National Defence Défense nationale

Chief Review Services Chef - Service d'examen

CRS CS Ex

Audit of Year-End Expenditures

March 2008

7050-8-19 (CRS)

  

Canada

Table of Contents

Acronyms and Abbreviations

ADM(Fin CS)	Assistant Deputy Minister (Finance and Corporate Services)
ADM(Mat)	Assistant Deputy Minister (Materiel)
AP	Accounts Payable
CFSS	Canadian Forces Supply System
CRS	Chief Review Services
DG Fin Mgt	Director General Financial Management
DG Fin Ops	Director General Financial Operations
DGMSSC	Director General Materiel Systems and Supply Chain
DMPAP	Director Military Pay and Accounts Processing
DND	Department of National Defence
ERP	Enterprise Resource Planning
FAA	*Financial Administration Act*
FMAS	Financial Managerial Accounting System
FMS	Foreign Military Sales
FOB	Free on Board
FY	Fiscal Year
MASIS	Materiel Acquisition and Support Information System
P	Period
PAM	Procurement Administration Manual
PAYE	Payable at Year-End
PPV	Post-Payment Verification
Q	Quarter
SA	System Adjustment
TB	Treasury Board
US	United States

Results in Brief

Over one-third of the Department of National Defence's (DND) annual expenditures historically occur in the last quarter of the fiscal year (FY). Chief Review Services (CRS) conducted an audit of these expenditures in order to:

- Assess the control framework in place to ensure year-end expenditures align with departmental priorities and comply with DND and Treasury Board (TB) financial and contracting policies; and
- Determine if current systems and processes provide management with accurate, timely and relevant information to monitor and control year-end expenditures.

Overall Assessment

While a few areas for improvement were noted, overall, year-end management practices and controls are effective in ensuring funds are used prudently and in support of departmental priorities.

However, information available to managers for this purpose could be improved.

To provide for unforeseen requirements, budget managers prudently delay some discretionary spending until later in the fiscal year; however, they must ensure these funds are spent before year-end to avoid having them lapse or become unavailable. The challenge is to ensure that the resulting spending is driven by organizational priorities, rather than simply the availability of funds.

Overall, an effective process exists to identify any surplus funds and reallocate them in accordance with departmental priorities. Several practices have been implemented that allow spending levels to be quickly adjusted as dictated by changing circumstances. For the most part, these practices comply with TB and departmental policy. Notwithstanding, some situations were observed where the full intent of these policies was not respected and where improvement is warranted. In addition, the information necessary to fully manage year-end spending is not readily available within the Financial Managerial Accounting System (FMAS).

Findings and Recommendations

Year-End Management Practices and Controls. Ensuring funds are used to the Department's best advantage is challenging because priorities sometimes change, and lengthy contracting lead times often preclude filling the highest priority requirements by year-end. To compensate, departmental managers are employing several methods of control viewed as best practices. These include:

- Communicating frequently and openly and encouraging cooperation among organizations;
- Establishing contingency procurement plans, such as investment opportunities lists, to fast-track options if funds become available;
- Including and exercising clauses in contracts that provide flexibility in the timing of receipt of goods; and
- Ensuring staff is fully informed of year-end requirements and responsibilities.

Other observed year-end practices, while effective in minimizing lapsed funds, did not result in best value and did not fully comply with the intent of existing policies. For example:

- Changes to free on board (FOB) clauses in some contracts enabled departmental ownership by year-end, as required to make payment, but resulted in higher cost and increased risk of delayed or damaged delivery of goods; and
- Some milestone payments at year-end were not reasonable given the expected timeframe for full delivery of goods or services.

Some areas of non-compliance were observed, warranting enhanced controls. These included:

- Invoices with insufficient documentation in support of *Financial Administration Act* (FAA) Section 34 certification;
- Payable at year-end (PAYE) transactions that did not meet the required criteria; and
- Call-ups that were not in accordance with the terms of the related standing offers.

Previous CRS audits indicate these issues are not unique to year-end transactions; however, increased volume and rigid processing deadlines at this time of year may aggravate the situation.

It is recommended that contract clauses be monitored to ensure that payment terms, especially for payments at year-end, relate to deliverables and that any amendments do not result in additional costs or risks. PAYE and prepayment transactions should be more closely monitored to ensure they meet eligibility criteria, agree with contractual terms and are adequately supported. Continued vigilance is required to ensure compliance with FAA, TB and departmental procurement and payment policies.

Information for Decision Making. Comprehensive, consistent information regarding budget status and free balance is not readily accessible within FMAS. Many systems provide subsidiary information to FMAS; however, inconsistencies in user-input reduced data reliability. The accuracy and utility of FMAS free balance information is reduced because funds are being committed in an inconsistent fashion. Further, the high volume of adjusting entries at year-end makes it more difficult for managers to confirm their budget status. As a result, there is a lack of confidence in the FMAS data and much of the management information required at year-end continues to be produced using standalone and *ad hoc* spreadsheets—a very time-consuming and costly process.

It is recommended that commitment policy be clarified and that monitoring be used to verify the appropriateness of both commitments and adjusting transactions. Improved data consistency among information systems is required and continued action toward a more integrated enterprise resource planning (ERP) solution is strongly encouraged.

Note: For a more detailed list of CRS recommendations and management response, please refer to Annex A—Management Action Plan.

Introduction

Background

In accordance with the CRS Work Plan for FY 2006/07, an audit of year-end expenditures was conducted.

DND budget managers must ensure that funds are spent prudently at all times and in accordance with the FAA, TB and departmental policies. However, several factors make this more challenging at year-end.

Increased Volume. Over 35 percent of DND's annual expenditures typically occur in the last quarter (with approximately 20 percent occurring in the last six weeks)[1] of the fiscal year as shown in Figure 1. This increase in purchasing volume is, in part, a result of the federal government financial environment where funds are allocated for only a single fiscal year (consistent with annual Parliamentary appropriations) and lapse if they are not used.[2] The increased volume, combined with the necessity to process all payments prior to year-end accounting deadlines, creates challenges for budget managers and financial administrators.

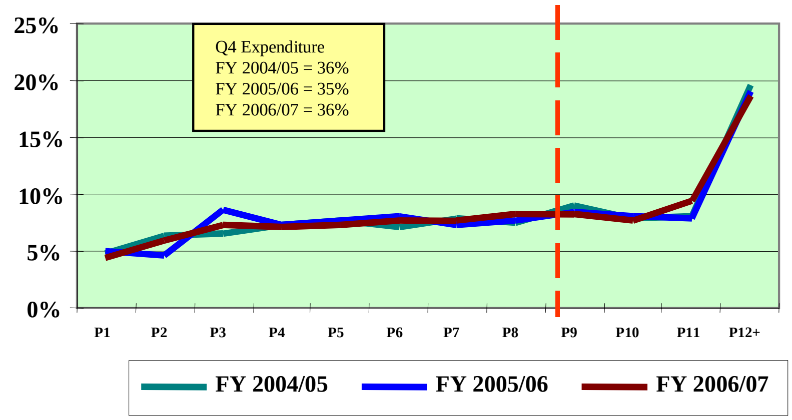

Figure 1. Percentage of Annual Expenditures by Accounting Period. This line graph shows the percentage of annual expenditures which occurred in each of accounting periods 1 through 12 plus between FYs 2004/05 and 2006/07. Traditionally, approximately 35 percent of annual expenditures have occurred in the final quarter of the fiscal year. The data table below shows the percentage of expenditures per fiscal year for each accounting period.

Periods	FY 2004	FY 2005	FY 2006	FY 2007
P1	4%	5%	5%	4%
P2	7%	6%	5%	6%
P3	7%	7%	9%	7%
P4	8%	7%	7%	7%
P5	7%	8%	8%	7%
P6	8%	7%	8%	8%
P7	9%	8%	7%	8%
P8	8%	8%	8%	8%
P9	8%	9%	9%	8%
P10	7%	8%	8%	8%
P11	8%	8%	8%	9%
P12+	18%	20%	19%	19%

[1] The fourth quarter of the fiscal year includes accounting periods (P) 10, P11, and P12+. The final six weeks include March (P12) and early April (P13).
[2] Minor funds carry-forward provisions exist.

Changing Priorities. Managers must continually adjust for changing priorities; however, budget management can be more complicated when these changes occur at year-end. For example, in late FY 2006/07, accelerated delivery of protective armament equipment for the Light Armoured Vehicle (LAV III) was required. This required an urgent contract amendment, with the result that other contracting activity was not completed in a timely fashion.

Challenges

- Increased volume
- Changing priorities
- Lengthy procurement lead times

Lengthy Procurement Lead Times. It can take six months or longer to put a contract in place, depending on its complexity. This limits how managers can use funds that become available later in the fiscal year. Their purchasing decisions must consider not only the priority of the item, but also the feasibility of obtaining the goods by year-end.

In light of these challenges, managers must have adequate controls in place to ensure that year-end expenditures are prudent and comply with departmental financial and procurement policy.

Objectives

The purpose of this audit was to determine if year-end expenditures are adequately controlled and monitored. Specifically, the audit objectives were to:

- Assess the control framework in place to ensure year-end expenditures align with departmental priorities and comply with DND and TB financial and contracting policies; and
- Determine if current systems and processes provide management with accurate, timely and relevant information to monitor and control year-end expenditures.

Please refer to Annex B for a listing of the criteria used to assess the objectives.

Scope

The audit focused on expenditures during the fourth quarter of FY 2006/07 ($5.7 billion), including PAYE transactions of $648 million and prepaid transactions comprising $346 million. The scope also included PAYE transactions recorded in previous years that had an outstanding balance at year-end FY 2006/07 ($116 million).

Methodology

The audit results are based on:

- Interviews with departmental finance and procurement officers and staff;
- Review of DND and TB procurement and expenditure policy, as well as specific year-end instructions;
- Review of departmental processes to allocate budgets, prepare forecasts, and monitor and control expenditures;
- Analysis of data in FMAS, the Materiel Acquisition and Support Information System (MASIS) and the Canadian Forces Supply System (CFSS); and

- Review of documentation to support a sample of 186 transactions determined to be “higher risk.” The reviewed sample included 18 PAYE, 9 prepaid and 159 invoice payments totalling $423 million. The following criteria were used to determine higher risk and to select the sample:
  - **Expenditure was discretionary—**Judgment was used to determine whether expenditures were discretionary or non-discretionary. Personnel costs, transfer payments, subsidies and major capital projects were deemed to be non-discretionary (at least in the short term) and were excluded from the audit sample. Twenty-nine percent of fourth quarter expenditures ($1.7 billion) were deemed discretionary.
  - **Expenditure occurred in P12 or P13—**Analysis showed the majority of fourth quarter discretionary transactions ($0.9 billion of $1.7 billion) occurred in this timeframe. These transactions were considered higher risk due to this increase in volume.

Findings and Recommendations

Year-End Management Practices and Controls

The overall process to manage year-end expenditures is effective. For the sampled transactions, funds were used to meet departmental priorities in a manner that was, for the most part, in compliance with established policies and procedures. However, some areas for improvement or continued vigilance were noted.

In FY 2005/06 and FY 2006/07 the Department reported expenditures of 99.7 percent and 98.8 percent, respectively, of its operating budget.[3] Based on the reviewed transactions, these results were achieved while procuring goods or services in support of departmental priorities.

Several best practices were noted that allow managers to meet year-end challenges while ensuring value for money. At the same time, certain practices were identified that met the letter but possibly not the intent of policy. A few compliance issues were also observed.

Best Practices

- Timely communication and cooperation
- Maintenance of investment opportunity priority list
- Use of over-programming
- Including option clauses in contracts

Best Practices

Communication and Cooperation. Departmental budget reviews are conducted quarterly throughout the year, and Level 1 Comptroller meetings are held weekly from February until April. These meetings, chaired by the Director General Financial Management, served as an effective and efficient forum to identify financial pressures and surpluses, and to recommend the reallocation of funds where required.

Further indicating that effective communication is in place, the majority of interviewed staff were well informed of year-end requirements and responsibilities.

Identification of Investment Opportunities. Interviewed organizations maintained a prioritized list of requirements, authorized by management, that were not funded within their existing budget allocation. The list included the estimated lead time to fill the requirement. Commonly referred to as “investment opportunities,” this mechanism ensures that, given the time remaining in the fiscal year, the highest priority items are purchased if additional funds become available.

Over-Programming. Recognizing that some procurement priorities do not materialize in the required timeframe, most organizations established plans that exceeded their budget allocation by 10 to 25 percent. Funds were closely monitored throughout the year to ensure commitments and resulting actual expenditures were within the organization’s authorized allocation. This practice helps to minimize lapsed funds.

[3] ADM(Fin CS) Financial Status Reports for FY 2005/06 and FY 2006/07.

Contract Options. A number of reviewed contracts contained option clauses that, when exercised, accelerated the schedule for procuring goods. This allowed goods to be received and paid for using the current year allocation if additional funds became available, thus reducing future funding pressures. This procurement may not have been possible in the available timeframe if a new or revised contract was required.

Other Year-End Practices

> **Other Year-End Practices**
> - Amendments to contract FOB clauses
> - Value of milestone payments
> - Determination of FMS PAYE and prepaid amounts

Several of the sample transactions, while in compliance with existing contract terms and year-end policies, resulted in increased risk and in some cases increased cost to the Department. These cases suggest the focus was on ensuring funds did not lapse rather than on timely and economical receipt of goods.

FOB Amendments. Contract FOB clauses identify the location where ownership of the purchased goods transfers from the seller to the buyer. To minimize risk and cost to the Department, DND contracts normally specify FOB destination rather than FOB plant.[4]

Four contracts related to $1.3 million of the sample transactions were amended in March 2007 to change the FOB clause from destination to plant. In one of these cases, while goods were paid for in March, DND did not receive them until several months later. A fifth contract related to $1.6 million of the sample transactions was signed in March with a clause indicating FOB plant to ensure DND could assume ownership by 31 March 2007. In this case, additional travel costs were incurred to complete FAA Section 34 certification at the contractor's plant, and there was increased risk that contractual terms were not fully met at the time of certification.

Milestone Payments. Milestone payments in one sample transaction appeared to be established to coincide with year-end rather than to reflect the value of deliverables to date. A contract for information technology hardware and software included a milestone payment of $1.275 million—more than half the full contract value—upon receipt of software licences. The contract was signed on 13 March 2007, and the software licences were received on 27 March 2007. The required hardware had not been delivered at year-end, making the software unusable.

Foreign Military Sales (FMS) PAYE and Prepaid Amounts. Several of the PAYE and prepaid transactions reviewed related to FMS cases.[5] To determine the value of FMS goods or services received, and the related PAYE or prepaid amount, most procurement officers rely on a disbursement report produced by the United States (US) Department of Defense. At the time of the audit, DND did not have an independent means of validating this data. Furthermore, the report used to determine PAYE and prepaid amounts for 31 March 2007 was at least six weeks out of date, resulting in inaccuracies.

[4] When goods are procured FOB plant, ownership transfers from the seller to the buyer at the seller's location, and shipping is the buyer's responsibility. By contrast, when goods are procured FOB destination, ownership is transferred at the buyer's location and the seller is responsible for shipping.

[5] Each letter of acceptance established to procure goods or services from the US military is considered a "case."

One sampled $35-million prepayment transaction was an initial deposit on an FMS case. The prepayment was 36 percent of the case total value. The Canadian FMS Workbook,[6] produced by Assistant Deputy Minister (Materiel) (ADM(Mat)) staff, states that "the initial deposit covers the cost of the expected deliveries until the next billing …and 50 percent of the administration fee." In this situation, over a year later, no deliveries had occurred and only some administration charges had been recorded, leading to the conclusion that the prepayment was nearly $34 million more than what was required at the time.

There is flexibility in FMS payment schedules, which allows payments to be made using old or new year funding based on availability of funds rather than strictly on delivery of goods or services. As a result, FMS cases are perceived as a mechanism to ensure maximum use of funds at year-end.

Policy Compliance

- Inadequate FAA Section 34 certification
- Ineligible PAYEs established
- Misuse of call-ups against standing offers

Policy Compliance

The compliance issues observed in this audit have also been documented in many previous CRS audits.[7] The pressure to complete transactions within a strict timeframe, combined with increased transaction volume, may cause these issues to be more prevalent at year-end.

FAA Section 34 Certification. For over 30 percent of the reviewed transactions, totalling $26.5 million, FAA Section 34 had been certified with minimal verification or without adequate supporting documentation. One sampled $279,000 invoice was signed by the technical authority indicating goods were received, but it had not been certified by someone with FAA Section 34 authority. Documentation required to confirm receipt of goods, such as packing or delivery slips, was often missing. For example, sampled invoices for computer monitors totalling $274,000 were certified and paid centrally without documentation confirming the monitors had been delivered to the desired recipients in Kingston. For another $190,000 transaction, an individual completed FAA Section 34 certification without access to documentation to validate the charged rates. While subsequent inquiry confirmed that, in these cases, goods and services were received in agreement with the contract, inadequate FAA Section 34 certification increases the risk that this is not occurring.

PAYE Criteria. To establish a PAYE "…work must have been performed, goods received, or services rendered on or before 31 March…."[8] Four sampled PAYE transactions did not meet these criteria. Three of these transactions, totalling $6 million, were established based on the estimated future cost to relocate personnel who took their release from the military in FY 2006/07. Another $21.75-million PAYE remained open at the end of FY 2006/07 based on estimated future costs to replace US-owned radar equipment destroyed by fire at a DND site.

[6] Canadian Foreign Military Sales Workbook, Version1.0, ADM(Mat)/DGEPS/DCPS 7, October 2001.
[7] CRS Audit of Management of Local Funds, January 2004. CRS Audit of NDHQ O&M Expenditures, February 2006.
[8] Financial Administration Manual, chapter 48, paragraph 5.

Call-ups Against Standing Offers. Twenty-one call-ups against standing offers were examined as part of the sample transaction review of invoices. Four of these call-ups, totalling $5.2 million and relating to a standing offer for petroleum, oil and lubricants, were prepared after receipt of the fuel because the exact quantity and price were not known until delivery. Preparation of a call-up in advance, stating a maximum amount not to be exceeded, would better meet requirements. Another call-up for $43,000 exceeded the $25,000 limit of the associated standing offer. This call-up and two others were used to procure items not listed on the associated standing offer.

Recommendations

Contract terms should be monitored to ensure:

- Prepayments (including those associated with FMS) are rationalized;
- Milestone payments reflect delivery schedules and appropriately relate to the value of the deliverable; and
- Call-ups issued are consistent with the terms of the standing offer agreement.

Rationale for any year-end FOB amendments should be documented to confirm that:

- DND's costs and risks will not be unduly increased; and
- FAA Section 34 certification will not be compromised. **(OPI: ADM(Mat)/DGMSSC)**

Monitoring, including the post-payment verification (PPV) process, should be bolstered to ensure:

- Prepayments are consistent with contractual terms;
- PAYE meet eligibility criteria;
- Goods or services have been received in accordance with contractual terms before FAA Section 34 is applied; and
- All transactions are supported by adequate documentation. **(OPI: ADM(Fin CS)/ DG Fin Ops)**

Information for Decision Making

Managers cannot easily access accurate, timely, consolidated information needed to effectively manage funds at year-end.

Completeness and Accuracy of Information

In order to effectively manage funds, organizations and senior management must have timely, accurate and complete information on budget allocations, commitments, expenditures and the resulting free balance. Corporate systems, including FMAS, MASIS and CFSS, provide much of the information necessary for budget control purposes. They are supplemented by local systems, such as the Communications Security Establishment and the Canadian Forces Housing Agency financial systems, as well as standalone spreadsheets and *ad hoc* applications.

Information Limitations

- Late budget allocations
- Data discrepancies between systems
- Inconsistent commitment information
- High volume of adjustments

Data transferred between systems does not always reconcile, commitments are not consistently entered, and there is a large volume of subsequent adjusting entries. Consequently, FMAS does not provide a timely, reliable, or consolidated picture of the Department's financial status at any given time.

Budget Allocation. Some organizations' budget allocations were not finalized until the end of the first quarter (late June) or into the second quarter of FY 2006/07. As most managers are reluctant to commit funds or initiate new contracts until resources are officially available, this delayed allocation is in part responsible for the increased volume of purchasing at year-end. Combined with long procurement lead times for some items, delayed information on final budget allocation limits managers' purchasing options. Therefore, timely internal allocation of budgets is strongly suggested.

Systems Interfaces. Data uploads from subsidiary corporate systems (e.g., MASIS) to FMAS sometimes resulted in inaccuracies. In at least two cases, this was the result of information being inconsistently input into the systems, thereby precluding subsequent electronic matching or reconciliation of the data. Consequently:

- One upload from MASIS to FMAS resulted in FMAS expenditures being overstated by $2 million; and
- Another resulted in some transactions being committed twice in FMAS, causing the free balance to be understated.

Identifying and correcting such discrepancies is very time-consuming.

Because of certain local CFSS approval processes, invoice information can take up to three days to be transferred between CFSS and FMAS. To enable timely year-end processing at these locations, $1.8 million of sampled invoices were paid directly in FMAS, rather than using the proper process of firstly recording the invoice in CFSS. This approach circumvented the CFSS control that electronically matches invoice quantity and price to purchase order and receipt before payment is made. As well, payment data was temporarily out of balance between systems, and subsequent adjusting entries were required.

Commitment information from the Communications Security Establishment and the Canadian Forces Housing Agency financial information systems is not uploaded to FMAS, impacting the accuracy of the FMAS departmental free balance. Total expenditures for these organizations exceeded $317 million in FY 2006/07. While policy directs these organizations to manually input their commitment data into FMAS, this was not occurring at the time of the audit.

In the longer term, an integrated ERP solution will minimize the requirement for multiple systems, thus alleviating these issues. Continued action in this direction is strongly suggested.

Use of Fund Commitments. An Assistant Deputy Minister (Finance and Corporate Services) (ADM(Fin CS)) memorandum (November 2005)[9] encourages managers to establish a "fund reservation" to reserve funds for a potential upcoming expense and to use a "pre-commitment" when a decision to spend has been made, but a firm contract has not yet been established. The memorandum further states that it is mandatory to enter a "commitment" in FMAS once a contractual obligation has been established. Proper use of the three levels of fund commitments provides an accurate reflection of planned expenditures in FMAS. However, the Financial Administration Manual has not yet been updated to reflect this direction; as a result, different interpretations of the use of each type of commitment exist. Several organizations are using:

- Commitments when fund reservations or pre-commitments would be more appropriate; and
- Single commitments (sometimes called blanket commitments) to commit large portions of their budget with no associated legal obligation to pay.

Blanket commitments had been used in relation to 8 percent of the sampled transactions, totalling $4.5 million. These commitments did not reflect a unique contractual obligation, as the subsequent payments were to multiple vendors. This use of blanket commitments results in unreliable free balance information and prevents senior management from identifying available funds, thus defeating the purpose of commitment accounting.

High Volume of Adjusting Entries. More than 216,000 system adjustments (SA) were manually input (excluding systems-generated SAs, such as those from the automated cashier system) into FMAS in FY 2006/07. They comprised approximately 5 percent of total FMAS entries. Adjusting entries are used to:

- Correct financial coding, for example change the general ledger account used; and
- Move expenditures from one organization to another when, for example, one organization has provided services to another on a cost-recovery basis or when one organization has paid an invoice centrally but subsequently passes the cost on to other organizations.

[9] Memorandum COMMITMENT ACCOUNTING AND CONTRACT NUMBERING IN FMAS, 7356-3-12 (DFPP), 23 November 2005.

In FY 2006/07, approximately 40 percent of SAs were entered in the fourth quarter of the FY. While 75 percent were for amounts less than $5,000, nearly 1,000 were for amounts in excess of $1 million. Many of the SAs have little in the way of supporting documentation and there are few controls over their use. This reduces managers' ability to accurately determine their budget status at any point in time.

Recommendations

Provide clear policy and develop a formal method of monitoring to ensure the appropriate use of fund reservations, pre-commitments and commitments.

Identify strategies to reduce the volume of SA transactions and to ensure they are based on adequate supporting documentation. **(OPI: ADM(Fin CS)/DG Fin Mgt)**

Identify causes of data discrepancies between systems and communicate appropriate processes to data input staff. **(OPI: ADM(Fin CS)/DG Fin Ops/ADM(Mat)/DGMSSC)**

Annex A—Management Action Plan

Year-End Management Practices and Controls

CRS Recommendation

1. Contract terms should be monitored to ensure:

- Prepayments (including those associated with FMS) are rationalized;
- Milestone payments reflect delivery schedules and appropriately relate to the value of the deliverable; and
- Call-ups issued are consistent with the terms of the standing offer agreement.

Management Action

The Procurement Administration Manual (PAM) as well as procurement training courses will be updated accordingly

OPI: ADM(Mat)/DGMSSC **Target Completion Date:** 31 March 2009

CRS Recommendation

2. Rationale for any year-end FOB amendments should be documented to confirm that:

- DND's costs and risks will not be unduly increased; and
- FAA Section 34 certification will not be compromised.

Management Action

A CANFORGEN informing DND Procurement Authorities will be prepared and issued. Furthermore, the PAM as well as procurement training courses will be updated accordingly.

OPI: ADM(Mat)/DGMSSC **Target Completion Date:** 31 March 2009

CRS Recommendation

3. Monitoring, including the post-payment verification (PPV) process, should be bolstered to ensure:

- Prepayments are consistent with contractual terms;
- PAYE meet eligibility criteria;
- Goods or services have been received in accordance with contractual terms before FAA Section 34 is applied; and
- All transactions are supported by adequate documentation.

Management Action

The DMPAP/AP monitoring process currently in place within the National Capital Region includes a review of FAA Section 34 related procedures, which comprise the requirement to provide supporting documentation for all transactions, including those processed at year-end. Prior to April 2008, the DMPAP/AP PPVs will include a verification that:

a. Prepayments are consistent with contractual terms;
b. PAYE meet eligibility criteria; and
c. Goods or services have been received in accordance with contractual terms prior to FAA Section 34 being applied.

OPI: ADM(Fin CS)/DG Fin Ops **Target Completion Date:** Prior to April 2008

ANNEX A

Management Action

An FAA and Contracting Compliance Review Team is being established within DMPAP/AP. The objective is to look at high-risk and sensitive financial compliance issues. Year-end expenditure PPV reviews will be part of this team's responsibilities.

OPI: ADM(Fin CS)/DG Fin Ops **Target Completion Date:** By March 2009

Information for Decision Making

CRS Recommendation

4. Provide clear policy and develop a formal method of monitoring to ensure the appropriate use of fund reservations, pre-commitments and commitments.

Management Action

ADM(Fin CS) guidance (memoranda) on the use and recording of commitments, as well as recently proposed changes to the TB policy on commitments, will be included in the revised Financial Administration Manual, Chapter 1016-2, Expenditure Planning and Initiation. The latter will be renamed "Expenditure Initiation, Commitment Control and Contracting."

OPI: ADM(Fin CS)/DG Fin Mgt **Target Completion Date:** By October 2008

CRS Recommendation

Identify strategies to reduce the volume of SA transactions, and to ensure they are based on adequate supporting documentation.

Management Action

DG Fin Mgt will coordinate a review of SAs to identify strategies to reduce volume and identify requirements for supporting documents.

OPI: ADM(Fin CS)/DG Fin Mgt **Target Completion Date:** By March 2009

CRS Recommendation

5. Identify causes of data discrepancies between systems and communicate appropriate processes to data input staff.

Management Action

ADM(Fin CS) – Review will be conducted to identify causes of data discrepancies and appropriate action will be taken.

OPI: ADM(Fin CS)/DG Fin Ops **Target Completion Date:** Ongoing
ADM(Mat)/DGMSSC

ANNEX A

Management Action

ADM(Mat) – In 2010, MASIS and FMAS will be on the same platform. Planning is currently taking place to integrate the two systems, which will eliminate their interface and in turn increase data integrity. In anticipation of the introduction of MASIS (a document driven system) within ADM(Mat), standard practices are being developed to eliminate the requirement for standalone spreadsheets. Once MASIS is fully implemented, appropriate performance measures will be developed to enable compliance monitoring within the Group.

OPI: ADM(Fin CS)/DG Fin Ops
ADM(Mat)/DGMSSC

Target Completion Date: 31 March 2010

Annex B—Audit Criteria

Objective

1. Assess the control framework in place to ensure expenditures align with departmental priorities and comply with DND and TB financial and contracting policies.

Criteria

- Year-end surpluses or deficits are identified early and timely re-allocation occurs.
- Expenditures fully support the organization's objectives and are consistent with the Business Plan.
- Year-end procedures are clear and understood by all stakeholders.
- Year-end adjustments (PAYE, prepaid expenses) are processed consistently with DND & TB policy.
- Transactions are fully documented with a sufficient audit trail.
- An adequate monitoring/verification system is in place.

Objective

2. Determine if current systems and processes provide management with accurate, timely and relevant information to monitor and control year-end expenditures.

Criteria

- Timely, complete, accurate information regarding year-end expenditures is maintained in departmental systems.
- Information is compiled and reported in a fashion that allows management to make informed decisions regarding available funds (especially during Q4).
- Continuous monitoring and automated controls are used to assess these functions and to assist in making efficient use of resources.
