circumstances described by the CRS, will become mandatory with only a few exceptions related to MASIS implementation.</p>



ANNEX G

CRS Recommendation	OPI(s) and OCI(s)	Management Action Plan
	DFPP/DGFA	<p>ADM(Fin CS) response:</p> <p>On the issue of usage of CFSSU for most non-acquisition card purchases: FMAS is the department’s financial system of records and currently has in operation an interface for both commitments and expenditures with CFSSU.</p> <p>D Fin A is currently working with CFSSU to modify/enhance the interface in order that CFSSU will transmit to FMAS a ‘full line of coding’ as apposed to its current defaulted coding method.</p>
<p>8. In the longer term, strategies for more fully integrating financial and operational information should be developed, along with a mechanism to document and reduce system duplication.</p>	DGFA	<p>ADM(Fin CS) response:</p> <p>The Department has a well-established FIS-Compliant, Integrated Financial and Managerial Accounting System (IFMAS) that integrates financial and non-financial information from a strategic perspective. It has been used to project and report the costs or savings associated with several Departmental initiatives. IFMAS is not a static system and continues to be refined and will be upgraded to SAP Version 4.7 Enterprise next year. In addition, a relational database is being developed which integrates financial information with non-financial information providing a three dimensional projection of the strategic financial environment to the Department’s Level One Advisors to assist in their Business Planning and in informed decision-making.</p> <p>A second initiative that has interdependency with the upgrade activity is the Data Warehouse/Financial Analytics activities that are under the Modern Comptrollership mandate. The objective of these activities is to improve reporting capabilities for managers and provide information to a manager that is complete, and sufficiently integrated to meet their changing management needs.</p>



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CRS Recommendation	OPI(s) and OCI(s)	Management Action Plan
		<p>We are members of the interdepartmental Business Design Co-ordination Team, a sub-group of the E-Supply Chain Program. We are working on a solution in MASIS CC to accommodate the use of acquisition cards (and benefits from FMAS bulk electronic payment) for more procurement activities such as standing offers and service contracts. We will be working towards an electronic interface to PWGSC’s procurement system, once PWGSC decides on a system and the DND MASIS CC procurement tool is stabilized.</p>

