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Chief Review Services Chef - Service d'examen

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Audit of the Financial Management  
Framework: Royal Canadian Air Force

March 2015

7050-8-39 (CRS)



Canada 

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## Acronyms and Abbreviations

ADM(Fin CS)	Assistant Deputy Minister (Finance and Corporate Services)
CDAO	Corporate Departmental Accounting Office
CFO	Chief Financial Officer
CRS	Chief Review Services
DND	Department of National Defence
DoA	Delegation of Authority
FAA	<i>Financial Administration Act</i>
FY	Fiscal Year
L1	Level One
L2	Level Two
L3	Level Three
L4	Level Four
L5	Level Five
OPI	Office of Primary Interest
RACS	Resource Analysis and Compliance Services
RCAF	Royal Canadian Air Force
RDAO	Regional Departmental Accounting Office



## Results in Brief

Chief Review Services (CRS) conducted an audit of the financial management framework of the Royal Canadian Air Force (RCAF) with a focus on the effectiveness of internal controls, governance, and risk management. This audit was included in the departmental Risk-based Internal Audit Plan for fiscal years (FY) 2013/14 to 2015/16. The RCAF's expenditures excluding salaries and benefits for regular force members have exceeded \$1 billion<sup>1</sup> annually from FY 2008/09 to FY 2013/14, accounting for approximately five percent of the Department of National Defence's (DND) appropriations.

### Overall Assessment

While governance, internal controls, and risk management practices are in place, improved financial management guidance and modified reporting structures and relationships are required to increase the effectiveness of the RCAF financial management framework.

### Key Findings and Recommendations

**Internal Controls.** In general, the required financial management controls are in place, although some were not operating as intended. A review of sample transactions revealed instances of non-compliance with financial management policies; however, there was no evidence of misappropriation or misuse of public funds. The *Financial Administration Act* (FAA) requirements for account verification, payment, and segregation of duties were generally well managed. Nonetheless, the sample analysis identified compliance issues with the following:

- expenditure initiation and commitment control;
- accuracy and completeness of delegation of authority (DoA) forms;
- contracting practices; and
- supporting documentation and paper trail.

While significant monitoring and oversight is in place, errors of non-compliance such as those mentioned previously recur frequently. Insufficient practical training for personnel with financial management responsibilities and a lack of adequate guidance are contributing to these recurring errors. Currently, the wings<sup>2</sup> provide additional guidance on areas of non-compliance that are identified through local monitoring activities; however, this is not delivered in a consistent manner throughout the RCAF.

CRS recommends that the RCAF develop consistent financial management guidance for high risk financial management areas including expenditure initiation, commitment control, delegated authorities, and acquisition cardholder responsibilities. This should supplement formal departmental training and existing corporate guidance by providing direction on the practical application of relevant policies, as well as clarify the roles, responsibilities, and authorities of the personnel involved.

<sup>1</sup> The RCAF's annual expenditures stated in this audit report do not include Regular Force salaries and benefits as these are included in the Chief Military Personnel budget.

<sup>2</sup> A wing is a Canadian Armed Forces base that belongs to the RCAF.



**Governance.** The current RCAF financial management governance structure requires improvement in the reporting relationships and structures for the Resource Analysis and Compliance Services (RACS) organization and the Regional Departmental Accounting Office (RDAO) in the Winnipeg region.

The RACS organization provides a monitoring and oversight mechanism that is effective in identifying financial management areas for improvement. However, the current RACS reporting relationship does not promote independence and accountability of the review function. CRS therefore recommends that the RCAF change the reporting relationship such that the local RACS teams report directly to the Level 2 (L2) RACS team at 1 Canadian Air Division. In addition, the RCAF should develop a framework that requires management to take action on recommendations and to monitor these actions to increase accountability.

Furthermore, the RDAO reporting structure in the Winnipeg region creates conflicts between the RCAF chain of command and the financial functional authority structure. CRS recommends that the Assistant Deputy Minister (Finance and Corporate Services) (ADM(Fin CS)) and RCAF reassign the RDAO role for the Winnipeg region to avoid a potential conflict of interest and to maintain the effectiveness of the RDAO structure.

**Note:** Please refer to [Annex A—Management Action Plan](#) for the management response to the CRS recommendations.

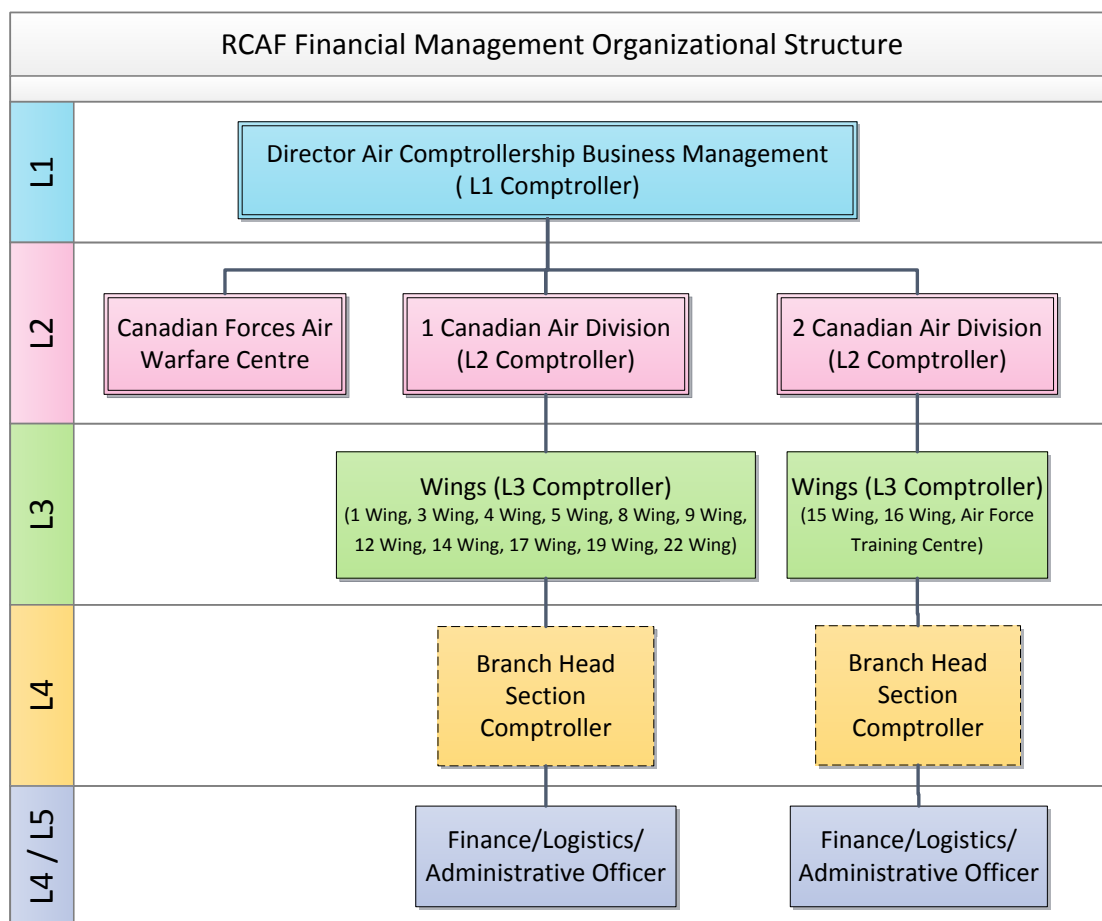


## 1.0 Introduction

### 1.1 Background

An effective financial management framework is necessary to ensure that the governance structure of an organization, its system of internal controls, and its risk management practices support the effective stewardship of public funds.

There are five levels in the RCAF financial management structure as illustrated in Figure 1.



**Figure 1. RCAF Financial Management Organizational Structure.**<sup>3</sup> This figure demonstrates the financial management organizational structure of the RCAF.

At its highest level, the Director Air Comptrollership Business Management is the Level One (L1) Comptroller and provides strategic-level oversight for all areas of financial management within the RCAF. Reporting to the Director Air Comptrollership Business Management is the comptroller for 1 Canadian Air Division, one of the RCAF's three L2 organizations. The 1 Canadian Air Division Comptroller is responsible for financial monitoring and oversight as well

<sup>3</sup> The dotted line around the Level 4 (L4) Branch Head Section Comptrollers illustrates that not all Wings have a branch head, therefore the Finance/Logistics/Administrative Officer can be an L4 or Level 5 (L5) unit.

as direction, advice, and information on effective financial management to support all L2 and Level Three (L3) organizations.

The comptrollers at each of the 13 wings are the L3 comptrollers of the RCAF and responsible for their respective wing's day-to-day comptrollership and financial management. As the financial experts of the wing, they provide the following services:

- advice and guidance on the use of wing resources;
- policy direction to all L4 and L5 units at the wing; and
- monitoring and oversight activities to ensure compliance with financial management policies.

Additionally, the wing comptrollers are responsible for overseeing the RACS organization, which serves a vital role in the RCAF's financial management framework by providing senior management with assurance on the wings' effective stewardship of public resources. As the senior comptrollers in a region, many wing comptrollers are also assigned the RDAO role by ADM(Fin CS). RDAOs report to the Chief Financial Officer (CFO) through the Corporate Departmental Accounting Office (CDAO) on various financial management areas and provide monitoring and oversight in the regions on behalf of the CFO. As the CFO, ADM(Fin CS) has functional and overriding authority over financial management in the Department. Therefore, as RDAOs, wing comptrollers have a dotted line reporting relationship with the CFO in addition to the operational reporting structure within the RCAF chain of command.

Lastly, some financial management responsibilities are devolved to the L4 and L5 units, including budget management for the unit and procurement of goods and services mainly through the use of acquisition cards.

## **1.2 Rationale for the Audit**

As one of Canada's three military commands, the RCAF's annual net expenditures exceeded \$1 billion dollars from FY 2009/10 to FY 2013/14. Given the materiality of their expenditures and since the area of financial management within DND was assessed as a high audit priority, this audit was included in the Risk-based Internal Audit Plan for the period of FY 2013/14 to 2015/16. The Risk-based Internal Audit Plan for future FYs also includes audits of the financial management framework of the Royal Canadian Navy and the Canadian Army.

## **1.3 Objective**

The objective of this audit was to assess the effectiveness of the financial management framework of the RCAF.

## **1.4 Scope**

The scope of this audit included the current RCAF financial management practices and financial information from FY 2009/10 to 2013/14 for the purposes of data and sample analysis. The scope of this audit did not include a comprehensive review of the following:



- budget management processes<sup>4</sup>;
- fuel supply management<sup>5</sup>;
- major flying training contracts<sup>6</sup>; and
- personnel salaries and wages<sup>7</sup>.

## 1.5 Methodology

The audit approach included the following:

- interviews with individuals in key positions with financial management responsibilities at all five levels of the RCAF organizational structure, which included six L1 personnel, seven L2 personnel, thirteen L3 comptrollers and forty L4 and L5 personnel;
- reviews of financial management policies including Sections 32, 33 and 34 of the FAA, several chapters from the DND Financial Administration Manual and RCAF-specific financial policies and procedures;
- reviews of documentation provided by the RCAF including financial reports, training material, operating procedures, and monitoring and oversight guidance and reports;
- walkthroughs of key financial management processes;
- analyses of data extracted from the departmental financial system, the Defence Resource Management Information System;
- site visits to four RCAF organizations, which included 1 Canadian Air Division and 17 Wing in Winnipeg, 8 Wing in Trenton and 4 Wing in Cold Lake; and
- testing of a directed sample of 127 transactions, consisting of expenses, revenues, purchases of assets, and payable at year-end transactions.

Although the sample included a total of 127 transactions, not every audit test was applicable to every transaction. The applicable sample size for each testing area is outlined in Table 1.

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<sup>4</sup> Budget management processes were assessed in the CRS Audit of Departmental Budget Management, completed in December 2012.

<sup>5</sup> Fuel supply management was assessed in the CRS Audit of Departmental Fuel Management, completed in September 2011.

<sup>6</sup> Major flying training contracts are included in the Risk-based Internal Audit Plan to be completed in a future FY.

<sup>7</sup> The financial management of personnel salaries and wages fall primarily under the responsibility of other organizations.





Sample Test	Sample Size
Proof of commitment control and expenditure initiation authority	117
Appropriate use of Section 32 authority	101
DoA forms for Section 32 authority	103
Proof of Section 33 authorization	79
Proof of Section 34 authorization	112
DoA forms for Section 34 authority	108
Appropriate financial coding and supporting documentation	127
Appropriate segregation of duties	79
Compliance with contracting requirements	73
DoA forms for contracting authority	67

**Table 1. Sample Tests and Sizes.** This table lists the applicable sample size for each testing area.

## 1.6 Audit Criteria

The audit criteria can be found at [Annex B](#).

## 1.7 Statement of Conformance

The audit findings and conclusions contained in this report are based on sufficient and appropriate audit evidence gathered in accordance with procedures that meet the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*. The audit thus conforms to the Internal Auditing Standards for the Government of Canada, as supported by the results of the quality assurance and improvement program. The opinions expressed in this report are based on conditions as they existed at the time of the audit and apply only to the entity examined.

## 2.0 Findings and Recommendations

### 2.1 Internal Controls

In general, the required financial management internal controls are in place; however, some controls related to expenditure initiation, commitment control, and contracting requirements are not operating as intended.

#### 2.1.1 FAA and Departmental Policy Compliance

The FAA is the cornerstone of the legal framework for financial management within the federal government and forms the basis for delegation of financial authority under sections 32, 33, and 34.

Section 32 of the FAA defines the requirements that must be met before initiating a purchase of goods and services. This includes expenditure initiation and commitment control. Expenditure initiation requires an individual with the delegated authority to ensure that the expense is a legitimate operational or business requirement, and that a sufficient free balance is available before entering into a contract or other arrangement. Commitment control requires that funds are secured through a financial commitment recorded in the Department's financial system.

Section 34 of the FAA defines the requirements that must be met before a disbursement can be made. This is a certification that goods have been delivered or work has been performed according to the agreed-upon terms, and that the payment complies with the contract terms.

Section 33 of the FAA defines the requirements that must be met in order to authorize a payment for goods or services purchased.

The financial authorities for sections 32, 33, and 34 are delegated in writing through the use of a DoA form. This documents the applicable financial authority, the associated restrictions, and the proof of completed prerequisite training.

During this audit, a review of sample transactions, process walk-throughs, and client interviews were conducted during the site visits. Generally, these demonstrated sufficient financial management practices and controls in some areas, while incidents of non-compliance with the FAA and departmental financial management policies were identified in others.

#### Sections 33 and 34

The results of the sample analysis indicate a high level of compliance with the requirements for Sections 33 and 34 of the FAA. Pursuant to Section 33 of the FAA, documented evidence of payment authority was present in all but one of the 79 sampled transactions (99 percent compliant) for which Section 33 is applicable. Similarly, pursuant to Section 34 of the FAA, documented evidence of certification authority was present in all but four of the 112 sampled transactions (96 percent compliant) for which Section 34 is applicable. The sample analysis also



identified that the financial coding of transactions in the departmental financial system was appropriate for 99 percent of the sampled transactions.

### **Segregation of Duties**

Effective governance and management control and government-wide financial management policy require that persons with delegated financial authority must not exercise both certification authority (Section 34) and payment authority (Section 33) for the same transaction. Appropriate segregation of duties reduces the risk of misuse of funds. The results of the sample analysis indicate that there is an appropriate segregation of financial management duties. Although segregation of duties could not be verified for five percent of the sampled transactions, several compensating controls reduce the level of risk in this area. This includes centralized Section 33 authorization functions that effectively limit the number of individuals who can authorize a payment for a transaction. Additionally, to promote appropriate segregation of duties, wing comptrollers can require that individuals with Section 33 authority not be delegated other financial or contracting authorities. System controls can further limit user access to the departmental financial system based on an individual's responsibilities and delegated authority.

### **Section 32 Authorization and Commitment Control**

As part of the sample analysis, transactions were assessed to determine whether they were authorized in accordance with Section 32 of the FAA, including the requirement for commitment control. Since the FAA is legislation, compliance is mandatory. An effective process for Section 32 authorization also prevents overspending and ensures that the transaction is a legitimate business or operational requirement. Documented evidence of Section 32 authority was not present for 11 percent of cases, representing 13 out of the 117 transactions for which Section 32 was applicable. Additionally, evidence of financial commitments recorded in the departmental financial system was not present for 12 percent of those sampled transactions.

The sample analysis and interview results reveal a general lack of understanding of what constitutes documented proof of Section 32 authorization and commitment control, even though departmental policy provides clear guidance on these expectations. However, departmental guidance has not been developed on the use of blanket commitments for low dollar value transactions. This could be a contributing factor for missing documented evidence of commitment control.

Section 32 of the FAA requires that individuals with delegated authority ensure that sufficient funds are available before entering a contract or incurring an expense. Of the 101 transactions where a date stamp identified when Section 32 was authorized, 22 were authorized after the expense was incurred, contravening the FAA requirements.



## DoA Forms

The review of DoA forms indicated that not all sampled transactions were certified by a person with a valid financial authority and that some transactions were not within the limitations defined on the forms. An invalid DoA contravenes FAA requirements and is a financial risk. Table 2 outlines the percentage of DoA forms that were not provided to verify contracting, Section 32, and Section 34 authorities; the percentage of DoA forms that were provided but invalid; and the total error rate. While the error rate for Section 34 DoA falls within the Department's expected error rate, the results for contracting and Section 32 do not.

DoA Area	DoA Forms not Provided	Invalid DoA Forms (of those provided)	Total Error Rate
Contracting	10% (7 out of 67)	10% (6 out of 60)	20%
Section 32	2% (2 out of 103)	8% (8 out of 101)	10%
Section 34	0% (0 out of 108)	5% (5 out of 108)	5%

**Table 2. Sampling Errors for Delegations of Authority.** This table demonstrates the percentage of DoA forms that were not provided, the percentage of invalid forms of those that were provided, and the combined error rates for the DoA areas of contracting, Section 32, and Section 34.

## Contracting Requirements

The review of the contracts associated with the sampled transactions indicated instances of non-compliance with three contracting requirements. Contract administration requirements are provided in the departmental Procurement Administration Manual and are key to promoting effective stewardship of public funds. Key contracting documentation was not available for five out of the 73 applicable transactions. Of the 68 transactions that did have appropriate documentation, seven (10 percent) contained errors. These errors included the following:

- four instances whereby the transaction value exceeded the expenditure limitations as outlined in the contract;
- two instances whereby a contract was not in place at the time the transaction occurred; and
- one instance whereby the contract was expired at the time of the transaction.

## Supporting Documentation

The audit assessed the appropriateness of supporting documentation to determine if a sufficient paper trail existed for the sampled transactions. A sufficient paper trail is required in departmental policy and includes invoices, proof of Section 32, 33, and 34 authorizations, related DoA forms, and applicable contracts. Overall, 12 percent of all sampled transactions did not have adequate supporting documentation or provide a sufficient paper trail, affecting the Department's ability to conduct financial monitoring and oversight.



## Acquisition Cards

The error rates listed in the previous sections also reflect the risk of non-compliance with acquisition card requirements as 27 of the 127 sampled transactions were paid with an acquisition card. Acquisition cardholders are responsible for ensuring Section 32 and Section 34 are appropriately authorized by individuals with a valid DoA, adhering to contracting requirements and maintaining an adequate paper trail. Interviewees who used acquisition cards also indicated that they did not have adequate guidance on acquisition card reconciliations, which is required by departmental policy.

### 2.1.2 Financial Management Training and Guidance

The most frequent errors identified during the sample analysis could be attributed to insufficient training and a general lack of documented guidance. Many operational positions have significant financial management responsibilities, such as exercising delegated financial authority, managing a budget, forecasting expenses, and reconciling acquisition card expenses. However, with the majority of departmental and RCAF financial management training directed at financial positions, the necessary training is not available for all personnel in operational positions in terms of supporting them to deliver on their responsibilities.

For many operational positions, the only financial management training available includes three online courses required for delegated financial authority. There are controls in place to ensure individuals complete and retake the required training prior to receiving their delegated authorities. However, the content of these courses does not provide extensive practical application of financial management theories and requirements. Thus, this training is not sufficient for individuals in operational roles with a limited financial management background. Therefore, significant local or on-the-job training and guidance is required.

Where guidance from the CDAO is limited, the responsibility for developing such guidance is delegated to the RDAOs. The CDAO expects the RDAOs to implement procedures based on their interpretation of the policy, as required. For example, the Financial Administration Manual Chapter 1016-2 (Expenditure Initiation and Commitment Control – FAA Section 32) states that the CDAO must provide RDAO comptrollers with clearly written procedures to clarify the application of commitment control on low dollar value transactions. Although the CDAO plans to produce a procedural document in the future, it has not yet been developed.

#### **Good Practice**

The RCAF developed an on-the-job financial management training package for military officers in key financial management positions. This package is a practical, task-based training tool that prepares financial officers for a future comptroller position.



1 Canadian Air Division has developed a mandatory on-the-job training package for military officers in key financial management positions. Additionally, wing comptrollers have established local training for areas prone to high error rates, and some units have documented procedures for various financial activities. Although this allows the RCAF to supplement formal training with direct guidance on the application of relevant policies, local training and documented procedures are not consistently developed at the wing level or across the RCAF.

#### **Good Practice**

In the absence of an overall strategy to address training issues, wing comptrollers have developed and provided training to personnel on the wings that supplement formal training and provides guidance regarding the practical application of relevant policies.

While no evidence of misappropriation or misuse of public funds was found through the sample analysis, there was evidence of non-compliance with the FAA and departmental financial management policies. This is further supported by the results of RCAF monitoring and oversight activities that have identified similar errors in multiple reports over the last five years. These issues of non-compliance can be attributed to a combination of insufficient departmental guidance and incomplete CDAO guidance related to commitment control, specifically for low dollar value transactions. While the wings are taking steps to mitigate this risk, their efforts could benefit from a centralized approach. Given that financial management processes are the same across the RCAF, developing local training and guidance at the wing/unit level results in duplication of effort, inefficiencies, and inconsistent application of policies.

#### **CRS Recommendation**

1. The RCAF should develop consistent financial management guidance for the wings in order to supplement existing corporate guidance and formal departmental training and provide direction on the practical application of roles, responsibilities, and authorities for high-risk financial management areas, including the following:

- a. Section 32 of the FAA;
- b. commitment control;
- c. delegated financial and contracting authority; and
- d. acquisition cardholders.

**OPI:** RCAF/1 Canadian Air Division

2. ADM(Fin CS) should develop and communicate guidance related to commitment control, specifically for low dollar value transactions, describing how these will be controlled, accounted for, and documented.

**OPI:** ADM(Fin CS)/CDAO



## 2.2 Governance

Although a financial management governance structure is in place at the RCAF, the RACS reporting structure does not promote the independence and accountability of the review function. Additionally, the current RDAO reporting structure in the Winnipeg region creates a potential conflict of interest between the operational and functional chains of command.

### 2.2.1 RACS Independence and Authority

The RACS organization provides a monitoring and oversight mechanism that serves a vital role in the internal control system by providing assurance that the RCAF is an effective steward of public resources. This is achieved through the conduct of compliance and management studies directed by an annual work plan. The roles and responsibilities, as well as the committee structure that provides oversight of the RACS organization are outlined in the RACS Charter. The RACS Working Group, consisting of members from the L1, 1 Canadian Air Division, and a wing comptroller, develops and monitors the annual work plans. RACS reviews are conducted at each wing by a team of two to four staff members. The larger wings have their own RACS teams within the comptroller branch. The RACS team at 1 Canadian Air Division supports the smaller wings and amalgamates wing-level results for all of the RCAF.

The current RACS organization is effective in identifying financial management areas for improvement. In fact, past reviews have identified compliance issues similar to those reported in Section 2.1, Internal Controls, of this audit report. However, the current RACS governance structure does not promote the independence of the review function or outline a framework to enforce and follow-up on recommendations, resulting in recurring issues and limited improvement over time.

#### Independence

Responsible for providing senior management with assurance on the wings' effective stewardship of public resources, the RACS organization assesses various financial management activities in all areas of the wings. However, the current reporting relationship of the RACS organization as outlined in the RACS Charter creates a potential conflict of interest. The local RACS teams currently report to their wing comptrollers, even though the areas reviewed are those for which the wing comptrollers are responsible. Given that wing comptrollers then report to the 1 Canadian Air Division comptroller as part of the functional chain of command, this relationship does not promote the independence of the RACS review function and the resulting reports on RACS findings. Therefore, the direct reporting of the local RACS teams to the 1 Canadian Air Division RACS team would not only promote the identification of systemic issues, it would also enable the teams to address the issues at a strategic level.





## Authority

The RACS Charter states that local management has the latitude to organize and engage the RACS resources as it sees fit, including the design and implementation of recommendations. However, an effective framework for ensuring that recommendations are addressed, including a follow-up process, is not in place. A review of various RACS reports showed that the same issues were identified in multiple reports over time, and recommendations from previous reports were not implemented. In one instance, a RACS report stated that a formal standard operating procedure document had not been created as recommended in a report from three years prior. In another instance, DoA reviews in 2009 and 2012 both identified a general lack of understanding of authorities delegated to individuals.

Overall, the independence and accountability issues of the RACS organization are due to the current reporting and governance structures as outlined in the RACS Charter and Air Force Order 1012-2 (Air Force RACS). This reporting structure presents a potential conflict of interest given that the RACS organization assesses financial management areas that fall under the wing comptrollers' responsibilities.

### CRS Recommendation

3. The RCAF should modify the reporting relationship such that the RACS teams at the wings report directly to the RACS team at 1 Canadian Air Division to promote the independence of the review function.

**OPI:** RCAF/1 Canadian Air Division

4. The RCAF should develop a framework that requires management to take action on recommendations made by the RACS organization and to monitor these actions to increase accountability.

**OPI:** RCAF/1 Canadian Air Division

## 2.2.2 Winnipeg RDAO Structure

The RDAOs, located in the various regions, are responsible for the monitoring and oversight of all units in their region and are required to report through the functional chain of command to the CFO through the CDAO. They are also required to report through their local operational chain of command. The RDAO role is typically assigned to the senior comptroller in a region, which results in the functional authority structure (i.e., the CDAO and RDAOs) to be embedded within the local chain of command structure, in this case the RCAF. As wing comptrollers, the RDAOs are also responsible for the wing's day-to-day financial activities.

In the Winnipeg region, the RDAO structure conflicts with the RCAF operational chain of command. There, the RDAO role is assigned to the 17 Wing comptroller, who is therefore responsible for the monitoring and oversight of all units in the area, including lodger units<sup>8</sup>. In

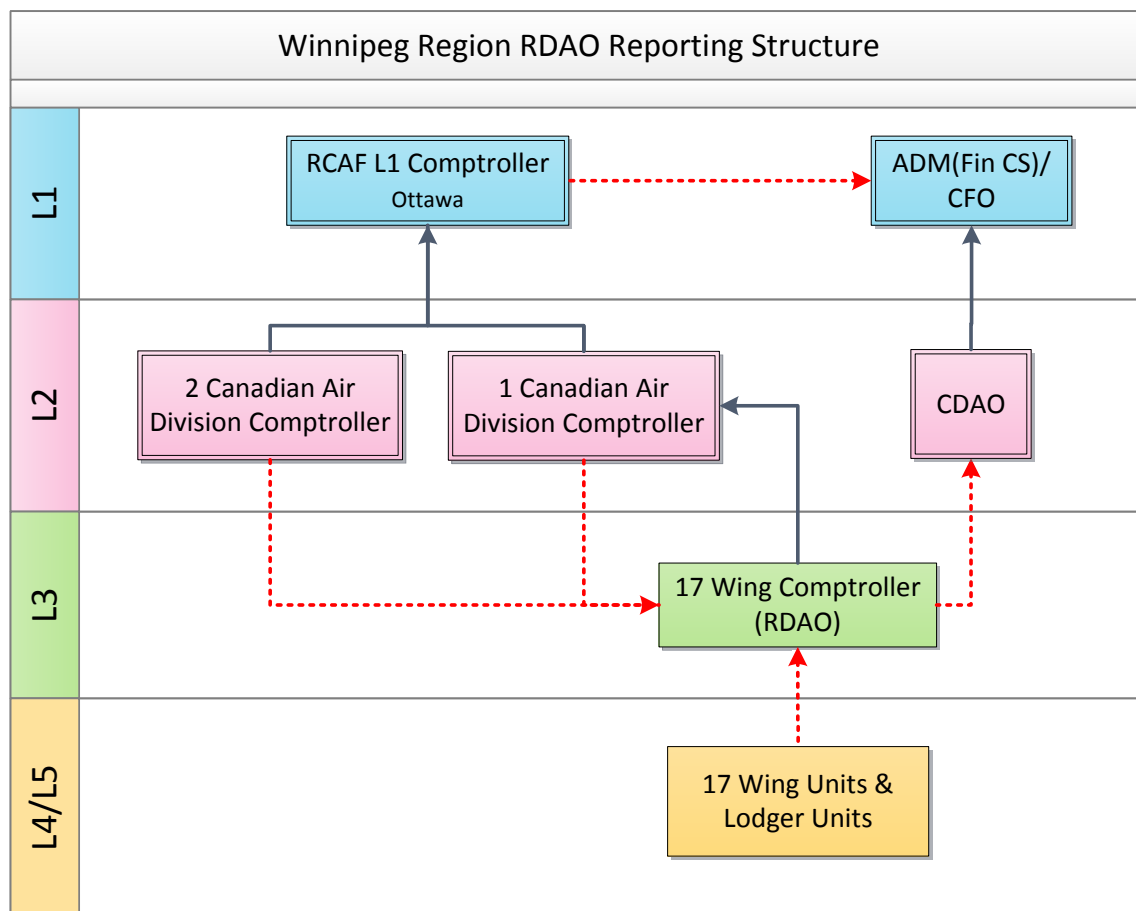
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<sup>8</sup> A lodger unit is any unit on a wing that does not fall under the wing's command structure.





this case, the lodger units include two L2 RCAF organizations, 1 Canadian Air Division and 2 Canadian Air Division, both of which are senior to 17 Wing (an L3 organization) on the RCAF operational chain of command structure. The conflict arises due to the higher level of authority given to the RDAO (i.e., 17 Wing comptroller) on the functional authority structure for financial management despite being lower in the operational chain of command as illustrated in Figure 2.



**Figure 2. Winnipeg Region RDAO Reporting Structure.** This figure is an illustration of the RDAO reporting structure in the Winnipeg region.<sup>9</sup>

Complications arise when the CDAO devolves responsibility to the RDAO level. In one example, an updated departmental policy did not provide direction at the granular level for a new requirement. The 17 Wing comptroller (i.e., RDAO) interpreted the policy and provided direction on how to implement this requirement for the Winnipeg region. However, one of the L2 lodger units opposed the RDAO direction and suspended implementation of the new requirement across the entire RCAF organization.

<sup>9</sup> The solid reporting lines represent the operational chain of command while the red dotted lines represent the financial functional chain of command.

The RDAO and RCAF reporting structures were developed independently of each other. Therefore, there is a risk of conflict of interest and of RDAO decisions in the Winnipeg region being superseded, rendering the RDAO structure ineffective.

#### **CRS Recommendation**

5. ADM(Fin CS)/RCAF should reassign the RDAO role in the Winnipeg region to avoid reporting structure conflicts between the RCAF chain of command and the financial functional authority structure.

**OPI:** ADM(Fin CS)/RCAF



### **3.0 General Conclusion**

The financial management framework of the RCAF was largely found to be operating effectively, and the key risk areas assessed as part of this audit were generally well managed. The sample analysis found no evidence of misappropriation or misuse of public funds. However, the audit identified some areas for improvement in financial management guidance and in reporting relationships and structures.

Although the required internal controls were in place, some of these controls were not operating as intended, resulting in instances of non-compliance with the FAA and financial management policies. The development and communication of consistent RCAF financial management guidance will promote a higher level of compliance in key financial management areas.

In terms of governance, the current RACS reporting structure does not promote the independence and effectiveness of the review function and there is insufficient accountability to effect improvements in areas of concern. Modifications to the reporting structure and requiring follow-up on recommendations will enhance the effectiveness of the RACS program. Additionally, the RDAO role in the Winnipeg region presents a risk of conflict of interest between the L2 and L3 RCAF organizations. Reassignment of the RDAO role in the Winnipeg region will increase the effectiveness of the financial functional chain of command.



## Annex A—Management Action Plan

CRS uses recommendation significance criteria as follows:

**Very High**—Controls are not in place. Important issues have been identified and will have a significant negative impact on operations.

**High**—Controls are inadequate. Important issues are identified that could negatively impact the achievement of program/operational objectives.

**Moderate**—Controls are in place but are not being sufficiently complied with. Issues are identified that could negatively impact the efficiency and effectiveness of operations.

**Low**—Controls are in place but the level of compliance varies.

**Very Low**—Controls are in place with no level of variance.

### Internal Controls

#### CRS Recommendation (Moderate Significance)

1. The RCAF should develop consistent financial management guidance for the wings in order to supplement existing corporate guidance and formal departmental training and provide direction on the practical application of roles, responsibilities, and authorities for high-risk financial management areas, including the following:

- a. Section 32 of the FAA;
- b. commitment control;
- c. delegated financial and contracting authority; and
- d. acquisition cardholders.

### Management Action

The RCAF is in the process of developing guidelines for use at the wing level to address the issues of non-compliance indicated in the report.

**OPI:** RCAF/1 Canadian Air Division

**Target Date:** June 30, 2015

#### CRS Recommendation (Moderate Significance)

2. ADM(Fin CS) should develop and communicate guidance related to commitment control, specifically for low dollar value transactions, describing how these will be controlled, accounted for, and documented.



## Management Action

An initiative will be launched in FY 2015/16 to accumulate, communicate, and provide guidance regarding the control, accounting, and documentation for transactions. This should be relevant to all users, not just the RCAF.

Target Dates:

- June 30, 2015 – Identification of key controls to be communicated regarding commitments, transactions, and the development of a detailed action plan to align and develop the necessary policies, guidance, and tools for users.
- December 31, 2015 – Completion of the material.
- March 31, 2016 – Completion of roll-out to users.

**OPI:** ADM(Fin CS)/CDAO

**Target Date:** March 31, 2016

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## Governance

### CRS Recommendation (Moderate Significance)

3. The RCAF should modify the reporting relationship such that the RACS teams at the wings report directly to the RACS team at 1 Canadian Air Division to promote the independence of the review function.

## Management Action

Annually, the wing RACS team conducts a series of mandated programs issued by the L1 and performs local investigative activities at the request of the wing commander/wing comptroller.

The wing RACS team will continue to report the results of local investigative activities to the wing commander/wing comptroller.

For mandated programs issued by the Level 1, the wing RACS team will send the reports directly to the RACS team/head/coordinator at 1 Canadian Air Division. A framework will be established to allow the wing commander/wing comptroller an opportunity to review and provide separate comments on the findings without changing the RACS final report.

**OPI:** RCAF/1 Canadian Air Division

**Target Date:** July 30, 2015



#### **CRS Recommendation (Moderate Significance)**

4. The RCAF should develop a framework that requires management to take action on recommendations made by the RACS organization and to monitor these actions to increase accountability.

#### **Management Action**

A framework has been developed by Director Air Comptroller and Business Management and is now being reviewed by 1 Canadian Air Division. The framework requires the following:

1. The evaluated entity will be required to address RACS findings in writing as an action plan, indicating what actions it will take to address the findings, to prevent errors, and reduce non-compliance; and
2. RACS will track the evaluated entity's success/performance via the action plan by requesting updates and by comparing previous and future evaluations.

**OPI:** RCAF/1 Canadian Air Division

**Target Date:** August 31, 2015

#### **CRS Recommendation (Moderate Significance)**

5. ADM(Fin CS)/RCAF should reassign the RDAO role in the Winnipeg region to avoid reporting structure conflicts between the RCAF chain of command and the financial functional authority structure.

#### **Management Action**

The role of the RDAO at 17 Wing Winnipeg will be studied to determine if this recommendation is feasible.

The 17 Wing Winnipeg RDAO is not simply the movement of one position, but would entail the movement of several positions that perform duties in conjunction with the RDAO role. Any final decision made will impact both 17 Wing and 1 Canadian Air Division in various areas, including, but not limited to, logistics, accommodations, finance, and human resources. The study will need to seek the assistance from various specialists prior to determining if a new structure is required. Once the best course of action for the RCAF is determined, approval will need to be sought from the Vice Chief of the Defence Staff for any new structure.

**OPI:** ADM(Fin CS)/RCAF

**Target Date:** June 30, 2016



## Annex B—Audit Criteria

### Criteria Assessment

The audit criteria were assessed using the following levels:

#### Assessment Level and Description

Level 1: Satisfactory

Level 2: Needs Minor Improvement

Level 3: Needs Moderate Improvement

Level 4: Needs Significant Improvement

Level 5: Unsatisfactory

### Criteria

1. **Internal Controls:** An adequate system of internal controls and practices is maintained and monitored to promote effective and efficient financial management.

**Assessment Level 3.** Although sufficient financial management internal controls and practices are in place, some are not effective as evidenced by the results of the sample analysis. Supplemental financial management guidance is required for high risk areas, which include Section 32 authorization, commitment control, delegated authorities, and acquisitions cards.

2. **Governance:** A governance structure is in place to promote an effective RCAF financial management framework.

**Assessment Level 3.** Although a financial management governance structure is in place, the RACS and RDAO reporting relationships and structures require modification in order to promote the accountability and the independence of the RACS organization and to avoid potential conflicts of interest between the RDAO and operational chains of command.

3. **Risk Management:** A risk management framework is in place to ensure that financial management risks are identified and adequately managed.

**Assessment Level 2.** Although some financial risk management occurs through the in-year budget monitoring process, key financial management risks and their associated management strategies are not identified or documented as part of the formal RCAF risk assessment process.

The risk management process concentrates on operational risks at the highest level, while the wing and unit levels mainly focus on identifying funding pressures and reporting deficiency statements that convey the impact of not receiving sufficient funding or resources for certain activities. Requiring minor improvement, observations and recommendations for this area have been briefed to the RCAF.

