Audit of the Interdepartmental Settlements Process

Government   Gouvernement
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Internal Audit and Evaluation Bureau Final Report Approved

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Statement of Conformance

The Internal Audit and Evaluation Bureau has completed an audit of the interdepartmental settlements process. This audit conforms with the _Internal Auditing Standards for the Government of Canada_, as supported by the results of the Bureau's quality assurance and improvement program.

Executive Summary

Background

An interdepartmental settlement (IS (interdepartmental settlement)) is a financial transaction that occurs between two federal government departments and agencies. It is a non-cash transaction—no cash is exchanged. Using a processing mechanism unique to the Government of Canada, a financial entry is created so that departments can transfer incurred costs between one another or collect revenue from one another. The associated financial entries are then recorded in each department's financial system and reflected in their financial statements and in the Public Accounts of Canada. IS (interdepartmental settlement) transactions have a significant impact on the Treasury Board of Canada Secretariat's (the Secretariat's) financial statements, given the high dollar value associated with these transactions.

At the Secretariat, responsibility for processing IS (interdepartmental settlement) transactions rests with the General Accounting Services group of the Corporate Services Sector's Financial and Procurement Operations Directorate (FPOD (Financial and Procurement Operations Directorate)). This group relies heavily on the automated functionality that FPOD (Financial and Procurement Operations Directorate)'s Corporate Systems group has configured in the Secretariat's departmental financial system. That functionality minimizes the manual intervention required to process an IS (interdepartmental settlement) transaction.

Objectives and Scope

The objectives of the audit were as follows:

- To assess the adequacy and effectiveness of the management of interdepartmental settlements at the Secretariat;
- To determine whether the IS (interdepartmental settlement) process and the Secretariat's departmental financial system support the efficient and effective management of interdepartmental settlements; and
- To ensure that adequate information technology (IT (information technology))-dependent manual controls and application controls are in place to maintain data integrity.

The audit focused on the automated and manual business processes and activities for processing IS (interdepartmental settlement) transactions in the Secretariat. The review of the management control framework included the following components: accountability, roles and responsibilities; departmental policies, directives, procedures and guidelines, including compliance with applicable legislation, policies and directives; and monitoring and reporting.

The examination phase was conducted from June 2012 to October 2012. A stratified random sample of IS (interdepartmental settlement) transactions performed from April 1, 2010, to March 31, 2012, was selected for testing purposes. Operational and system documentation that was in effect at March 31, 2012, for processing IS (interdepartmental settlement) transactions was also included in the audit. Information received before this report was finalized was also considered and incorporated when appropriate.

Key Findings

The main audit findings are as follows:

- Accountabilities, roles and responsibilities related to IS (interdepartmental settlement) transaction processing have been clearly defined in approved work descriptions of General Accounting Services employees.
- A variety of detailed procedural documents, which were found to be generally compliant with authorities, have been developed to provide relevant and useful guidance for employees. However, some procedures overlapped and some were still in draft form. In addition, although those documents set out some roles and responsibilities, they do not describe certain key control functions, such as the appropriate financial officer oversight described in work descriptions. Similarly, no procedural documents related to strategic monitoring and reporting existed.
- An appropriate level of tracking and monitoring occurred at the transaction level, particularly in that financial authority from appropriate fund centre managers was obtained for the receipt of goods or services. However, limited monitoring and reporting was done at a strategic level, which would have allowed for the identification of trends and systemic issues.
- With the exception of salary transactions for the period tested, the business processes for IS (interdepartmental settlement) transactions were designed to leverage the efficiencies configured in the Secretariat's departmental financial system, and minimal manual intervention was required. The audit team was informed that the automated process for IS (interdepartmental settlement) transactions related to salary has since been adopted for 2012 –13 to leverage system efficiencies.
- The effectiveness of each business process varied among the categories of transactions that were examined. Specifically, transactions related to salaries and goods and services were generally effective. However, because of insufficient supporting documentation, the audit team was unable to fully test transactions related to employee benefits and pensions, and Canada Revenue Agency tax transactions. As a result, the audit was unable to conclude on the effectiveness of these transactions.
- Key IT (information technology)-dependent manual controls and application controls were adequately documented and were operating effectively to maintain data integrity.
- Although, as noted above, adequate key IT (information technology) controls existed, potential segregation of duties conflicts were identified that may pose a moderate risk of material error.

There was no record of senior management approvals for the creation of roles where potential segregation of duties conflicts existed and no documentation explained the risk-mitigation measures for existing conflicts.

Conclusion

We conclude with a reasonable level of assurance that most elements of the management control framework were in place to support the effective administration of interdepartmental settlements. Overall, the business processes for IS (interdepartmental settlement) transactions relating to salary and to goods and services were efficient and effective. In addition, the Secretariat's departmental financial system effectively and efficiently supported IS (interdepartmental settlement) processes.

However, commensurate with management's assessment of risk, four recommendations were made:

1. Review IS (interdepartmental settlement) business procedural documents to ensure that they are streamlined, complete, formally approved and implemented;
2. Formally define and implement strategic monitoring and reporting strategies relative to management's risk-based approach in support of IS (interdepartmental settlement) activities;
3. Establish supporting documentation requirements for IS (interdepartmental settlement) transactions relating to employee benefits and pensions and for Canada Revenue Agency tax-related IS (interdepartmental settlement) transactions; and
4. Review the roles in the Secretariat's departmental financial system to ensure that there are no conflicts in the segregation of duties and that any existing conflicts and the resulting risk-mitigation processes are approved.

The audit team also identified opportunities for efficiency gains and shared these with management.

The Secretariat has developed a management response, which is presented in Appendix A.

1. Introduction

1.1 Description of an Interdepartmental Settlement

An interdepartmental settlement (IS (interdepartmental settlement)) [1] is a financial transaction that occurs between two federal government departments and agencies. It is a non-cash transaction—no cash is exchanged. Using a processing mechanism unique to the Government of Canada, a financial entry is created so that departments [2] can transfer incurred costs between one another or collect revenue from one another, and the associated entries are recorded in each department's financial system and reflected in their financial statements and in the Public Accounts of Canada.

1.2 Interdepartmental Settlement Transactions at the Treasury Board of Canada Secretariat

Overview of the Secretariat's IS (interdepartmental settlement) Transactions

IS (interdepartmental settlement) transactions have a significant impact on the Secretariat's financial statements.

Table 1: Profile of 2011–12 IS (interdepartmental settlement) expenditure transactions

IS (interdepartmental settlement) Transaction Category	IS (interdepartmental settlement) Expenditure Amount	Percentage of IS (interdepartmental settlement) Expenditure Amount	Number of IS (interdepartmental settlement) Expenditure Transactions	Percentage of IS (interdepartmental settlement) Expenditure Transactions
Operations (salary and goods and services)	$38,783,913	0.8%	4,575	78.2%
Employee Benefits and Pensions	$4,954,747,127	99.0%	1,064	18.2%
Other (e.g., Canada Revenue Agency tax-related)	$1,198,318	0.2%	209	3.6%
Total	$4,994,729,358	100%	5,848	100%

Table 2: Profile of 2011–12 IS (interdepartmental settlement) revenue or recovery transactions

IS (interdepartmental settlement) Transaction Category	IS (interdepartmental settlement) Revenue or Recovery Amount	Percentage of IS (interdepartmental settlement) Revenue or Recovery Amount	Number of IS (interdepartmental settlement) Revenue or Recovery Transactions	Percentage of IS (interdepartmental settlement) Revenue or Recovery Transactions
Operations (salary and goods and services)	$15,514,796	0.4%	2,569	56.1%
Employee Benefits and Pensions	$3,950,954,797	99.0%	1,893	41.5%
Other (e.g., Canada Revenue Agency tax-related)	$23,301,956	0.6%	104	2.3%
Total	$3,989,771,549	100%	4,566	100%

The figures for volume and dollar value in Table 1 and Table 2 are similar to those for 2010–11.

Overview of Secretariat's IS (interdepartmental settlement) Processes

The General Accounting Services group of the Corporate Services Sector's (CSS (Corporate Services Sector)'s) Financial and Procurement Operations Directorate (FPOD (Financial and Procurement Operations Directorate)) is responsible for processing IS (interdepartmental settlement) transactions in the Secretariat's departmental financial system (i.e., IFMS (Integrated Financial and Materiel System)-SAP). [3] In order to process these transactions, fund centre managers must provide the General Accounting Services group with the appropriate authorization under section 34 of the *Financial Administration Act* [4] and with the appropriate documentation.

In addition, FPOD (Financial and Procurement Operations Directorate)'s Corporate Systems group is responsible for the development and operations of IFMS (Integrated Financial and Materiel System)-SAP. This system's automated matching (auto-matching) capability is heavily relied on for processing IS (interdepartmental settlement) transactions because it minimizes manual intervention by General Accounting Services employees.

Appendix B contains detailed explanations of how IS (interdepartmental settlement) transactions are processed at the Secretariat, including the auto-matching process.

Example of How Auto-Matching Works

The Canada School of Public Service, the other government department (OGD (Other Government Department)) in this example, needs to recover $700 from the Secretariat for a course taken by a Secretariat employee. The Secretariat creates a fund commitment document [5] with the appropriate financial coding, including the fund centre, in IFMS (Integrated Financial and Materiel System)-SAP for the $700 expected expense.

This fund commitment document number is given as part of the reference coding that the Secretariat provides to the OGD (Other Government Department). The OGD (Other Government Department) initiates [6] an IS (interdepartmental settlement) transaction to recover the $700, which is then transmitted electronically to the Secretariat via the Public Works and Government Services Canada Standard Payment System. The Secretariat receives the electronic transmission, and IFMS (Integrated Financial and Materiel System)-SAP runs an automated process using the reference coding to match the $700 IS (interdepartmental settlement) transaction to the fund commitment document.

If the reference coding from the OGD (Other Government Department) and the fund commitment document number match, the $700 expense is recorded as per the fund commitment document coding in IFMS (Integrated Financial and Materiel System)-SAP.

If the reference coding from the OGD (Other Government Department) and the fund commitment document number do not match, the IS (interdepartmental settlement) transaction is posted to the Secretariat's IS (interdepartmental settlement) suspense account [7] for further research and reallocation by the General Accounting Services group.

Processing Streams for Interdepartmental Settlements

At the Secretariat, IS (interdepartmental settlement) transactions fall into three processing streams:

1. Initiation of accounts receivable invoices to recover expenditures incurred by the Secretariat (e.g., recovery of salary costs charged to the Secretariat for an employee transferred to an OGD (Other Government Department) but whose pay files were not yet transferred);
2. Automated allocation of expenditures or revenue transactions that were initiated by an OGD (Other Government Department) using the auto-matching capability in IFMS (Integrated Financial and Materiel System)-SAP; or
3. Manual reallocation of expenditures or revenue transactions from an IS (interdepartmental settlement) suspense account.

2. Audit Details

2.1 Authority

The audit of the IS (interdepartmental settlement) process is part of the Secretariat's approved three-year risk-based audit plan 2011–14.

2.2 Objectives and Scope

The audit objectives were as follows:

- To assess the adequacy and effectiveness of the management of interdepartmental settlements at the Secretariat;
- To determine whether the IS (interdepartmental settlement) process and the Secretariat's departmental financial system (i.e., IFMS (Integrated Financial and Materiel System)-SAP) support the efficient and effective management of interdepartmental settlements; and
- To ensure that adequate information technology (IT (information technology))-dependent manual controls [8] and application controls [9] are in place to maintain data integrity.

The audit focused on the following elements of the Secretariat's management control framework:

- Accountability, roles and responsibilities;
- Departmental policies, directives, procedures and guidelines, including compliance with applicable legislation, policies and directives;
- Monitoring and reporting.

The audit examined the automated and manual business activities for processing IS (interdepartmental settlement) transactions at the Secretariat, which included a review of the following:

- Journal vouchers that were created to clear a transaction from the IS (interdepartmental settlement) suspense accounts;
- Clearing entries that were created through the automated process;
- IT (information technology)-dependent manual controls and application controls;
- Segregation of duties controls in IFMS (Integrated Financial and Materiel System)-SAP; and
- Specific components of IFMS (Integrated Financial and Materiel System)-SAP used to support the processing of IS (interdepartmental settlement) transactions.

Details on the audit criteria can be found in Appendix C.

Scope Exclusions

The audit excluded the following:

- Accountability, roles, responsibilities and activities of Secretariat employees outside of FPOD (Financial and Procurement Operations Directorate);
- Journal vouchers that were created to correct internal financial transactions, other than those related to the clearance of the IS (interdepartmental settlement) suspense accounts, as mentioned above;
- The journal voucher component of the Secretariat's departmental financial system, because many other types of journal voucher processes affected were outside the scope of this audit;
- Transactions to set up fiscal year-end payable or receivable accruals, because the IS (interdepartmental settlement) transactions to clear the accrual records were included in the sample data; and
- IS (interdepartmental settlement) transactions processed by the General Accounting Services group for the Department of Finance. [10]

2.3 Lines of Enquiry

The audit had three lines of enquiry:

1. Elements of a management control framework [11] are in place for administering interdepartmental settlements at the Secretariat;
2. The business processes for IS (interdepartmental settlement) transactions are efficient and effective; [12] and
3. The Secretariat's departmental financial system (i.e., IFMS (Integrated Financial and Materiel System)-SAP) efficiently and effectively [13] supports the IS (interdepartmental settlement) business processes.

The audit criteria used to assess each line of enquiry are presented in Appendix C.

2.4 Approach and Methodology

The audit approach and methodology was risk-based and conformed with the *Internal Auditing Standards for the Government of Canada*. These standards require that the audit be planned and performed in such a way as to obtain reasonable assurance that the audit objectives were achieved.

The audit included various tests and procedures considered necessary to provide such assurance, including the following:

- Review of applicable legislation, policies, procedures and other information related to IS (interdepartmental settlement) processes;
- Interviews with management and staff of the General Accounting Services and the Corporate Systems groups;
- Validation and assessment of the management control framework elements, as described in the scope;
- Walk-throughs to observe the processes and controls for initiating, processing and clearing IS (interdepartmental settlement) transactions;

- Detailed testing of a stratified random sample [14] of 100 IS (interdepartmental settlement) transactions to determine whether the processes for IS (interdepartmental settlement) expenditures, revenues and recoveries, as well as for the clearing of IS (interdepartmental settlement) suspense accounts, complied with the applicable authorities; and
- Validation and assessment of the IT (information technology) controls and functionality for the specific components of IFMS (Integrated Financial and Materiel System)-SAP related to IS (interdepartmental settlement) processes.

The examination phase was conducted from June 2012 to October 2012. A stratified random sample of IS (interdepartmental settlement) transactions performed from April 1, 2010, to March 31, 2012, was selected for testing purposes. Operational and system documentation that was in effect at March 31, 2012, for processing IS (interdepartmental settlement) transactions was also included in the audit. Information received before this report was finalized was also considered and incorporated when appropriate.

3. Audit Results

3.1 Line of Enquiry: Management Control Framework for Administering Interdepartmental Settlements

> The Secretariat has most elements of a management control framework in place for administering interdepartmental settlements.

The audit examined three specific elements of the management control framework:

1. Whether accountabilities, roles and responsibilities related to interdepartmental settlements processes were clearly defined and communicated;
2. Whether policies, directives and procedures related to interdepartmental settlements were formally developed, maintained, available, communicated and compliant with authorities as applicable; and
3. Whether an effective monitoring and reporting mechanism for interdepartmental settlements was in place.

3.1.1 Accountabilities, Roles and Responsibilities

The accountabilities, roles and responsibilities related to IS (interdepartmental settlement) transaction processing were clearly defined in approved work descriptions of General Accounting Services employees. In addition, some roles and responsibilities were articulated in procedural guidance documents used by General Accounting Services employees who have a role in processing IS (interdepartmental settlement) transactions.

The audit found that General Accounting Services employees generally understood and performed the assigned roles and responsibilities. However, opportunities exist to align roles in procedural documents with those described in employees' work descriptions, particularly in areas where oversight of more complex transactions is required. For example, financial officers' review

responsibilities are described in detail in work descriptions but not in procedural documents. Such alignment will help mitigate errors that could result from key control processes not being performed or being performed incorrectly.

3.1.2 Departmental Policies, Procedures and Guidelines

General Accounting Services had developed and disseminated a variety of procedural documents to guide employees in processing IS (interdepartmental settlement) transactions. These documents generally complied with the authorities that guide the processing of these transactions, and many contain detailed information, including screenshots of particular steps, that provide relevant and useful guidance for employees.

However, the procedural documents did not outline the review role that is to be carried out by financial officers under section 33 of the *Financial Administration Act* [15] as part of exercising due diligence. There is an opportunity to more precisely define these roles in relation to IS (interdepartmental settlement) transactions to ensure that reviews are performed with a comparable amount of rigour to the risk identified by management.

The audit found some overlap among the many procedural documents, including several that were awaiting approval. It also found gaps in the documentation for monitoring and reporting activities, as well as for the review activities of financial officer, as mentioned above. The procedural documents must be reviewed for completeness and streamlined, where possible.

Recommendation

It is recommended that the Assistant Secretary, Corporate Services, review IS (interdepartmental settlement) business procedural documents to ensure that they are streamlined, complete, formally approved and implemented.

Priority ranking: Medium

3.1.3 Monitoring and Reporting

The *Directive on Account Verification*, the *Directive on Expenditure Initiation and Commitment Control*, the *Directive on Payment Requisitioning and Cheque Control* and the *Directive on Delegation of Financial Authorities for Disbursements* include requirements for monitoring and reporting activities.

The audit team therefore expected to find procedural documents that identified the approach for ongoing monitoring and reporting of IS (interdepartmental settlement) transactions (e.g., error rates and control issues). In addition to meeting policy requirements, such an approach helps identify the root causes of issues and resolve them at the source, and helps mitigate recurring problems.

The audit found that an appropriate level of tracking and monitoring occurred at the transaction level, particularly in obtaining financial signing authority from the appropriate fund centre manager to confirm receipt of goods or services (i.e., section 34 of the *Financial Administration Act* was complied with). The audit team found evidence that General Accounting Services employees followed up with the appropriate fund centre managers to resolve any errors and issues as they occurred.

However, the audit also found limited monitoring and reporting at a strategic level. The audit team was informed that two reports were shared with the Deputy Chief Financial Officer as part of the monthly review of the financial statements, but these reports did not allow for the identification of trends and systemic issues.

Enhanced strategic monitoring and reporting would help identify trends and systemic issues, and would thereby mitigate the risk of non-compliance with financial authorities and the risk of errors in the Secretariat's financial statements (e.g., constant errors from a fund centre or an OGD (Other Government Department)). Because the processing of IS (interdepartmental settlement) transactions relies heavily on technology and involves minimal manual intervention, there is an opportunity for a more robust approach to strategic monitoring and reporting that would ensure that issues, trends and major errors can be identified and resolved quickly.

Recommendation

It is recommended that the Assistant Secretary, Corporate Services, formally define and implement strategic monitoring and reporting strategies relative to management's risk-based approach in support of interdepartmental settlement activities.

Priority ranking: High

3.2 Line of Enquiry: Efficiency and Effectiveness of Interdepartmental Settlements Business Processes

> Some IS (interdepartmental settlement) business processes [16] were considered efficient because their design leveraged efficiencies configured in the Secretariat's departmental financial system and thereby optimizes the use of resources.
>
> The effectiveness of IS (interdepartmental settlement) business processes varied depending on the category of the transaction.

The audit examined efficiency from the perspective of whether the business process design made optimal use of resources and took full advantage of IFMS (Integrated Financial and Materiel System) -SAP functionality related to IS (interdepartmental settlement) transactions to achieve results.

Effectiveness was reviewed from three perspectives:

1. Whether General Accounting Services employees understood and complied with documented policies, processes and procedures;
2. Whether there was evidence of business process approvals (e.g., financial signing authority approval); and
3. Whether the process was monitored and whether deviations were reported to FPOD (Financial and Procurement Operations Directorate) management in a timely manner.

A stratified random sample of transactions for each of the following three business processes was tested for efficiency and effectiveness:

1. IS (interdepartmental settlement) payables;

2. IS (interdepartmental settlement) receivables; and
3. Clearing of the IS (interdepartmental settlement) suspense accounts.

The sample of transactions was further divided into five main transaction categories: goods and services transactions, salary transactions, employee benefits and pension transactions, Canada Revenue Agency tax-related transactions, and parking fee revenue-related [17] transactions.

Note: The efficiency and effectiveness of IFMS (Integrated Financial and Materiel System)-SAP in supporting IS (interdepartmental settlement) business processes are presented in Section 3.3.

3.2.1 Efficiency of Interdepartmental Settlements Business Processes

Overall, the business processes for IS (interdepartmental settlement) transactions are designed to leverage efficiencies configured in the departmental financial system through the use of auto-matching. Auto-matching matches an OGD (Other Government Department)-initiated IS (interdepartmental settlement) transaction to a fund commitment or to an IS (interdepartmental settlement) Coding Key Table item, using minimal manual intervention. In most cases, efficiencies were achieved because auto-matching was standard practice and because transactions were processed with no time lags.

At the time of the audit, the business process for salary expenditure transactions did not use the automation in the system; however, the audit team was informed that this efficiency has been adopted for the 2012–13 fiscal year. Even with this recent change, business process efficiencies could be further improved by taking full advantage of departmental system reports, as described in Section 3.3.1.2.

When manual intervention was required, such as in salary transactions, IS (interdepartmental settlement) transactions were cleared from the suspense account on time (within 30 days, as required in the *Directive on Account Verification*).

In identifying potential opportunities to increase efficiencies, the audit examined the volume and nature of the transactions that required manual intervention.

Specifically, manual intervention occurs when IS (interdepartmental settlement) transactions initiated by OGD (Other Government Department)s do not contain the appropriate reference coding information that would enable them to be processed using auto-matching. In such cases, IS (interdepartmental settlement) transactions are posted to an IS (interdepartmental settlement) suspense account and the General Accounting Services group must manually intervene.

As part of the testing of IS (interdepartmental settlement) suspense account transactions, the audit team looked at 3,047 transactions from 2010–11 and 2,126 transactions from 2011–12. [18] Based on the audit team's analysis of a random sample of 25 IS (interdepartmental settlement) suspense account transactions, posting occurred for a variety of reasons: the Secretariat had not set up fund commitments or IS (interdepartmental settlement) Coding Key Table items, the Secretariat had failed to communicate the appropriate reference coding to the OGD (Other Government Department), the OGD (Other Government Department) had used the reference coding incorrectly, or the IS (interdepartmental settlement) transaction exceeded the amount of the fund commitment in IFMS (Integrated Financial and Materiel System)-SAP.

Improved use of fund commitments and of the IS (interdepartmental settlement) Coding Key Table, including the communication of reference codes to the OGD (Other Government Department), would further increase efficiency by allowing more auto-matching to occur, thereby reducing the level of manual intervention.

3.2.2 Effectiveness of Interdepartmental Settlements Business Processes

During the analysis of transaction testing results, the audit team found that the effectiveness of each business process varied among the different categories of transactions. Audit results are therefore presented by issue and transaction category, rather than by business process.

3.2.2.1 Salary Transactions and Goods and Services Transactions

A random sample of 20 salary transactions (8 expenditures and 12 recoveries) was tested, as well as 34 goods and services transactions (27 expenditures and 7 recoveries).

The official accounting services files contained sufficient documentation to enable the audit team to fully test controls for salary transactions. However, for 10 goods and services transactions, the documentation in the official accounting services files was insufficient to enable the audit team to fully test controls. For example, the team expected the files to contain a memorandum of understanding with the OGD (Other Government Department), but they did not.

Nevertheless, there was sufficient evidence and information to conclude on the effectiveness of the business process. Specifically, the IS (interdepartmental settlement) business processes for transactions relating to salary and to goods and services were effective. Process controls, such as verification of supporting documentation for each transaction, were generally in place to ensure compliance and were working as intended. For IS (interdepartmental settlement) receivable transactions dated before September 2011, the audit found a lack of financial officer review. However, the level of financial officer review for these transactions improved after September 2011 as a result of procedural changes implemented in General Accounting Services. There was no financial officer review of most auto-matched transactions.

3.2.2.2 Employee Benefits and Pensions Transactions and Canada Revenue Agency Tax-Related Transactions

A random sample of 30 employee benefits and pension transactions (23 expenditures and 7 recoveries) was tested. The official accounting services files contained insufficient documentation to enable the audit team to fully test controls for 26 of these transactions. Similarly, of the 15 Canada Revenue Agency tax-related expenditure transactions randomly selected for testing, the official accounting services files contained insufficient documentation for control testing.

The majority of employee benefits and pension transactions were auto-matched, and the amounts of the transactions were recorded in the financial system using the coding identified in the IS (interdepartmental settlement) Coding Key Table. The audit found that these transactions were auto-matched, as expected. However, without sufficient documentation in the official accounting services files, it was impossible to test controls (e.g., appropriate amount recorded, appropriate financial signing authority approvals obtained, appropriate financial coding used).

For Canada Revenue Agency tax-related transactions, there was evidence of reconciliation of the tax information. However, the specific amounts sent to the Agency were not supported by reconciliations on file or by supporting documentation.

As a result, the audit team was unable to provide assurance on the effectiveness of the IS (interdepartmental settlement) business processes for these categories of transactions, which have a material impact on the Secretariat's financial statements. In addition, the audit team was unable to assess whether process controls were in place and were working as intended to ensure compliance. Hence, the Secretariat is not in a position to sustain a control-based audit of its financial statements, and there is a potential for error in those statements.

Issues relating to the supporting documentation to be kept in accounting services files and relating to the processing of these transactions were raised with CSS (Corporate Services Sector) during the course of the audit. Subsequently, CSS (Corporate Services Sector) and the Pensions and Benefits Sector [19] have made efforts to ensure that the official accounting services files contain sufficient documentation and financial signing authority approvals.

Recommendation

It is recommended that the Assistant Secretary, Corporate Services, establish supporting documentation requirements for IS (interdepartmental settlement) transactions relating to employee benefits and pensions and for Canada Revenue Agency tax-related IS (interdepartmental settlement) transactions.

Priority ranking: High

3.3 Line of Enquiry: Efficiency and Effectiveness of Secretariat's Departmental Financial System in Supporting Interdepartmental Settlements Business Processes

> The Secretariat's departmental financial system (i.e., IFMS (Integrated Financial and Materiel System)-SAP) efficiently and effectively supports IS (interdepartmental settlement) business processes.

The audit examined five areas to determine the effectiveness and efficiency of IFMS (Integrated Financial and Materiel System)-SAP:

1. Whether adequate IT (information technology)-dependent manual controls were in place to maintain data integrity during IS (interdepartmental settlement) transaction processing;
2. Whether adequate application controls were in place to maintain data integrity during automated processing of IS (interdepartmental settlement) transactions;
3. Whether the system efficiently supported IS (interdepartmental settlement) transaction processing;
4. Whether the segregation of duties was appropriate; and
5. Whether system reports were available, effective and used efficiently.

Efficiency was reviewed from two perspectives:

1. Whether the system efficiently supported IS (interdepartmental settlement) transaction processing; and
2. Whether system reports were used efficiently.

Effectiveness was reviewed from four perspectives:

1. Whether adequate IT (information technology)-dependent manual controls were in place;
2. Whether adequate application controls were in place;
3. Whether appropriate segregation of duties was established; and
4. Whether systems reports were available and effective.

3.3.1 Efficiency of Secretariat's Departmental Financial System

3.3.1.1 Secretariat's Departmental Financial System Supports IS (interdepartmental settlement) Transaction Processing

The audit found that IFMS (Integrated Financial and Materiel System)-SAP was designed to achieve efficiencies through the automation of the processing of inbound IS (interdepartmental settlement) files (i.e., auto-matching). Specifically, this design minimizes posting to the IS (interdepartmental settlement) suspense account, which requires subsequent manual interventions by General Accounting Services employees.

During the course of the audit, potential opportunities to further increase system efficiency in support of IS (interdepartmental settlement) transaction processing were identified. These opportunities included the creation of a mechanism to gather feedback from stakeholders on potential improvements to processing. These opportunities were shared with CSS (Corporate Services Sector) during the audit.

3.3.1.2 Secretariat's Departmental Financial System Reports

The audit team identified 17 IFMS (Integrated Financial and Materiel System)-SAP reports related to IS (interdepartmental settlement) transaction processing. Of these, 2 reports related to IS (interdepartmental settlement) suspense account clearing were found to be partially used as part of General Accounting Services' business processes.

Process efficiency could be increased through greater use of IFMS (Integrated Financial and Materiel System)-SAP reports. For example, a report is available that indicates why an item was unmatched and posted to the IS (interdepartmental settlement) suspense account, and therefore required manual intervention. Use of this report could reduce the amount of research time that General Accounting Services employees spend clearing items from suspense accounts. Use of this report could also help identify trends in OGD (Other Government Department)s that initiate transactions that cannot be auto-matched and OGD (Other Government Department)s that reverse IS (interdepartmental settlement) transactions that have previously been processed in IFMS (Integrated Financial and Materiel System)-SAP.

There is also an opportunity to enhance employees' awareness of the reports available to support IS (interdepartmental settlement) transaction processing. The list of available reports was shared with CSS (Corporate Services Sector) during the course of the audit.

3.3.2 Effectiveness of Secretariat's Departmental Financial System

3.3.2.1 IT (information technology)-Dependent Manual Controls

IT (information technology)-dependent manual controls rely on complete and accurate IT (information technology) processing in order to be fully effective. They are usually detection and correction controls.

The audit team found that key IT (information technology)-dependent manual controls were adequately documented. The audit team also tested these controls and concluded that they were operating effectively to maintain data integrity. For example, a computer-generated report was used to validate suspense account clearing.

3.3.2.2 Application Controls

Application controls pertain to the scope of individual business processes or application systems, including data edits, separation of business functions, balancing of processing totals, transaction logging and error reporting.

The audit team found that key application controls were adequately documented. It also tested these controls and concluded that they were operating effectively to maintain data integrity and were designed to automate the IS (interdepartmental settlement) process effectively. Specifically, transactions were auto-matched correctly, posting to non-existent fund centres was not permitted, unbalanced financial transactions were not permitted, etc.

3.3.2.3 Segregation of Duties

The audit found evidence that the Corporate Systems group regularly reviewed and tested the segregation of duties to ensure that conflicts were identified and addressed. Such tests, based on those provided by the Government of Canada's IFMS (Integrated Financial and Materiel System) Systems Cluster, did not include specific testing of the segregation of duties relating to IS (interdepartmental settlement) transactions because the Secretariat had not created specific user roles for processing these transactions. IS (interdepartmental settlement) transaction processing has been incorporated into more generic roles for processing expenditure or revenue transactions.

According to industry standards and best practices, the segregation of duties for IS (interdepartmental settlement) transactions should follow the same rigour and principles as other expenditure or revenue transactions. In one examination step, the audit team used specific tests relating to the IS (interdepartmental settlement) Coding Key Table, which the audit team considered a master data table, where financial coding and commitments are controlled in IFMS (Integrated Financial and Materiel System)-SAP. Given the nature of the table, limited access would be expected and updates would be done by individuals not responsible for processing the financial transactions.

In testing the segregation of duties, the audit team examined the roles assigned to employees responsible for processing IS (interdepartmental settlement) transactions in IFMS (Integrated Financial and Materiel System)-SAP to determine whether any conflicts existed. A number of segregation of duties conflicts were identified in the General Accounting Services group (e.g., the ability to create or modify entries in the IS (interdepartmental settlement) Coding Key Table and the monitoring of the table's change log).

These conflicts pose a negligible fraud risk to the Secretariat because no cash is involved in the transactions; however, given the high value of employee benefits and pensions transactions that are dependent on the IS (interdepartmental settlement) Coding Key Table, these conflicts pose a moderate risk of material error in the financial statements if the IS (interdepartmental settlement) Coding Key Table is incorrectly modified and not verified. There was no record of senior management approvals for the creation of roles where potential segregation of duties conflicts existed, and there was no documentation explaining how to mitigate the risk of existing conflicts.

The segregation of duties testing and the potential conflicts identified were shared with CSS (Corporate Services Sector) during the course of the audit.

Because the IFMS (Integrated Financial and Materiel System)-SAP user roles of employees who process IS (interdepartmental settlement) transactions are broader and provide access to more functions than those relating to IS (interdepartmental settlement) processing, the audit team could not fully test all potential segregation of duties conflicts within the scope of this audit. These issues will be considered in subsequent updates to the Secretariat's Risk-Based Audit Plan.

Recommendation

It is recommended that the Assistant Secretary, Corporate Services, review the roles in the Secretariat's departmental financial system (i.e., IFMS (Integrated Financial and Materiel System) -SAP) to ensure that there are no conflicts in the segregation of duties and that any conflicts that remain after the review, as well as the resulting risk-mitigation processes, are approved.

Priority ranking: High

3.4 Overall Conclusion

The audit team concluded, with a reasonable level of assurance, that most elements of the management control framework were in place to support the effective administration of interdepartmental settlements. Overall, the IS (interdepartmental settlement) business processes were efficient and effective for transactions involving salary and those involving goods and services. In addition, the Secretariat's departmental financial system (i.e., IFMS (Integrated Financial and Materiel System)-SAP) effectively and efficiently supported the interdepartmental settlements processes.

However, commensurate with management's assessment of risk, four recommendations were made:

1. Review IS (interdepartmental settlement) business procedural documents to ensure that they are streamlined, complete, formally approved and implemented;
2. Formally define and implement strategic monitoring and reporting strategies relative to management's risk-based approach in support of IS (interdepartmental settlement) activities;
3. Establish supporting documentation requirements for IS (interdepartmental settlement) transactions relating to employee benefits and pensions and for Canada Revenue Agency tax-related IS (interdepartmental settlement) transactions; and
4. Review the roles in the Secretariat's departmental financial system (i.e., IFMS (Integrated Financial and Materiel System)-SAP) to ensure that there are no conflicts in the segregation of duties and that any conflicts that remain after the review, as well as the resulting risk-mitigation processes, are approved.

The audit team also identified opportunities for efficiency gains and shared these with management.

Appendix A: Management Response

Recommendation 1

Priority Ranking: Medium

It is recommended that the Assistant Secretary, Corporate Services, review IS (interdepartmental settlement) business procedural documents to ensure that they are streamlined, complete, formally approved and implemented.

Management Response

We agree with the recommendation.

Management Action	Completion Date	Office of Primary Interest (OPI)
Accounting Services and Management Practices will review and revise the internal procedures for the management of IS (interdepartmental settlement) transactions to ensure completeness. To this end, the various procedural documents will be streamlined into fewer documents, formally approved and implemented.	December 31, 2013	Accounting Services and Management Practices/Corporate Services Sector

Recommendation 2

Priority Ranking: High

It is recommended that the Assistant Secretary, Corporate Services, formally define and implement strategic monitoring and reporting strategies relative to management's risk-based approach in support of interdepartmental settlement activities.

Management Response

We agree with the recommendation.

Management Action	Completion Date	Office of Primary Interest (OPI)
Accounting Services and Management Practices will conduct an analysis to determine which types of transactions should be monitored and brought to senior management's attention. Appropriate monitoring will be developed and implemented following the analysis.	December 31, 2013	Accounting Services and Management Practices/Corporate Services Sector

Recommendation 3

Priority Ranking: High

It is recommended that the Assistant Secretary, Corporate Services, establish the supporting documentation requirements for employee benefits and pensions IS (interdepartmental settlement) transactions, as well as for Canada Revenue Agency tax-related IS (interdepartmental settlement) transactions.

Management Response

We agree with the recommendation.

Management Action	Completion Date	Office of Primary Interest (OPI)
Accounting Services and Management Practices will review all IS (interdepartmental settlement) transaction types and identify the supporting documentation requirements, update procedures and monitor.	March 31, 2014	Accounting Services and Management Practices/Corporate Services Sector

Recommendation 4

Priority Ranking: High

It is recommended that the Assistant Secretary, Corporate Services, review the roles in the Secretariat's departmental financial system (i.e., IFMS (Integrated Financial and Materiel System) -SAP) to ensure that there are no conflicts in the segregation of duties and that any remaining conflicts and the resulting risk-mitigation processes are approved.

Management Response

We agree with the recommendation. A three-point plan is already underway to review Integrated Financial Management System (IFMS (Integrated Financial and Materiel System))-SAP roles to ensure adequate Segregation of Duties (SOD (Segregation of Duties)). It should be noted that the IFMS (Integrated Financial and Materiel System) Program Office (PO (Program Office)) is the lead office on establishing Security Profiles for SAP across government. However, each department may have a different application of security profiles due to specific needs.

Management Action	Completion Date	Office of Primary Interest (OPI)
1. The IFMS (Integrated Financial and Materiel System) PO (Program Office) of PWGSC (Public Works and Government Services Canada) recently updated security profiles for IFMS (Integrated Financial and Materiel System). TBS (Treasury Board Secretariat) will upgrade our SAP system with these Security Releases.	March 31, 2013	Corporate Systems / Corporate Services Sector

2. IFMS (Integrated Financial and Materiel System) PO (Program Office) will perform a Health Check on the SAP security organization within Corporate Systems and SAP security procedures.	Jun 30, 2013	Corporate Systems / Corporate Services Sector
3. IFMS (Integrated Financial and Materiel System) PO (Program Office) will perform a SOD (Segregation of Duties) validation on the TBS (Treasury Board Secretariat) SAP system. Those remaining SOD (Segregation of Duties) conflicts and associated mitigation activities will be submitted to the Senior Director FPOD (Financial and Procurement Operations Directorate) for approval.	Mar 31, 2014	Corporate Systems / Corporate Services Sector

Appendix B: Processing of Interdepartmental Settlements Transactions at the Treasury Board of Canada Secretariat

At the Treasury Board of Canada Secretariat (the Secretariat), interdepartmental settlement (IS (interdepartmental settlement)) transactions fall into three processing streams:

1. Process for initiation of accounts receivable invoices;
2. Process for automated allocation of expenditures or revenue transactions; and
3. Process for manual reallocation of expenditures or revenue transactions.

These streams are described below from the Secretariat's perspective in relation to whether it is the initiator or the receiver of an IS (interdepartmental settlement) transaction.

1. Process for initiation of accounts receivable invoices

According to Section 12.2, Chapter 12 of the Receiver General Manual, it is usually the creditor department—the department that needs to recover costs from another government department (OGD (Other Government Department))—that initiates the IS (interdepartmental settlement) transaction. In the case of accounts receivable (A/R (Accounts Receivable)) invoices, the Secretariat is considered the creditor department because a credit transaction will be recorded to reduce the costs in an expenditure account or to increase the revenue collected in the revenue accounts.

At the Secretariat, the process of recovering costs starts with a fund centre manager's request that a recovery action be initiated. Examples of situations where recovery is required include the following:

- The Secretariat has to recover the salary costs for an employee who has transferred to an OGD (Other Government Department) but whose pay files have not yet been transferred, resulting in pay and related costs being charged to the Secretariat rather than to the OGD (Other Government Department) where the employee is now working.
- Recovery of operating expenditures such as professional services for a joint initiative for which an OGD (Other Government Department) formally agreed to share the costs of a particular project with the Secretariat. If the Secretariat has chosen to administer the project, it assumes all costs, and any shared costs are recovered based on the formal agreement after the project has been completed.

Before it creates the accounts receivable (A/R (Accounts Receivable)) invoice, General Accounting Services requires that the fund centre manager provide documentation of an agreement between the Secretariat and the OGD (Other Government Department), as well as proof that the costs to be recovered have indeed been incurred. The OGD (Other Government Department) also needs to provide a reference number, known as the IS (interdepartmental settlement) reference code, which the Secretariat includes in the A/R (Accounts Receivable) invoice. The OGD (Other Government Department)'s financial system uses this code to automatically generate a transaction against the appropriate commitment record.

Once a General Accounting Services employee has entered the A/R (Accounts Receivable) recovery transaction into the Secretariat's departmental financial system (i.e., IFMS (Integrated Financial and Materiel System)-SAP), a General Accounting Services financial officer reviews and approves the invoice, which will be marked as paid once the detailed IS (interdepartmental settlement) information has been transmitted to the OGD (Other Government Department) through an automated process in IFMS (Integrated Financial and Materiel System)-SAP.

Unless the OGD (Other Government Department) notifies the Secretariat of a problem, the invoice is considered paid and the costs are considered recovered. If the OGD (Other Government Department) disagrees with the information or the amount on the invoice, either the OGD (Other Government Department) or the Secretariat can cancel the invoice using the Standard Payment System at Public Works and Government Services Canada (PWGSC (Public Works and Government Services Canada)). That system centrally processes all federal government payments and interdepartmental settlements. Once a financial transaction is cancelled, it is sent to each of the departments affected and the IS (interdepartmental settlement) entries are reversed. The Secretariat, as the originating department, then issues a new A/R (Accounts Receivable) invoice containing the correct information.

The A/R (Accounts Receivable) invoice process is different for non-OGD (Other Government Department) customers. For those customers, the receivable remains outstanding until the customer has issued a payment, the payment is received and the payment is recorded against the invoice, thereby marking the invoice as paid, at which time the recovery or revenue is considered complete.

2. Process for automated allocation of expenditures or revenue transactions

This section focuses primarily on how the Secretariat records payments to vendors using the automated functionality of the Secretariat's departmental financial system (i.e., IFMS (Integrated Financial and Materiel System)-SAP).

In the case of a payment to a non-OGD (Other Government Department) vendor, when the Secretariat receives the invoice, the payment will occur once the invoice has been verified for accuracy, once it has been confirmed that goods or services have been received, once the correct financial coding has been assigned and once approvals have been obtained under Section 34 of the *Financial Administration Act*.

The Secretariat's process for recording expenditures from OGD (Other Government Department)s does not follow the usual accounts payable process of paying an invoice to a non-OGD (Other Government Department) vendor.

In line with government-wide practices, Secretariat expenditures from an OGD (Other Government Department) are initiated by the OGD (Other Government Department) using the same A/R (Accounts Receivable) process described above, but the Secretariat is now the receiver rather than the initiator. At the Secretariat, the processing of these IS (interdepartmental settlement) transactions leverages technology in cases where IFMS (Integrated Financial and Materiel System)-SAP has been configured to process IS (interdepartmental settlement) transactions with minimal manual intervention, through the use of either a fund commitment record or an entry in the IS (interdepartmental settlement) Coding Key Table.

In order to efficiently process the transaction using the automated functionality in IFMS (Integrated Financial and Materiel System)-SAP, a fund centre manager, as part of the negotiations with the OGD (Other Government Department) for a good or service, requests that General Accounting Services create a commitment record in IFMS (Integrated Financial and Materiel System)-SAP. That commitment number will represent the IS (interdepartmental settlement) reference code that is given to the OGD (Other Government Department) for inclusion in its A/R (Accounts Receivable) invoice.

IFMS (Integrated Financial and Materiel System)-SAP contains a table known as the IS (interdepartmental settlement) Coding Key Table. This table is used in situations where it would be inappropriate to create an individual commitment record. At the Secretariat, this table is usually used for employer and employee contributions that are initiated by PWGSC (Public Works and Government Services Canada) and by some OGD (Other Government Department)s where the amounts to be transferred to the Secretariat are inconsistent and unknown, thereby making it difficult to anticipate how much the Secretariat is to be charged. [20] One example of these types of transactions is the employer's share of the costs of employee benefits and insurance programs being remitted to the Secretariat from PWGSC (Public Works and Government Services Canada), which administers the programs.

The IS (interdepartmental settlement) Coding Key Table contains the IS (interdepartmental settlement) reference code and the financial coding required for auto-matching transactions from an OGD (Other Government Department) when one of the IS (interdepartmental settlement) Coding Key Table codes is used. The IS (interdepartmental settlement) reference code is provided to the OGD (Other Government Department) and used during the OGD (Other Government Department)'s A/R (Accounts Receivable) invoicing process.

Every day, the Secretariat receives an electronic file from the PWGSC (Public Works and Government Services Canada) Standard Payment System that contains the IS (interdepartmental settlement) transactions for the Secretariat initiated by OGD (Other Government Department)s. This file is then processed in IFMS (Integrated Financial and Materiel System)-SAP.

As part of the automated functionality for IS (interdepartmental settlement) transactions, IFMS (Integrated Financial and Materiel System)-SAP attempts to match the IS (interdepartmental settlement) transactions received by the Secretariat to the appropriate commitment record or to the IS (interdepartmental settlement) Coding Key Table. This process is known as auto-matching. Successful matching of an IS (interdepartmental settlement) transaction results in a system-generated financial entry charged to a fund centre manager's budget. However, the manager must then verify the OGD (Other Government Department) invoice to ensure that it is correct and that goods or services have been received and must approve the invoice under section 34 of the *Financial*

Administration Act. [21] An example of this type of transaction is the recovery of training costs for a Secretariat employee who has taken a course at the Canada School for Public Service, an OGD (Other Government Department).

3. Process for manual reallocation of expenditures or revenue transactions

This process occurs when an IS (interdepartmental settlement) transaction initiated by an OGD (Other Government Department) does not contain the appropriate IS (interdepartmental settlement) reference code and therefore cannot be processed using the auto-matching process described above. If the IS (interdepartmental settlement) transaction cannot be matched with the appropriate IS (interdepartmental settlement) reference code on the commitment record or the IS (interdepartmental settlement) Coding Key table, the transaction is posted to an IS (interdepartmental settlement) suspense account.

The entry then has to be manually reallocated from the IS (interdepartmental settlement) suspense account to the appropriate expenditure or revenue account against the correct fund centre manager's budget. This correction is done once General Accounting Services has researched the entry and the appropriate fund centre manager has verified and approved the invoice under section 34 of the *Financial Administration Act*. An example of this type of transaction would be as follows:

- An employee from an OGD (Other Government Department) has accepted a temporary work assignment at the Secretariat, but the employee's salary costs continue to be charged to the OGD (Other Government Department) during the period of the assignment. The OGD (Other Government Department) must therefore recover the costs from the Secretariat. At the time of the audit, these salary transactions were initially posted to the IS (interdepartmental settlement) suspense account and then manually transferred to the appropriate fund centre.

Appendix C: Audit Criteria

The audit criteria were derived from the Office of the Comptroller General's *Audit Criteria Related to the Management Accountability Framework: A Tool for Internal Auditors*.

Line of Enquiry 1: Elements of a management control framework are in place for administering interdepartmental settlements at the Secretariat
Audit Criteria **1.1** Accountability, roles and responsibilities are clearly defined, formally approved, and communicated for Financial and Procurement Operations Directorate employees. **1.2** Departmental policies, directives, procedures and guidelines are formally developed, approved, maintained, available, communicated and are compliant with authorities, as applicable. **1.3** An effective monitoring and reporting mechanism is in place.
Line of Enquiry 2: The business processes for interdepartmental settlements (IS (interdepartmental settlement)) is efficient and effective

Audit Criteria

2.1 The IS (interdepartmental settlement) payables process complies with applicable legislation, policies and procedures.

2.2 The IS (interdepartmental settlement) receivables process complies with applicable legislation, policies and procedures.

2.3 Clearing of the IS (interdepartmental settlement) suspense accounts complies with applicable legislation, policies and procedures.

Line of Enquiry 3: The Secretariat's departmental financial system (i.e., IFMS (Integrated Financial and Materiel System)-SAP) efficiently and effectively supports the IS (interdepartmental settlement) business processes

Audit Criteria

3.1 Adequate IT (information technology)-dependent manual controls are in place to maintain data integrity during IS (interdepartmental settlement) transaction processing.

3.2 Adequate application controls are in place to maintain data integrity during automated IS (interdepartmental settlement) transaction processing.

3.3 The system efficiently supports IS (interdepartmental settlement) transaction processing.

3.4 The segregation of duties is appropriate.

3.5 System reports are available, effective and efficient.

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1   The official definition of an interdepartmental settlement, according to the Treasury Board *Directive on Payment Requisitioning and Cheque Control*, is "a transfer of funds between any two departments or agencies that operate within the Consolidated Revenue Fund." (Note: The *Financial Administration Act* defines the Consolidated Revenue Fund as "the aggregate of all public moneys that are on deposit at the credit of Receiver General.")

2   In this document, "department" means "department or agency."

3   The Secretariat's departmental financial system, the Integrated Financial and Materiel System (IFMS (Integrated Financial and Materiel System)-SAP), is based on SAP application software and is used to record and account for all financial transactions. The Secretariat's configuration of IFMS (Integrated Financial and Materiel System)-SAP is consistent with the common systems development by the Government of Canada's IFMS (Integrated Financial and Materiel System) System Cluster, of which the Secretariat is a member. The Secretariat also hosts a number of other government departments (OGD (Other Government Department)s) on its departmental financial system platform—the Department of Finance Canada, the Privy Council Office and the Canada School of Public Service.

4   Section 34 of the *Financial Administration Act* outlines the requirement to certify, before payment is made, that either 1) work or goods were received pursuant to a contract or 2) if there was no contract, the payee is entitled to the payment.

5   As an alternate to creating a fund commitment document, the Secretariat can create an item in the IS (interdepartmental settlement) Coding Key Table in the departmental financial system. The IS (interdepartmental settlement) Coding Key Table is used when amounts to be processed via IS (interdepartmental settlement) transactions are inconsistent and unknown, thereby making it difficult to set up fund commitment documents. At the Secretariat, the IS (interdepartmental settlement) Coding Key Table is primarily used for employee benefits and pensions transactions. The process for auto-matching an IS (interdepartmental settlement) Coding Key Table is similar to the process for auto-matching a fund commitment.

6   As a rule, the creditor department initiates the IS (interdepartmental settlement) requisition.

7   The Treasury Board *Policy on Interdepartmental Charging and Transfers Between Appropriations* defines suspense account as "an account to which a transaction is posted on a temporary basis until its ultimate disposition is determined." For IS (interdepartmental settlement) transactions that are not auto-matched, they are posted to a suspense account specifically designed for IS (interdepartmental settlement) transactions. The General Accounting Services group then must research each suspense account item and obtain the necessary documents and approvals, i.e., section 34 of the *Financial Administration Act*, from fund centre managers in order to post the transactions to the appropriate financial coding.

8   IT (information technology)-dependent manual controls are manual controls that rely on complete and accurate IT (information technology) processing in order to be fully effective. These controls are usually detection and correction controls. An example of this type of control is a review of a computer-generated report listing open orders which is checked manually to ensure that all sales are invoiced.

9   Application controls are controls that pertain to the scope of individual business processes or application systems, including data edits, separation of business functions, balancing of processing totals, transaction logging and error reporting. An example of this type of control is a control that does not permit posting to a non-existent fund centre.

10   The Secretariat has a shared services arrangement with the Department of Finance Canada for a number of services, including the processing of financial transactions by the General Accounting Services group.

11   Previous internal audits (i.e., audit of account verification, audit of acquisition cards) have examined the overall management control framework of the General Accounting Services group. As a result, this audit focused on management control framework items pertinent to interdepartmental settlements only.

12   The audit reviewed efficiency with respect to whether the business process design makes optimal use of resources and takes full advantage of the departmental financial system's IS (interdepartmental settlement) functionality to achieve results.

13   Idem.

14   This sample was based on the expectation of zero deviations and provides the statistical reliability of 90% for each stratum. This approach is in line with recognized sampling methodology used for compliance testing, as well as for testing controls over compliance.

15   Section 33 of the *Financial Administration Act* outlines the overall requirements for charges to appropriations and their requisition for payment from the Consolidated Revenue Fund.

16   For this audit, a business process was defined as the necessary steps, either by Secretariat employees or by the Secretariat's departmental financial system, to process an IS (interdepartmental settlement) transaction. Appendix B contains detailed descriptions of IS (interdepartmental settlement) business processes used at the Secretariat.

17   The sample included only one recovery transaction related to parking fee revenue. The results from the testing of this category were not significant and are not reported in detail with other transactions in Section 3.2.2.

18   IS (interdepartmental settlement) suspense account items related to scope exclusions were not included in these figures. In addition, the profile of IS (interdepartmental settlement) transactions shown in Section 1.2 includes the IS (interdepartmental settlement) suspense items for 2011–12.

19   The Pensions and Benefits Sector of the Office of the Chief Human Resources Officer assists in managing Treasury Board–sponsored employee benefits and pension programs, as well as in assisting in policy development related to these programs.

20   The IS (interdepartmental settlement) Coding Key Table can also be used for receivables. For example, the Secretariat receives contributions from OGD (Other Government Department)s that are separate employers that have opted to participate in Treasury Board –sponsored benefit plans.

21   If a dispute arises regarding the information and amount on the invoice, the process to resolve is similar to that described for accounts receivable IS (interdepartmental settlement) transactions.

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