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# Audit of NPP National Accounting Function

February 2010

NF0601



Canada

# Table of Contents

## Acronyms and Abbreviations

| | |
|---|---|
| ABACIS | Automated Base Accounting Control and Information System |
| ACL | Audit Command Language |
| A-FN-105 | Policy and Procedures Manual for Non-Public Funds Accounting |
| A/R | Accounts Receivable |
| BComd | Base Commander |
| BMO | Bank of Montreal |
| CANEX | Canadian Forces Exchange |
| CDS | Chief of the Defence Staff |
| CER | Capital Expenditure Request |
| CFB | Canadian Forces Base |
| CFCF | Canadian Forces Central Fund |
| CFO | Chief Financial Officer |
| CFPAF | Canadian Forces Personnel Assistance Fund |
| CFPSA | Canadian Forces Personnel Support Agency |
| CIN | Control Identification Number |
| CRS | Chief Review Services |
| DBASM | Database Applications Support Manager |
| DGPFSS | Director General Personnel and Family Support Services |
| DISREG | Disbursement Register |
| DND | Department of National Defence |
| D NPF Acct | Director Non-Public Funds Accounting |
| DOL | Details on Line |
| FALC | Fixed Assets Life Cycle |
| F&E | Furniture and Equipment |
| F&I | Finance and Informatics |
| FY | Fiscal Year |
| GL | General Ledger |
| HQ | Headquarters |
| HR | Human Resources |
| M&W | Morale and Welfare |
| NAM | National Accounting Manager |
| NAPO | National Accounts Payable Office |

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|---|---|
| NARM | National Accounts Receivable Manager |
| NARO | National Accounts Receivable Office |
| NATEX | Division of CANEX at the NATO Component in Geilenkirchen, Germany |
| NATO | North Atlantic Treaty Organisation |
| NFATM | National Fixed Assets and Treasury Manager |
| NFATO | National Fixed Assets and Treasury Office |
| NFRO | National Financial Reporting Office |
| NPF | Non-Public Funds |
| NPFAM | Non-Public Funds Accounting Manager |
| NPP | Non-Public Property |
| OPI | Office of Primary Interest |
| P1 | First Purchase |
| P2 | Second Purchase |
| PIH | Property Inventory Holder |
| PSP | Personnel Support Program |
| RAM | Regional Accounting Manager |
| SISIP FS | Service Income Security Insurance Plan Financial Services |
| SOP | Standard Operating Procedure |
| SUIREG | Supplier Invoice Register |
| US | United States |

# Results in Brief

In accordance with the Chief Review Services (CRS) Non-Public Property (NPP) Audit Group Work Plan for fiscal year (FY) 2007/08, an audit of the NPP National Accounting Function was conducted. The audit was conducted in four distinct phases:

- Audit of NPP Accounts Payable Function;
- Audit of NPP Accounts Receivable (A/R) Function;
- Audit of NPP Fixed Assets and Treasury Functions; and
- Audit of NPP Financial Reporting Function.

Upon completion of each phase of the audit, Director General Personnel and Family Support Services' (DGPFSS) Chief Financial Officer (CFO) was briefed on the observations and, in response, management action plans were generated. This report combines the key issues and observations from the four phases. Since, over the course of the audit, many recommendations presented were addressed by senior management, only the outstanding and higher-risk issues are included in this final report.

The audit of the National Accounting Function is in keeping with the NPP Audit Committee's emphasis on having a strong internal audit presence via the audits of national-level systems. The purpose of the national accounting function audit is to provide assurance to the Chief of the Defence Staff (CDS) on the effectiveness and adequacy of the risk management, governance processes, and management controls that are in place.

**Overall Assessment**

The 2004 organizational re-alignment of Finance and Informatics, which effectively nationalized many of the accounting processes, has had a positive impact on the national accounting operations; however, there are some areas that require attention, such as:

- governance and strategic direction;
- fixed asset verifications;
- write-offs and disposals; and
- the management accounting system.

The recommendations proposed should, when implemented, assist in safeguarding NPP assets and improve the consistency and application of policies and procedures related to the National Accounting Function.

## Key Findings

### Governance

- Many critical processes have been streamlined and appear to be working effectively;
- Governance and policy gaps spanning the four functional areas are indicative of a need for strengthened strategic planning and direction; and
- A comprehensive risk management framework, including risk ranking and mitigation strategies, has not been developed for use in strategic management.

**Management Controls**

- Retention and availability of source documents is excellent;
- National office responses to local Base/Wing queries are timely and effective;
- The benefits of financial records scanning is having a positive effect on accounting operations;
- Accountability and stewardship in all four functional areas could be strengthened;
- Assurance as to the accuracy of the overall fixed assets value in Automated Base Accounting Control and Information System (ABACIS) cannot be provided; and
- There is a need for standardization and a more robust and flexible management accounting system to support both current and future reporting requirements.

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

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# Introduction

## Background

In September 2004, the Non-Public Funds (NPF) accounting function was transformed from four regional offices, each providing full accounting services, to a national system.[1] As depicted in Figure 1, a national office was established for each of the accounts payable, accounts receivable, fixed assets and treasury, and financial reporting functions, while three Regional Accounting Managers (RAM) oversee the various NPF Accounting Offices located at the Bases in each of their respective regions—West, Central and East.

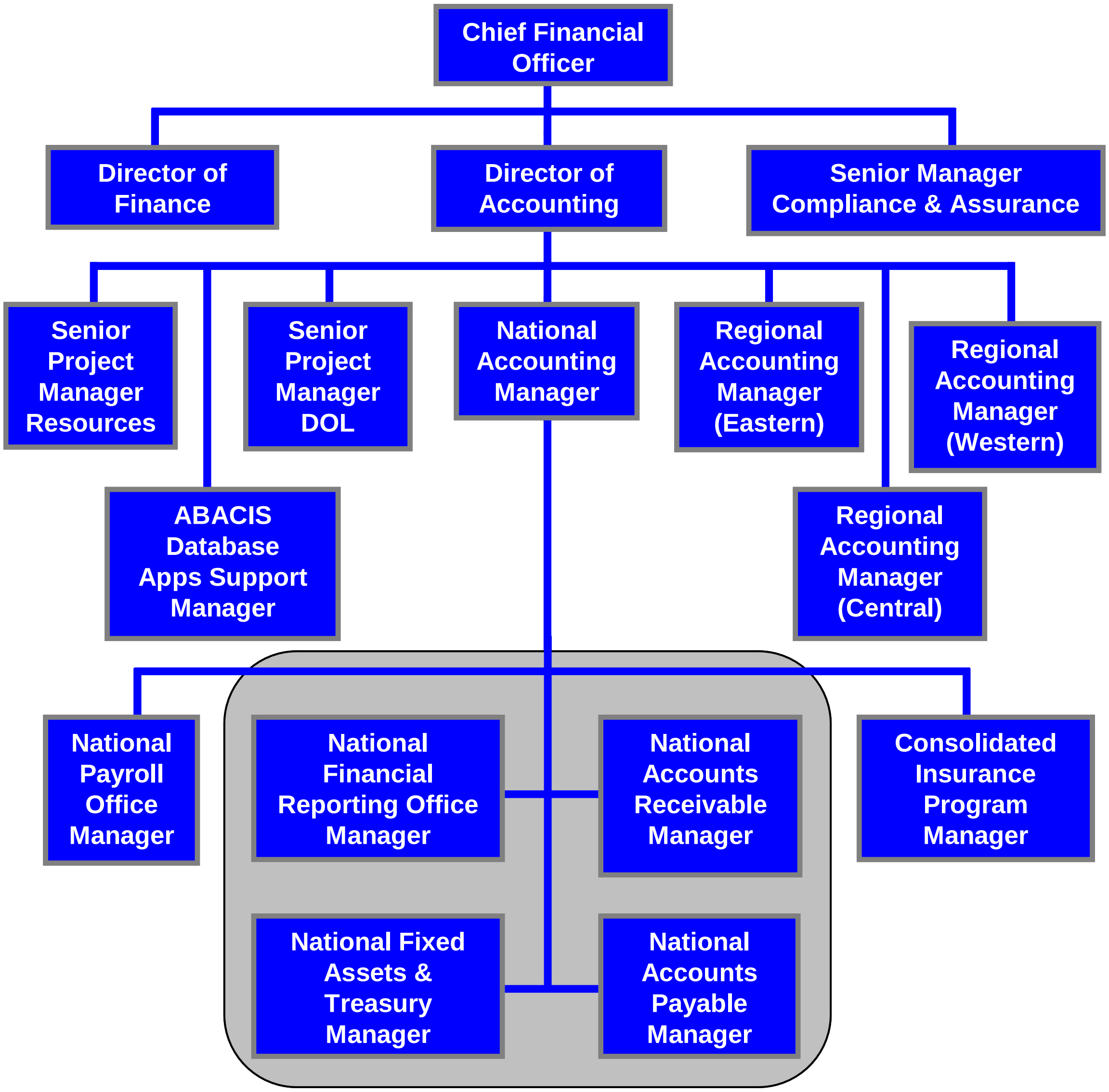


**Figure 1. CFO Organizational Structure (Abridged).** This abridged version of the NPP CFO organizational chart highlights the four national offices: National Financial Reporting Office Manager, National Fixed Assets and Treasury Manager, National Accounts Receivable Manager, and National Accounts Payable Manager

[1] 7331-1 (CFPPM), March 2004, Implementation Instructions for the Nationalization of NPF Accounting, and Memorandum 7331-1 (Compt), dated 20 Apr 2007, Finance and Informatics (F&I)—Organizational Realignment and Job Re-evaluation.

The National Accounts Payable Office (NAPO) was initially established at Canadian Forces Base (CFB) Edmonton and was subsequently moved to DGPFSS Headquarters (HQ) in Ottawa in September 2008. The NAPO is primarily responsible for printing cheques and transmitting payments by electronic funds transfers.

The National Accounts Receivable Office (NARO) is located at CFB Borden and is primarily responsible for collecting non-public funds receivables, reconciling local bank accounts and credit/debit card terminals, and processing payments received.

The National Fixed Assets and Treasury Office (NFATO) is located at CFB Valcartier and is primarily responsible for coordinating the management of NPP throughout the fixed assets life cycle (i.e., from cradle to grave) and for most of the Canadian Forces Central Fund (CFCF) banking functions.

The National Financial Reporting Office (NFRO) is located at CFB Halifax and is primarily responsible for the production of monthly financial statements. It is also responsible for, among other things, the creation and maintenance of general ledger (GL) accounts in ABACIS, generating the monthly PowerPlay report, producing *ad hoc* management reports, and uploading budgets.

## Objectives

The purpose of the national accounting function audit is to provide assurance to the CDS on the effectiveness and adequacy of the risk management, governance processes, and management controls that are in place.

The objectives of the four phases of the audit are to determine the extent to which the internal control framework and processes in place:

- provide accurate financial data, timely payments and submission of legislated remittances in accordance with internal and external policies and legislation;
- provide accurate financial data, timely collections of amounts owed, controls and limits on the granting of credit, and security over cash handling;
- support the effective management of fixed assets and the treasury function; and
- support the generation of timely, relevant, accurate, and complete financial statements.

## Scope

The audit of the national accounting function encompassed complete studies and analyses of the Management Accountability Framework, including governance and strategic direction (i.e., the four national offices' mandates, high-level policies and processes, and managerial reporting), accountability and stewardship, and risk management.

The audit covered transactions and financial information from FYs 2007/08 and 2008/09. As well, the effectiveness and adequacy of the policies, procedures, internal controls, risk management strategies and governance processes related to the four functional areas were assessed.

### Methodology

The methodology employed for each phase of the audit was generally the same. There were some variations due to the nature of the specific accounting function being examined, and the locations of site visits differed for each phase of the audit. The following represents the general methodology employed for all four phases of the audit:

- preliminary background research and pre-conduct meeting with the CFO and the Director of NPF Accounting;
- review of applicable policies, standard operating procedures (SOP), and the governance structure to assess their adequacy, effectiveness and implementation;
- preliminary assessment of financial transactions in GL accounts and sample selection for testing;
- site visits to each of the four National Offices;
- visits to several NPF Accounting Offices and local entities;
- telephone interviews;
- in-depth analysis of sample data and processes documented during the site visits;
- follow-up questions and interviews based on test results; and
- final analysis of all evidence and findings gathered in this process.

# Findings and Recommendations

## Governance

Governance and policy gaps spanning the four functional areas of NPP National Accounting are indicative of a need for more focused strategic planning and direction.

Gaps in governance and policy across all four functional areas of national accounting, particularly the need for strengthened horizontal collaboration among the CFO, Canadian Forces Exchange (CANEX), and Base/Wing/Unit Commanders, are exposing NPP to increased risk of theft or misuse.

### NARO's Mandate

The NARO's mandate is not clearly understood by all stakeholders. As shown in Figure 2, the NARO is responsible for and is organized according to three distinct functions: reconciliations (bank account, credit and debit cards), payments processing (e.g., for all existing credit plans, memberships, mess dues, etc.), and the collection of overdue accounts.

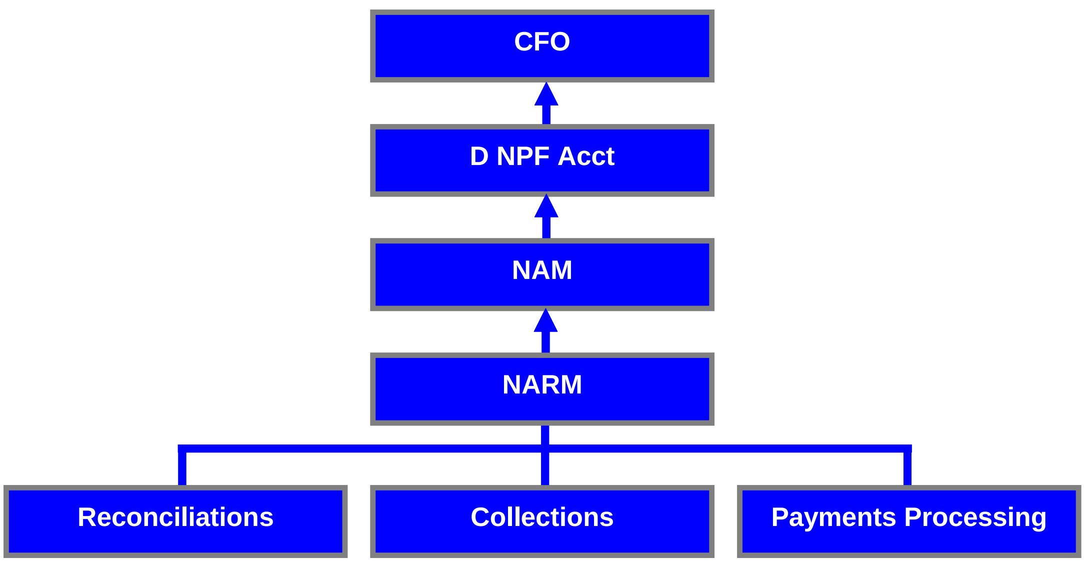


**Figure 2. National Accounts Receivable Office.** This organizational chart depicts the NARO's responsibilities and is its functional reporting chain of command.

Although the mandates for the NARO and the RAMs were articulated in the documentation relating to the "nationalization" of the accounting functions that was effected in 2003/2004,[2] this documentation is not readily available to users of NPF accounting services. Better communication would alleviate the confusion among stakeholders who do not clearly understand the NARO's role and responsibilities.

[2] 7331-1 (CFPPM), Implementation Instructions for the Nationalization of NPF Accounting, March 2004.

In Memorandum 7331-1 (Compt), dated 20 April 2007, Finance and Informatics (F&I)—Organizational Realignment and Job Re-evaluation, the Canadian Forces Personnel Support Agency (CFPSA)[3] comptroller announced a corporate reorganization which, among other things, reduced the number of accounting regions from four (Atlantic, Quebec, Ontario, and Western) to three (Eastern, Central, and Western).

This reorganization was implemented in response to the effects that "nationalization" had on many of the accounting processes. Most of the processing previously performed and supervised at the regional HQs by the RAMs shifted to the National Accounting Offices and the local Base/Wing NPF Accounting Offices, facilitating the reduction to three regions. While these changes were described in the memorandum, no additional details pertaining to the changing roles and responsibilities of the RAMs and National Accounting Offices were provided.

**NFATO's Mandate**

An abridged version of the Managing Director of NPP's governance structure is provided in Figure 3. The CFO's section of the organization provides accounting and financial services to both the Base/Wing controlled property inventory holders (PIH) and CANEX outlets/PIH.

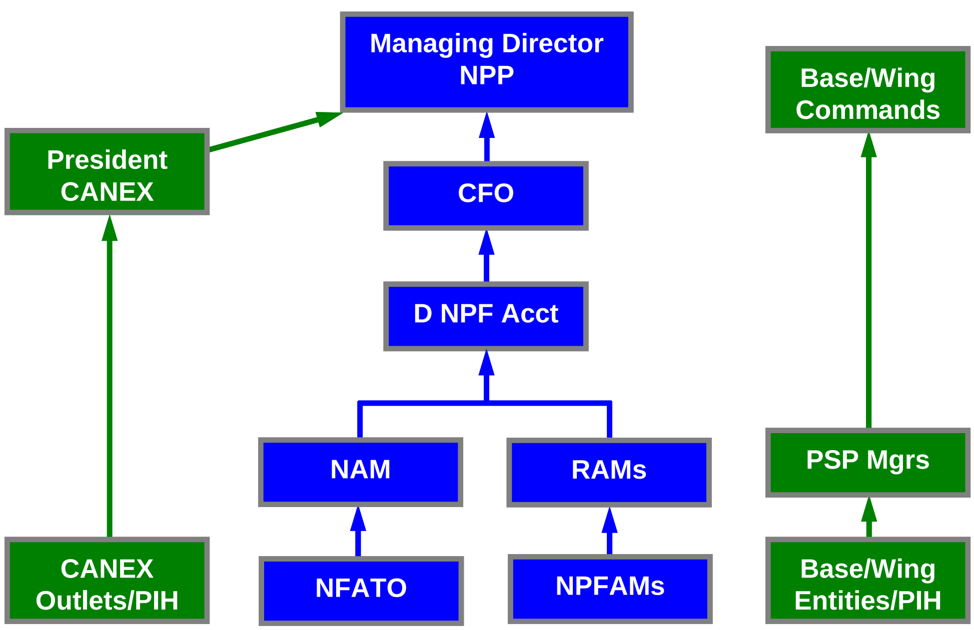


**Figure 3. Managing Director, NPP and Base/Wing Governance Structures (Abridged).** The Managing Director, NPP and Base/Wing Reporting Chains of Command illustrate the horizontal dissonance that exists between two of the chains of command within the purview of the Managing Director, NPP (i.e., CANEX and CFO) and between the CFO and the Base/Wing entities.

[3] Effective April 1, 2008, the CFPSA's name was changed to Director General Personnel and Family Support Services (DGPFSS).

The Policy and Procedures Manual for Non-Public Funds Accounting (A-FN-105) stipulates that the NFATO is responsible for ensuring that the fixed asset verifications are performed by the PIHs. While the policy confers responsibility for "ensuring" that the PIHs perform the required fixed asset verifications, the NFATO does not appear to have the requisite authority to enforce compliance. The NFATO has very little control over the fixed asset verification process and, consequently, its efforts to ensure compliance are hindered by the apparent lack of horizontal collaboration between the CFO, the Base Commanders, and the CANEX HQ.

The primary parties involved in the fixed asset verification process are the NFATO and the entity level PIHs. However, the Non-Public Funds Accounting Managers (NPFAM), Personnel Support Program (PSP) Managers, and Base Commanders (BComd) are also involved in various ways. While the PIHs are required by policy to regularly perform fixed asset verifications and to submit the results to the NPFAMs who then forward the information to the NFATO, ultimately, neither the NPFAMs nor the NFATO have adequate recourse to deal with non-compliance by the PIHs. For example, golf club managers and CANEX outlet managers are not directly accountable to the NPFAMs or to the NFATO.

The absence of horizontal collaboration contributes to, among other things, concerns of a lack of accountability, communication break-downs, and important information not reaching the intended users.

While the memoranda that were distributed in relation to the nationalization of NPF Accounting in 2004 describe the general responsibilities of each office, the role of the Quebec regional office is simply described as "Fixed Assets, a share of the banking reconciliation and back up server functions." Since 2004, the role of the Quebec office has changed to include fixed assets and the CFCF treasury functions; however, its mandate has not been formally updated. The update would provide increased internal coherence and demonstrate corporate alignment with organizational goals and objectives.

**Policy Updates**

Many of the chapters in A-FN-105 are out of date. The changes in roles, responsibilities and processes resulting from the nationalization of most of the accounting processes and the revised organizational structure are not reflected in the applicable chapters. Of the forty-six chapters in A-FN-105, only eleven have been updated within the past five years. Of note, Chapter 3 "Organization and Responsibilities," Chapter 18 "Cash and Other Receipts," Chapter 52 "Credit Sales," and the Chapters related to CANEX (e.g., Chapter 41 "CANEX Outlets," Chapter 42 "Retail Stores," Chapter 43 "Grocery Stores," etc.), have not been updated.

**NPP Fraud Policy**

Fraud risk is not addressed in a formal manner at any level in the organization. There is no fraud or loss prevention training or seminars and no internal disclosure hotline. Fraud seminars were provided by CRS at select Bases. Attendance at these seminars should be mandatory for NPF accounting staff.

Fraud awareness is important in both the prevention and detection of fraud. Without discussions regarding fraud risk, there is a reduced awareness of the opportunity for fraud throughout the organization and therefore a reduced chance of detecting fraud. In cases where fraud is suspected or detected, employees may not know how to deal with the situation. As a result, they may inadvertently compromise the case or the potential investigation.

The Department of National Defence (DND) Fraud Prevention Handbook includes a section on NPF, and NPF staff could be made aware of this handbook as part of fraud awareness training.

A fraud policy should be developed to augment the DND Handbook and should include such issues as reporting responsibilities, a process for handling and reporting suspected wrongdoing or fraud, and consequences for perpetrators (e.g., a zero tolerance policy for violations).

**Recommendations**

**NARO's Mandate.** Formal mandates for the NARO, the RAMs, and the NPF Accounting Offices should be promulgated.
**OPI:** DGPFSS/CFO

**NFATO's Mandate.** The NFATO's mandate should be updated to reflect its increased role in managing the treasury functions.
**OPI:** DGPFSS/CFO

**Horizontal Collaboration.** A mechanism should be designed and implemented to address the lack of horizontal collaboration to assist the NFATO in ensuring that policies related to the management of NPP fixed assets are followed.
**OPI:** DGPFSS/CFO; CANEX President; BComds

**Policy Updates.** A-FN-105, Chapters 3, 18, 52, and 54 should be updated as soon as possible and all chapters of A-FN-105 should be updated at least every five years.
**OPI:** DGPFSS/CFO

**NPP Fraud Policy.** An NPP fraud policy should be developed to augment the DND Handbook. Fraud awareness and loss prevention training for employees at various levels throughout the organization should be implemented.
**OPI:** DGPFSS/CFO; HR/NPP Managers

## Management Controls

Deficiencies in certain control mechanisms and lack of compliance with some policies related to accountability and stewardship are subjecting NPP to risk of theft or misuse.

Throughout the conduct of this audit many recommendations have been addressed by senior management. Various control mechanisms and operating procedures have been strengthened across all four functional areas of national accounting. There are, however, some outstanding and higher-risk issues that have been acknowledged by senior management but for which the stated management actions have not been fully implemented.

The issues are separated into the four functional areas of national accounting:

- Accounts payable;
- Accounts receivable;
- Fixed assets and treasury; and
- Financial reporting.

### 1. Accounts Payable

The overall objective in the audit of accounts payable was to determine the extent to which the internal control framework and processes that are in place provide accurate financial data, timely payments and submission of legislated remittances, in accordance with internal and external policies and legislation.

The accounts payable process can be divided into three phases:

- Generating Payables;
- Administration of Payables; and
- Final Review and Payment.

From a control perspective, the final phase is the most important since it represents the last opportunity for review prior to payment. The key control points at this stage are:

- Final assembly and matching of supporting documents (e.g., purchase order, receiving report, invoice, etc.);
- Cheque preparation; and
- Final review and release of payment.

The most critical procedural aspect is to ensure that the various payment processing activities are separately assigned to different individuals. The proper segregation of duties fixes, more precisely, the individual accountabilities.

During the accounts payable phase of the audit, it was noted that internal controls were weakened or negated by a lack of proper segregation of duties related to the creation and posting of Supplier Invoice Registers (SUIREG) and Disbursement Registers (DISREG) and in the preparation of United States (US) bank account reconciliations. These issues were adequately addressed by senior management. Specifically, exception reports have been created that list all registers which are created and posted by the same individual and where the name of the individual who created or posted the register matches a name in the register (e.g., the payee). By transferring the responsibility for US bank account reconciliations to the NFATO in Valcartier (effective April 2008), senior management has effectively addressed the noted concerns.

Weaknesses in certain controls, policies and procedures related to the delegation of financial signing authorities and the approval of expenditures result in inconsistencies across the Bases/Wings and, as a result, NPP assets could be at risk of misuse.

**Signing Authorities**

CDS Direction to the Managing Director of NPP, dated 15 December 2004, instructs that NPP should be afforded the same safeguards as public funds where possible and that the policies and directives for NPP financial administration shall reflect the spirit of public regulations where practicable.

For public funds, paragraph 7 of Chapter 1014-4-1 of the Financial Administration Manual states that "an individual who occupies a position that has been delegated financial authority may not exercise these authorities unless a delegation of authorities form has been completed." This form serves as a means to document the financial signing authority and provides for the acknowledgment that the individual has the necessary knowledge and training to exercise the authority responsibly.

In 2005 the CFO directed the NPF Accounting Offices to cease using specimen signature forms (a close substitute to DND 2289);[4] consequently, verification of the delegated authority's signature on source documents submitted for payment was no longer required. In place of these forms the NPFAMs are required to maintain a table, commonly referred to as "Table 2," listing the position, name of incumbent and contact information for each delegated authority.

**Compliance with NPF Financial Authority**

Only one out of the 25 local NPF Accounting Offices was able to provide a readily available, up-to-date Table 2; compliance with the CFO's direction is not assured. Interviews with the NPFAMs and PSP Managers at the eight Bases visited revealed that Table 2 is too onerous to maintain due to the numerous changes that occur with the turnover in entity managers and delegated authorities. Though no longer required, six of the eight NPF Accounting Offices visited were still maintaining the specimen signature forms and their staffs are verifying the approval signatures, since this has proven to be an effective control. None of the Base/Wing administration officers, comptrollers or PSP Managers interviewed was aware that the specimen signature forms are no longer required.

For approval of expenditures, the Accounting Policy and Procedures Analyst indicated that source documents submitted for payment must meet the following criteria:

[4] DND Form 2289: Delegation of Authorities—Responsibility Centre Administrator.

- Be duly authorized by the delegated authority and evidenced by his/her signature on the source document;
- The position of the delegated authority should also be annotated on the source document being approved; and
- It is desirable that the signor's name be written in block letters for ease of reference.

There is no written policy specifying these requirements, resulting in inconsistencies in the authority process across the country. In the absence of position titles, combined with illegible signatures, the requisitioning authority could not ensure the expenditure was approved by the proper delegated authority, regardless of whether Table 2 was maintained at each NPF Accounting Office.

Inadequate controls over payment approval process are exposing NPF assets to increased risk of fraud, theft, and misuse.

**Harmonization with Public Regulations**

Table 2 lacks certain control measures that the delegation of authorities form used by the public affords, such as:

- Acting as an educational tool detailing the incumbent's responsibilities and level of authority;
- Acting as a fiduciary tool in that incumbents are certifying that they understand and accept their responsibilities; and
- Acting as a control tool to assist in an audit or in a case where wrongdoing is suspected.

Revising Table 2 or developing an NPF delegation of authorities form that incorporates the control measures listed above and that adheres closer to the public regulations would reduce the risk of fraudulent activity or approvals processed by someone without proper delegated authority. The revised form should clearly indicate the incumbent's responsibilities and detail the relevant policy references to assist the delegated authority in understanding his/her role and in accessing the pertinent policies.

The spirit of the public regulations was not being adopted and NPP was not afforded the same safeguards as public funds. There is a risk that NPF funds could be misused unless senior management's plans to address these issues are fully implemented.

Without a specimen signature of the delegated approval authority, the requisitioning authority cannot ensure "that the appropriate payment authority has been provided"[5] prior to requisitioning payment.

[5] CDS Delegation of Authorities for Financial Administration of NPP, 15 December 2004.

**Recommendations**

**Signing Authorities.** Table 2 should be revised or a delegation of authorities form should be developed that incorporates proper internal control measures.
**OPI:** DGPFSS/CFO

Requirements related to approvals of source documents that are submitted for payment should be made clear in A-FN-105 and SOPs.
**OPI:** DGPFSS/CFO

## 2. Accounts Receivable

The objective of this phase of the audit is to provide assurance that:

- A/R collection processes are in place and are being followed;
- transactions recorded in A/R are appropriate; and
- amounts owed are collectable.

Among the important control considerations pertaining to the generation of receivables is the independent review and approval of credit and the determination of credit limits or thresholds. The question of how liberal a company should be in its extension of credit is an ongoing policy issue. Clearly, the tighter the credit policy and the lower the credit limit per customer, the lower will be the ultimate bad debt losses. However, the additional sales generated pursuant to more liberal credit policy may not have been otherwise realized and these sales yield extra profits and, consequently, represent additional funds available for important morale and welfare (M&W) programs.

### CANEX Credit Check Policy

Some aspects of CANEX Credit Plans were reviewed since they constitute a significant portion of the overall NPP A/R. Credit Plans represent a vital part of CANEX operations since they are most likely the biggest draw for customers outside of CANEX loyalty programs. The Credit Plans are also one of the highest operational risk areas.

As at 31 March 2008, the total CANEX Credit Plan A/R balance was $37.5 million, representing 65 percent growth over the previous years' closing balance.

In collaboration with management, two main concerns related to this growth in credit plan receivables were identified. First, the CANEX Policy and Procedures Manual has not been updated to reflect changes in the program. CANEX has changed the Credit Plan program from the previous offering of two types of credit plans (i.e., one-year and two-year term plans with a maximum credit limit of $5,000 per customer) to include a three-year term plan with a maximum credit limit of $6,500.

The second concern relates to the requirement for credit checks. There is a gap in the credit check policy that could permit customers to be extended credit of up to $6,500 without a credit check, at the current threshold of $1,000, having been performed (please refer to Annex C for specific details). A review of existing credit plans identified several plan holders with balances at the maximum credit level where no credit check had been performed.

There is a risk that customers with bad credit will discover this gap in the credit check policy and will be extended credit in excess of their ability to pay. The rapid growth in credit plans combined with the credit check policy gap increases the risk of bad debts. Ultimately, uncollected accounts reduce the funds available to support important M&W programs.

**External Collection Agencies**

The NARO sends delinquent accounts to an external collection agency; however, the NARO could not produce (nor confirm the existence of) a formal contract or agreement with the external collection agency. In any event, the NARO is not presently dealing with the external collection agency as if a formal agreement were in place.

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The services provided by the external collection agency are not adequately tracked or evaluated. Currently, the NARO Collections section transfers accounts to the collection agency (on a contingency basis) and relies upon the agency to provide a list of accounts that it is handling and the status of these accounts. An independent reconciliation is not performed nor is there any evaluation of the rate of success in collecting. Upon transfer to the external collection agency, an A/R account is written down to zero in order avoid duplication of collection efforts.

Another concern is that the NARO had been dealing with a single external collection agency since the 1980s and had not undertaken a competitive market tender or some form of comparison of services or costs in relation to other external collection agencies. In response to this concern, the NARO has started dealing with another collection agency whose rates are more favourable. However, the current practice of reviewing the external agencies' reports does not constitute an adequate substitute for the performance of independent reconciliations and internal evaluations relating to external collection agency performance.

If the external collection agency's efforts are not continuously monitored and evaluated there is a risk that the DGPFSS's share of all amounts collected may not be received and that they may not be providing the best possible services available in regards to both cost and rate of success in the collection agency market.

**Recommendations**

**CANEX Credit Check Policy.** The CFO should liaise with the President of CANEX with the objective of amending the credit check policy to address the policy gap. The existing $1,000 threshold for credit checks could also be revisited as part of an overall bad debt risk assessment/analysis.
**OPI:** DGPFSS/CFO; CANEX President

**External Collection Agencies.** A mechanism should be established to address the "agency" risks to the Crown and to continuously monitor the performance of external collection agencies employed in debt collection. In addition, periodic environmental scanning should be conducted to determine whether the best rates are being obtained.
**OPI:** NAM/NARM

### 3. Fixed Assets

This phase of the audit focused primarily on the means employed to acquire fixed assets; safeguard these assets from various types of losses such as those resulting from theft, fire, improper or illegal activities, and exposure to the elements; and to dispose of them. Similar to non-physical assets, such as A/R, physical assets, including fixed assets and attractive items, can be stolen, misused or accidentally destroyed unless they are protected by adequate controls.

Due to concerns identified in each segment of the fixed assets life cycle (FALC), assurance cannot be provided as to the accuracy of the overall fixed assets value in ABACIS. As at 30 September 2008, the gross book value of FAs recorded in ABACIS was approximately $156.5 million and the net book value was about $56.9 million. Of most concern are deficiencies in the areas of fixed asset verifications and write-offs and disposals.

#### The Fixed Assets Life Cycle

Accountabilities and stewardship in relation to fixed assets are assessed using an asset life cycle approach (see Figure 4). Accordingly, the method adopted in both the conduct and the reporting phases of this audit is the FALC model. As is shown in Figure 4, the cycle commences with the acquisition phase where requirements for new fixed assets are determined, the requisite approvals are obtained, the sources of funding are identified, and the required fixed assets are ordered from suppliers. The second phase (Fixed Assets In Use), involves the receipt of ordered fixed assets, payment of supplier invoices, and the recording of the acquired assets. From an accounting perspective, this phase of the FALC also includes bi-annual fixed asset verifications, appraisals, the generation of monthly amortization and depreciation, and project close-out. The final phase of the fixed asset life cycle (Disposal) involves both the disposal and writing-off of fixed assets that have reached the end of their useful lives or which cannot be located.

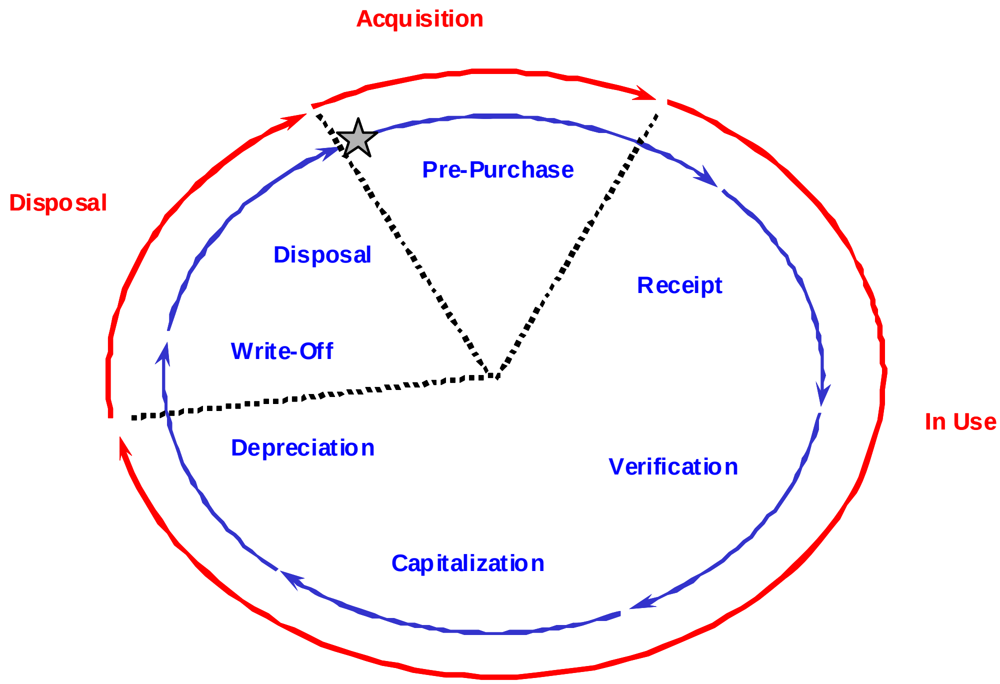


**Figure 4. Fixed Asset Life Cycle.** This flowchart shows the three phases of the life cycle (i.e., acquisition, in use, and disposal) and reflects the accountability and stewardship control points.

### Fixed Asset Acquisition—Approvals

A risk-based approach was employed in reviewing the acquisition of fixed assets. As per A-FN-105, Chapter 28, for purchases exceeding $1,000 for CANEX and $25,000 for other entities, the responsible manager must prepare a Capital Expenditure Request (CER). Acquisitions with values less than these prescribed thresholds are of lesser risk from a materiality perspective. Therefore, the focus of this segment of the audit is on the higher-risk acquisitions for which CERs are required as an important internal control measure. A sample of CERs was collected at the NFATO with a total approved amount of $11 million.

The review of this sample of CER files (i.e., CERs and supporting documentation) revealed that fixed assets have been purchased prior to the required CER approval having been obtained. In instances where the purchase was made on an emergency basis, purchase prior to CER approval may be understandable (e.g., Shearwater Yacht Club emergency roof repairs: project 11-2675). However, in such cases the appropriate approvals should be obtained as expeditiously as possible following the purchase. In the case of the emergency roof repairs, the CER was not staffed until five weeks after the invoice date and final approval for the expenditure was granted six weeks after the invoice date.

The National Fixed Assets and Treasury Manager (NFATM) confirmed that purchases occurring before CER approval is a problem area for the NFATO. Further, in a November 2007 compliance audit,[6] it was noted that four of the five (80 percent)

[6] CFPSA Finance and Informatics Division, "National Fixed Asset Office Compliance Program Inspection," 13-14 November 2007.

sampled CERs were dated later than the invoice date. The requirement that fixed asset purchases be approved prior to acquisition is a critical control point in the process. There is a risk that the purchase will not be approved and/or that the funds to pay for the purchase may not be available. Obtaining approval to purchase a fixed asset after taking delivery can cause significant delays in processing payments to suppliers which negatively impacts on DGPFSS's reputation and relationship with suppliers.

**Fixed Asset Acquisition—Recording of Assets**

A-FN-105 specifies that both assets valued at more than $1,000 and those that are deemed desirable (i.e., attractive items) are to be recorded by the NFATO. The policy also notes that the NPFAMs are responsible for "ensuring that all attractive items are taken on charge and reported to the NFATO for accountability." Expense accounts were sampled to determine: (1) whether there are any desirable assets under $1,000 that are not being included on fixed asset listings; and (2) if there are assets that should be capitalized (as "asset betterments") but which have been incorrectly recorded as repairs and maintenance expenses.

A sample of transactions from the Furniture and Equipment (F&E) under $1,000 expense account was reviewed. The sample was selected based on a risk assessment (i.e., the value of individual transactions and total value of such transactions for a specific entity) and spanned eight Bases/Wings and CFCF HQ. Within this sample, desirable items were identified that should have been included on the fixed asset listings, but which were not, including a laptop computer, two desktop computers, four kayaks, two 32-inch televisions, three fire safety cabinets, and various video gaming systems (e.g., PS3 and Xbox). If desirable assets are not properly recorded, tracked and included on fixed asset verification lists, the risk of theft or abuse is increased.

**Fixed Assets In Use—Tracking Fixed Assets**

The most important protective measure for safeguarding assets is the use of physical precautions. Another critical element of control is careful tracking and continuous independent review of assets, often referred to as "independent checks" or "internal verification."

The NFATO distributes confirmation memos[7] to the appropriate Base/Wing NPF Accounting Office whenever a fixed asset is created, written off, disposed of, transferred, or when the NFATO is informed of a change in PIH information. This value-added procedure was an initiative of the NFATO carried over from "pre-nationalization" regional accounting office practices and is not a prescribed requirement of A-FN-105. The memo provides feedback to the entities and allows the PIHs to ensure that their fixed asset verification lists are synchronized with the NFATO's listings. The information provided in the memo includes the fixed asset number to assist the PIHs in labeling and tracking their fixed assets.

[7] NFATO SOPs, Section 2, Annex I Memorandum "Modifications of Furniture and Effects Inventory."

The memos do not provide the same description of the fixed assets that is recorded in ABACIS. The brief description on the memo is what later appears on the verification list. The descriptions do not always match how the entity would describe the asset and can lead to errors in the verification process. It is important that the description of the fixed asset be of sufficient detail so as to be useful in identifying each specific one. Diligent adherence to the existing policy which states that PIHs shall place Control Identification Numbers (CIN) on all fixed assets for purposes of identification and tracking would be of great assistance in mitigating the risks related to incomplete descriptions.

**Fixed Assets In Use—Independent Fixed Asset Verifications**

A-FN-105, Chapter 28, requires "independent" verifications. However, the current practice with respect to fixed asset verifications is that a PIH performs the verification, signs the verification form and has the form signed by a witness. Since, in some cases, the PIH is responsible for ordering, receiving, approving invoices for payment, and verification, there is an absence of a proper segregation of duties. Having a witness sign the fixed asset verification form does not constitute a suitable replacement for an independent verification. A random sample of fixed asset verification forms submitted to the NFATO was reviewed and 57 percent of the sampled verifications were not adequately witnessed. In some cases the witness signature was obtained at a later date than the PIH conducted the verification and in other cases there was no witness signature at all.

**Write-off and Disposal of Fixed Assets**

Write-offs and disposals are not being handled as distinct processes. In the policies prescribed in A-FN-105, Chapter 28, write-offs and disposals are treated as separate processes. The NFATO SOPs are found in Section 2 "Furniture and Effects," though not all fixed assets held are in this category. While there are SOPs for write-offs, there are no SOPs dealing specifically with disposals. The following provides a description of the main roles and responsibilities for the PIHs, NPFAMs, and the NFATO in the write-off and disposal processes:

**PIHs:**

- Complete Request for Write-Off form;
- Sign and date certificate of destruction/sold and have witness sign; and
- Forward completed request to PSP Manager for signature and forwarding to the NPFAM.

**NPFAMs:**

- Confirm minute approval, collect funds from sale, and forward copies of supporting documentation (including certificate of disposal) to RAM and NFATO for action.

**NFATO:**

- Ensures appropriate approvals were obtained and all supporting documents are in place; and
- Purges written-off and disposed of fixed assets from records.

A review of the Request for Write-Off form indicates that disposals are being dealt with as a sub-set of write-offs. Considering that the write-off and disposal processes are so similar, the use of a single form to deal with both circumstances is not, itself, of significant concern. While the existing form is reasonably comprehensive, there are a few concerns that should be addressed. First, the field provided to record the method of disposal includes the following methods:

- Destroyed by entity;
- Destroyed by F&E section;
- Sold by entity;
- Sold by F&E section;
- Obsolete; and
- Missing.

Two of the identified "methods" (i.e., obsolete and missing) are reasons for disposal and not methods. For disposals, A-FN-105 defines the methods of disposal as being "trade-in, sold, auctions, barter, delete from records as a result of fair wear and tear, and consumption of asset by NPF activity for its own use." Also of concern is the lack of a field on the form where the reason (e.g., obsolete, missing, etc.) for the write-off or disposal is to be recorded.

The write-off and disposal processes should be managed as distinct processes. Ideally, separate forms should be used for each process; however, a single form could still suffice if it were amended to appropriately segregate the two processes.

A sample of write-off and disposal requests was reviewed and 67 percent did not include a complete set of the required supporting documentation. In addition, for 40 percent of the sampled files, the "Certifications" of the items having been destroyed did not include the signature of a witness and there were instances of items identified as having been sold but no indication of the amount of the proceeds from the sale were provided.

Of significant concern is that a majority of the requests were made after the items had been destroyed or sold. It is understandable that the request for approval to write off fixed assets would be made after the fact in cases where items are identified as "missing" as part of the fixed asset verification process or when an item's destruction was not anticipated; however, approval is required prior to fixed assets being destroyed, sold, or traded in.

**Recommendations**

**Fixed Asset Acquisition Approvals.** Ensure that the NPF Accounting Offices comply with the requirements of A-FN-105, Chapter 28 in fulfilling their responsibility to forward appropriately authorized CERs and all required supporting documentation to the NFATO.
**OPI:** DGPFSS/CFO

**Recording of Assets.** Ensure that "attractive" items are reported to the NFATO so that they can be included on the fixed asset listings.
**OPI:** NPFAMs

**Tracking Fixed Assets.** The CFO should, in consultation with the chains of command, ensure that PIHs properly label all fixed assets with a CIN as is required by policy.
**OPI:** DGPFSS/CFO

**Independent Fixed Asset Verifications.** The fixed asset verification process should be amended to ensure that verifications are conducted by "independent" verifiers.
**OPI:** DGPFSS/CFO

**Write-off and Disposal of Fixed Assets.** Ensure that the requisite approvals are obtained prior to fixed assets being written off and/or disposed of.
**OPI:** DGPFSS/CFO

## 4. Treasury

### Monitoring of Financial Data Transfers

The NFATM is responsible for uploading financial data for each department (NAPO, SISIP FS, CFPAF, CANEX, NATEX,[8] and Payroll). Each department has access to a separate drive on which to save its files. Some save the files directly while others send their files to NFATO by e-mail. The NFATO is also responsible for conducting the bank account reconciliations. Consequently, with the NFATO uploading the financial data, reconciling the accounts, and the ease with which departments' text files can be manipulated, the appropriate segregation of these duties is of critical importance.

The risks related to the security of sensitive financial information that is filed electronically with the Bank of Montreal (BMO), including an apparent lack of properly segregated duties, were identified by both the Director of NPF Accounting and the NFATM as being of concern. Based on further discussion it appears as though appropriate measures are being taken to mitigate the risks.

To address the residual risk associated with the internal handling of these sensitive data files, the CFO should consider implementing a formal monitoring process involving the sampling of the creation reports by an independent agent such as the CFO Compliance Section.

[8] In 1985, NATEX (division of CANEX) opened its doors at the NATO E3A Component in Geilenkirchen, Germany, as the Component's Exchange shopping centre.

A review of sample documentation and an on-site visual inspection of historical records, reconciliations of the central fund, the CANEX central billing account, the account 1090 (cashed cheques), accounts 1020 and 1020-2 (outstanding cheques), the US bank account, and the six-week CFCF cash flow summary indicates that the reconciliations are being performed in accordance with the policies and procedures. There are no concerns in these areas.

**Recommendation**

**Monitoring of Financial Data Transfers.** The CFO should consider the implementation of a formal monitoring process involving sampling of the creation reports by an independent agent (i.e., the Managing Director of NPP's Compliance Group) of the files that are uploaded to the BMO website. As an example, the use of Audit Command Language (ACL) exception reports to identify any variances between the desired financial transactions and the creation reports provided by BMO could be used.
**OPI:** DGPFSS/CFO

## 5. Financial Reporting

### Management Accounting System

The desired end-state for financial reporting should be integrally linked to a comprehensive performance management regime. The requirement for an improved financial reporting model and a clear set of performance measures has been recognized by senior management and its objectives in relation to financial reporting are outlined in The New Deal Study Directive.[9] Success in achieving meaningful change in this regard will depend on two interrelated "pillars":

- Strengthened horizontal collaboration between the CFO, President of CANEX, and Base/Wing/Unit Commanders in relation to standardization; and
- Adoption of a more robust and flexible management accounting system.

These pillars must be in place prior to implementation of the New Deal. Regardless of which management model is adopted, the underlying issues related to transparency and performance measurement will remain and must be addressed in the short term.

Managers require financial information that is relevant to their decision-making and oversight responsibilities. Currently, the financial statements that are provided to managers throughout the chain of command are not giving them all the information that they need—there are three primary areas of concern:

- A lack of transparency and performance measurement capability as is recognized by the previously noted New Deal objective;
- A lack of consolidated high-level reports available to the Managing Director of NPP and Base Commanders; and
- A lack of easy access to transactional-level details by managers.

[9] The stated objective in the New Deal draft version 2 (4 March 2008) is: "To provide better information for decision making and improve transparency and effectiveness of that decision-making process by implementing an efficient reporting model for M&W programs and services that will be based on meaningful operational and financial performance measures."

The need for these types of information is apparent as entity managers have adopted inefficient replacement methods such as retaining copies of all transaction records to manually compare to NPF accounting totals and/or creating and maintaining their own separate "sets of books." In addition, some NPFAMs are generating financial summary sheets which are being distributed along with the monthly financial statements and entity managers are also generating their own financial summaries.

Standardized and consolidated reports are required for senior management to be able to evaluate the services provided across all Bases and assist in increasing performance and ensure the efficient and effective use of limited NPF resources. Currently, there are no consolidated reports available at the Base/Wing, region, or national level. Prior to several Base/Wing visits, the Managing Director of NPP requested consolidated financial reports. The information had to be consolidated manually and without any specific SOPs to use as guidance. As a result, the accuracy of the information provided could not be completely verified. Similar concerns were raised by Deloitte & Touche (external auditors for CANEX) as expressed in a June 2008 Memorandum[10] relating to the manual methods being used to consolidate CANEX and NATEX financial reports.

Local entity managers identified a need for high-level consolidated reporting with the option for further analysis. Drill-down capability is required so that managers can analyze their accounts further to assist them in tracking specific projects and budgets that are mixed with other transactions within the account coding structure. The managers expressed concerns about inefficiencies and delays in the current process of having to request specific transactional information from the local NPF accounting offices which, in some cases, also requires them to go through the chain of command to make such a request. Consequently, some entity managers are creating their own financial summaries from either the NFRO distributed financial statements or from their own sets of financial statements, log books, or ledgers.

While the New Deal Study is in its initial stages, some of the study's objectives seem to have been developed as a direct result of senior management's recognition of the organization's current inability to provide clearer information for decision making and performance measurement. Ultimately, implementation of the New Deal should ensure that there is equitable and enduring access to NPP M&W programs at all locations, a goal that has been somewhat elusive in the past since limited NPP resources were not allocated as effectively as they might have been. The current reporting system does not, therefore, support the New Deal objective of implementing an efficient reporting model for M&W programs and services that will be based on meaningful operational and financial performance measures.[11]

Another important goal of the New Deal is that the reporting model should not become an administrative burden. This goal highlights the need to organize financial information in such a way that reporting is relatively seamless, relevant, and understandable.

[10] Deloitte & Touche, LLP, CANEX: Memorandum of Suggestions for Improvements in Accounting Procedures and Internal Control Structure, June 2008.
[11] New Deal draft version 2, 4 March 2008.

**Recommendation**

**Management Accounting System.** Regardless of the implementation of other initiatives, including the New Deal, the CFO should undertake a complete review and assessment of its financial information and reporting requirements with a view to migrating to a more robust system that provides, among other things, a drill-down capability. This review should be managed as a project with an adequate budget, discrete deliverables, and clear timelines for delivery.
**OPI:** DGPFSS/CFO

# Annex A—Management Action Plan

## Governance

**CRS Recommendation**

1. **NARO's Mandate.** Formal mandates for the NARO, the RAMs, and the NPF Accounting Offices should be promulgated.

**Management Action**

An SOP has been created outlining clear segregation of responsibilities in relation to A/R. The SOP has been sent to the NAM for review. Following the national meeting in March 2009, all responsibilities have been reviewed and crystallized.

**OPI:** DGPFSS/CFO
**Target Date:** Completed

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**CRS Recommendation**

2. **NFATO's Mandate.** The NFATO's mandate should be updated to reflect its increased role in managing the treasury functions.

**Management Action**

The NAM will modify the NFATO mandate to reflect the new role and responsibilities. SOP 2.0 in place.

**OPI:** DGPFSS/CFO
**Target Date:** Completed

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**CRS Recommendation**

3. **Horizontal Collaboration.** A mechanism should be designed and implemented to address the lack of horizontal collaboration to assist the NFATO in ensuring that policies related to the management of NPP fixed assets are followed.

**Management Action**

The NFATO will develop a summary of procedures that outlines the requirements for fixed assets acquisitions and disposals. The CFO will distribute to the Division Heads. Several observations have been given to Bases on Class 6 items (items that have a relatively short useful life) that have not been verified twice per year. The Compliance Team has had great success in carrying out horizontal collaboration between Bases and the NFATO.

**OPI:** DGPFSS/CFO; CANEX President; BComds
**Target Date:** Completed

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Annex A

**CRS Recommendation**

4. **Policy Updates.** A-FN-105, Chapters 3, 18, 52, and 54 should be updated as soon as possible and all chapters of A-FN-105 should be updated at least every five years.

**Management Action**

Chapter 3 has been re-written and has been included as part of the CDS delegation financial administration authority. The new publication will contain this chapter. Priorities have been set for the review of the other chapters. Our intention is to complete a full revision over the next three years.

**OPI:** DGPFSS/CFO
**Target Date:** February 2013

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**CRS Recommendation**

5. **NPP Fraud Policy.** An NPP fraud policy should be developed to augment the DND Handbook. Fraud awareness and loss prevention training for employees at various levels throughout the organization should be implemented.

**Management Action**

Management concurs that a policy should be developed to complement the DND Handbook. Fraud awareness and loss prevention will be part of the training for new employees within the HR systems checklist. CANEX has established an on-line teaching aid for all its employees, which includes material related to cash handling and fraud prevention and detection.

**OPI:** DGPFSS/CFO; HR/NPP Managers
**Target Date:** January 2011

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## Management Controls

**CRS Recommendation**

6. **Signing Authorities.** Table 2 should be revised or a delegation of authorities from should be developed that incorporates proper internal control measures.

**Management Action**

Management agrees with this recommendation as it was part of our plan which has been in progress for the past year. Chapter 3 of the A-FN-105 has been revised, including all tables, and will be going through the final approval stage and translation within the next two months. The revised CDS Delegation of Authority was sent to translation in October 2009. The new version should be released in January 2010.

**OPI:** DGPFSS/CFO
**Target Date:** Completed

**Annex A**

**CRS Recommendation**

7. **Signing Authorities.** Requirements related to approvals of source documents that are submitted for payment should be made clear in A-FN-105 and SOPs.

**Management Action**

The intention is to create and maintain a national signing authority database which will be maintained by the NAPO. NAPO is now keeping scanned copies of cheque signing authorities that it has received in a directory. The NAPO is in the process of determining which required signatures they need to collect. The database has been completed and will "go live" in January 2010. It will be maintained by NAPO.

**OPI:** DGPFSS/CFO
**Target Date:** January 2010

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**CRS Recommendation**

8. **CANEX Credit Check Policy.** The CFO should liaise with the President of CANEX with the objective of amending the credit check policy to address the policy gap. The existing $1,000 threshold for credit checks could also be revisited as part of an overall bad debt risk assessment/analysis.

**Management Action**

In March 2008, as part as the CANEX inventory management project, a review of the credit plan approval process was approved by both CFO and the CANEX President. The new process requires that all credit plan requests, regardless of the amount, will need to be subject to a credit check. The policy will be promulgated through CANEX Policy and Procedures. The intent is to obtain a report from TransUnion showing all enquiries made by CANEX and compare the list to approved Credit Plans. This will help to ensure that managers adhere to the requirement. In addition, this item will be included in our compliance program for CANEX. A new credit check policy (Nov 2009) proposes to vary credit limits based on credit score and to do 100% credit checks.

**OPI:** DGPFSS/CFO; CANEX President
**Target Date:** March 2010

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**CRS Recommendation**

9. **External Collection Agencies.** A mechanism should be established to address the "agency" risks to the Crown and to continuously monitor the performance of external collection agencies employed in debt collection. In addition, periodic environmental scanning should be conducted to determine whether the best rates are being obtained.

**Management Action**

The NARO has instituted a performance review on external collection agencies and is periodically reviewing the charges.

**OPI:** NAM/NARM
**Target Date:** Completed

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**CRS Recommendation**

10. **Fixed Asset Acquisition Approvals.** Ensure that the NPF Accounting Offices comply with the requirements of A-FN-105, Chapter 28 in fulfilling their responsibility to forward appropriately authorized CERs and all required supporting documentation to the NFATO.

**Management Action**

The NFATO will create process sheets for entity managers and Bases to reinforce their understanding of their roles and responsibilities.

**OPI:** DGPFSS/CFO
**Target Date:** Completed

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**CRS Recommendation**

11. **Recording of Assets.** Ensure that "attractive" items are reported to the NFATO so that they can be included on the fixed assets listings.

**Management Action**

The policy will be revised to require more than just sports consumables to be recorded as fixed asset records regardless of price. Electronics such as TVs, computers, and video consoles should also be set up as zero valued assets for the purposes of insurance and fixed asset verification.

**OPI:** NPFAMs
**Target Date:** Completed

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Annex A

**CRS Recommendation**

12. **Tracking Fixed Assets.** The CFO should, in consultation with the chains of command, ensure that PIHs properly label all fixed assets with a CIN as is required by policy.

**Management Action**

The NFATO will develop fixed asset CIN listings and send to the NPFAMs. The NPFAMs will be required to create and send CIN stickers to the PIHs with their fixed asset verification listings. The Compliance Team is reminding Bases during visits, but due to cost of printing labels and establishing proper labeling techniques, Bases are having difficulties with full implementation. While some Bases are tagging NPF items, other Bases have implemented new control techniques such as digital imaging. More entities are adopting this process versus tagging.

**OPI:** DGPFSS/CFO
**Target Date:** Completed

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**CRS Recommendation**

13. **Independent Fixed Asset Verifications.** The fixed asset verification process should be amended to ensure that verifications are conducted by "independent" verifiers.

**Management Action**

Responsibility for fixed asset verification should be assigned to existing stocktaking boards. New managers are independent and the NPFAMs have been directed to ensure that new managers complete a fixed asset verification.

**OPI:** DGPFSS/CFO
**Target Date:** Completed

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**CRS Recommendation**

14. **Write-Off and Disposal of Fixed Assets.** Ensure that the requisite approvals are obtained prior to fixed assets being written off and/or disposed of.

**Management Action**

Updated write-off procedures have been developed and sent to managers.

**OPI:** DGPFSS/CFO
**Target Date:** Completed

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**Annex A**

**CRS Recommendation**

15. **Monitoring of Financial Data Transfers.** The CFO should consider the implementation of a formal monitoring process involving sampling of the creation reports by an independent agent (i.e., the Managing Director of NPP's Compliance Group) of the files that are uploaded to the BMO website. As an example, the use of ACL exception reports to identify any variances between the desired financial transactions and the creation reports provided by BMO could be used.

**Management Action**

NAM will conduct sampling as a test of NFATO and NAPO. Full segregation of responsibility is also monitored by DBASM for ABACIS security and network drive access.

**OPI:** DGPFSS/CFO
**Target Date:** Completed

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**CRS Recommendation**

16. **Management Accounting Systems.** Regardless of the implementation of other initiatives, including the New Deal, the CFO should undertake a complete review and assessment of its financial information and reporting requirements with a view to migrating to a more robust system that provides, among other things, a drill-down capability. This review should be managed as a project with an adequate budget, discrete deliverables, and clear timelines for delivery.

**Management Action**

Financial reporting requirements have been scoped and sent to the Information Services Division. Three options for financial reporting have been identified and a separate project will be put in place to find a replacement for ABACIS. The replacement project's estimated time for completion is 2010/2011. An interim ABACIS capability upgrade is expected in March 2010. First review of potential ABACIS replacement software shows that more robust reporting capabilities are now part of all new software. Depending on the Chief Information Officer's success in incorporating ABACIS data into the "mega-warehouse," we may have the capability internally.

**OPI:** DGPFSS/CFO
**Target Date:** March 2011

# Annex B—Audit Criteria

## Objective

1. Ensure proper governance structure is in place.

## Criteria

- Oversight and review responsibilities have been assigned and are working effectively.
- Appropriate monitoring and reporting tools and procedures are in place to provide management with timely, accurate, and relevant information.
- Mandates for the national offices are clear, including high-level policies and procedural instructions, and the necessary resources (staffing, equipment and budget) have been provided.
- Policies and procedures are up-to-date, consistent, appropriate, and are available in both official languages.
- Fraud policy is in place.
- Identifiable risks are recognized, understood, quantified and appropriately managed. The risks are appropriately balanced and support values and ethics.
- Incompatible duties have been appropriately segregated.

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## Objective

2. Determine the extent to which the internal control framework and processes provide accurate payroll financial data and timely payments.

## Criteria

- The NAPO ensures that all SUIREG information matches and reflects the invoices received.
- Corporate credit cards are being administered as per the policies prescribed in A-FN-105.
- Adequate controls are in place to prevent duplicate payments.
- Delegation of financial signing authorities for NPP is in accordance with the CDS Direction to the Managing Director of NPP.
- Accounts payable duties are appropriately segregated.
- Vendors are screened and monitored to ensure that only *bona fide* vendors are set up and paid.

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Annex B

## Objective

3. Determine the extent to which the internal control framework and processes provide accurate A/R data, ensure the timely collections of amounts owed, ensure that there are controls and limits on the granting of credit, and ensure security over cash handling.

## Criteria

- NARO's reconciliations of local bank accounts, credit and debit cards are conducted in accordance with the policies and procedures set out in A-FN-105 and NARO SOPs.
- The A/R process relating to concessions ensures that all entries reported in the system are exactly as per the rental agreement terms.
- All monies owed to customer outlets, entities and activities are received in a timely fashion.
- A/R aging lists are monitored and the procedures employed for writing off accounts are in compliance with A-FN-105 and SOPs.
- CANEX credit plans are administered in accordance with the policies and procedures that are prescribed in A-FN-105, SOPs, and the CANEX Policies and Procedures Manual.
- Cash handling and security policies and procedures are in place and are being implemented in accordance with A-FN-105.

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## Objective

4. Determine the extent to which the internal control framework and processes ensure that procured assets are adequately tracked and safeguarded.

## Criteria

- Prescribed policies and procedures are followed throughout the fixed asset life cycle.
- Work-in-progress accounts are maintained and monitored to ensure that fixed assets are recognized and that projects are closed out in a timely manner.
- The fixed asset balance sheet accounts and ABACIS fixed asset records are reconciled and maintained.
- Fixed asset verifications are performed in accordance with policies and procedures, and fixed assets are adequately safeguarded and insured.

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Annex B

## Objective

5. Determine whether the policies and procedures for the NFATO's treasury responsibilities are being followed.

## Criteria

- Prescribed policies and procedures are followed when CFCF banking duties are performed, CFCF loan funded projects are recorded and administered, Canadian and US cheques are reconciled, direct file transfers are processed, and in the administration of corporate credit cards.

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## Objective

6. Ensure the submission of legislated remittances in accordance with internal and external policies and legislation.

## Criteria

- Provincial Sales Tax remittances are being submitted in accordance with legislated requirements.
- Goods and Services Tax remittances are being submitted in accordance with legislated requirements.

# Annex C—CANEX Credit Plans Policy Gap

There is a gap in the credit check policy that could permit customers to be extended credit of up to $6,500 without a credit check having been performed.

The credit check policy requires that CANEX outlet managers conduct credit checks for individual credit plans over $1,000. However, there is no limit to the number of credit plans that a customer can have as long as the credit limit of $6,500 is not exceeded.

Consequently, there is a risk that customers will discover that they are able to circumvent the credit check requirement by having two or more credit plans of less than $1,000 each but which taken together total more than $1,000. Certainly, customers could have several individual credit plans of less than $1,000 which could bring them to their maximum credit limits without a credit check having been performed.

Scenario 1 of Figure 5 depicts a situation in which any single credit plan purchase (P1) that is $1,000 or more requires that a credit check be performed. The situation presented in Scenario 2 raises several concerns. First, while the first purchase (P1) does not require that a credit check be performed, a second purchase (P2) by the same customer, which would push that customer's total outstanding debt to more than the $1,000, does not require a credit check, even if the two purchases were made on the same day. By extension, as is shown in Scenario 2, a single customer could contract for seven individual credit plans and thus be extended up to $6,500 in credit without having to undergo a single credit check. Since for such purchases the entity manager only checks the customers credit availability status, Scenario 2 is certainly achievable if such a purchase pattern was to be undertaken over a period of a few months.

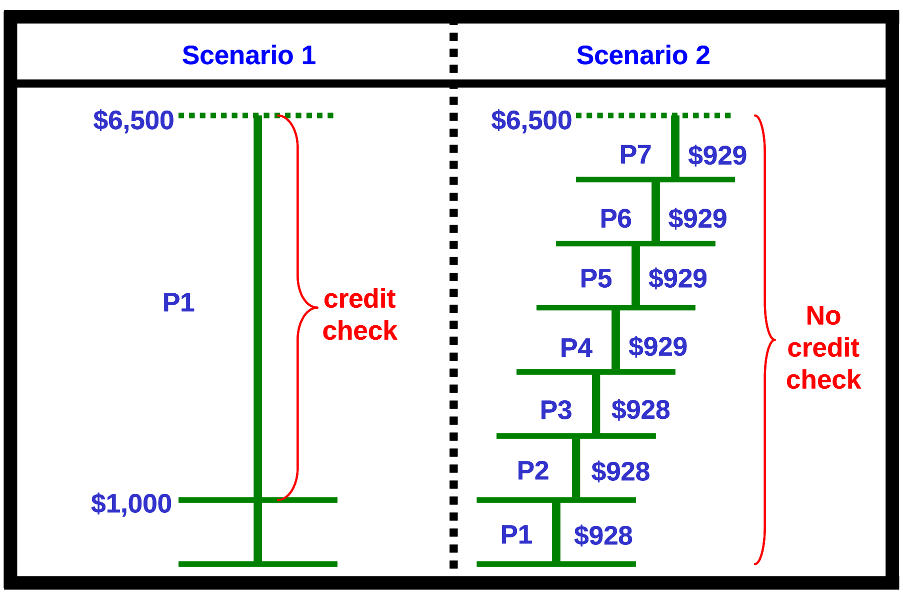


**Figure 5. Credit Check Scenarios.** This diagram illustrates the potential for credit check avoidance as a consequence of a gap in the CANEX credit check policy.