



Audit of Goods and Services Expenditures related to COVID-19

Internal Audit Report

PRESENTED BY INTERNAL AUDIT DIRECTORATE

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Executive Summary

The Audit of Goods and Services (G&S) Expenditures related to COVID-19 was authorized as part of the Department of Finance Canada's (the department) 2020–2023 Risk-based Audit Plan, which was approved by the former Deputy Minister on August 12, 2020.

What we examined

The objective of the audit engagement was to provide reasonable assurance that the G&S expenditures, incurred by the department to support employees working remotely as a result of the COVID-19 crisis, were processed in compliance with applicable legislation, policies, and guidance.

Why it is important

In response to the COVID-19 crisis, the department had to respond with unprecedented urgency to adjust to a new remote work environment. Employees needed to be equipped to continue to do their important work and to contribute to the effective functioning of the Government of Canada. During this period of rapid transition, the department had to ensure that any additional purchases made to support employees working remotely were compliant with applicable legislation, policies, and guidance. As staff adjusted to the new remote work environment, additional risks and control challenges were created. While some of the necessary purchases may not be material, it was essential that the department ensures compliance with existing legislation, policies, and guidance in addition to any new requirements. This was key to demonstrating sound stewardship and value for money in this new remote work environment.

What we found

The G&S expenditures, that were incurred by the department to support employees working remotely as a result of the COVID-19 crisis, were processed, in all material respects, in compliance with applicable legislation, and Treasury Board (TB) policies and guidance.

Minor areas of improvement were identified with respect to timely submission of approvals and supporting documents to Treasury Board of Canada Secretariat. While these approvals and supporting documents were not submitted within the timeframe outlined in the department's internal guidance, they do not expose the department to a significant risk. The delays identified are also not unreasonable given the context of the COVID-19 crisis.

Kari Swarbrick
Chief Audit Executive



Background

In response to the COVID-19 crisis, the Department of Finance Canada (the department) had to react with unprecedented urgency, flexibility and speed, while adjusting to significant changes in the way people work. The most significant change was that most of the employees were immediately required to work remotely. The department had to ensure that all affected employees were equipped to work in this new remote work environment. In some cases, the department was required to make additional purchases of goods and services (G&S) to support employees working remotely. These purchases were to be made in compliance with existing authorities including the *Financial Administration Act (FAA)*, the Treasury Board (TB) Policy on Financial Management (2017), and the related directives and guidance, such as the TB Directive on Payments (2017) and the TB Directive on Delegation of Spending and Financial Authorities (2017). In addition to the existing authorities, the Treasury Board of Canada Secretariat (TBS) developed guidance to aid all departments and agencies in making these purchases.

Additional Guidance from Treasury Board of Canada Secretariat

In response to the COVID-19 crisis, TBS provided additional guidance to assist departments and agencies in making decisions to equip employees to work remotely. The initial guidance that was disseminated to all departments and agencies on April 6, 2020, provided a general framework, subject to departmental adaptation with existing guidance and processes. As a result, departments and agencies interpreted the TBS guidance and established their own internal guidelines that ensured adherence to existing legislation, policies, and supporting guidance. On August 28, 2020, more than 5 months following the remote work order, TBS provided updated guidance that communicated clearer instructions to departments and agencies.

Internal Guidance in the Department of Finance Canada

Prior to the remote work order, internal processes and controls were in place to ensure compliance with requirements from the applicable legislation and policies. In particular, the department's Financial Signing Authorities Guide (2020), Delegation of Financial Signing Authorities Instrument (2020), and Acquisition Card Client Guide (2017).

In response to the remote work order and the April 6, 2020 TBS guidance, the department developed and communicated new procedures to support employees and managers in making additional purchases to equip employees to work remotely.

Treasury Board of Canada Secretariat's Shared Financial Management Services with the Department of Finance Canada

As per the 2010 Memorandum of Understanding between TBS's Corporate Services Sector and the department, the department shares some of its financial management services with TBS. These include the verification of supporting documents to process payments for invoices, and recording of applicable transactions (such as employee reimbursements) in the Systems Applications and Products in Data Processing (SAP). This shared arrangement stems from the history between the two organizations.



Audit Objective, Scope, Criteria, and Approach

Audit Objective and Scope

Audit Objective:

- The objective of this engagement was to provide reasonable assurance that the goods and services (G&S) expenditures, incurred by the Department of Finance Canada (the department) to support employees working remotely as a result of the COVID-19 crisis, were processed in compliance with applicable legislation, policies, and guidance.

Audit Scope:

- The audit scope included G&S transactions from March 16 to August 31, 2020.
- The audit focused on G&S expenditures incurred by the department to support employees working remotely as a result of the COVID-19 crisis. The audit did not include salary and overtime related expenditures nor IT and office equipment distributed to employees that was purchased prior to the COVID-19 crisis (for example, monitors and chairs).



Audit Criteria

Criterion 1: The G&S expenditures related to the COVID-19 crisis were reviewed and approved by the appropriate delegated authority in accordance with the *Financial Administration Act (FAA)*, applicable policies and guidance.

Criterion 2: The G&S expenditures were accurately recorded in the department's database in accordance with the *FAA*, applicable policies and guidance.

Audit Approach

During the conduct of the audit we:



Reviewed relevant documentations such as legislation, policies and guidance, as well as new TBS and departmental guidance and communications developed in response to the COVID-19 crisis.



Interviewed personnel from the Financial Management Division (FMD) to understand and document the department's processes to issue acquisition cards; to make purchase through acquisition cards; to delegate approval authorities; and, to procure goods and services through contracts.



Identified 331 G&S purchases (transactions) incurred to support employees working remotely as a result of the COVID-19 crisis. Tested 45 transactions to assess compliance with relevant legislation, policies, and guidance.



Overall Opinion and Statement of Conformance



Overall Opinion

Sufficient and appropriate procedures were performed, and evidence gathered, to support the accuracy of the audit conclusion. The audit findings and conclusion are based on a comparison of the conditions that existed as of the date of the audit against established criteria that were agreed upon with management.

The findings and conclusion are only applicable to the entities examined and for the scope and time period covered by the audit.

Statement of Conformance

The audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing, as supported by the results of the quality assurance and improvement program.



Summary of Findings

Key Findings by Audit Criteria

Criterion 1: The G&S expenditures related to the COVID-19 crisis were reviewed and approved by the appropriate delegated authority in accordance with the FAA, applicable policies and guidance.

Findings:

- All 20 contract purchases and three (3) employee reimbursement transactions we tested were reviewed and approved by the appropriate delegated authority in accordance with the *FAA*, applicable policies and guidance (see Appendix A).
- All 22 acquisition card purchases we tested, which stem from 16 acquisition card monthly statements, obtained appropriate *FAA* Section 32 and 34 approvals and submitted supporting documents to Treasury Board of Canada Secretariat (TBS); however, of the 16 monthly statements, we identified three (3) monthly statements (8 acquisition card purchases)¹ which submitted Section 34 approval and supporting documents to TBS past the deadline stipulated in the department's internal guidance (see Appendix A).

Conclusion:

All 45 transactions tested adhered to the TBS guidance on “Remote work and employee equipment reimbursement”. The results also demonstrated that the financial signing authorities were exercised in compliance with the applicable requirements from the *FAA*, and relevant TB policies and guidance.

In light of the remote work environment due to the COVID-19 crisis, there was an added level of complexity in the submission of timely approvals and supporting documents. This may explain the few instances where the submissions of approvals and supporting documents for acquisition card purchases were not timely as per the department's internal guidance. These late submissions do not expose the department to significant risks as they were submitted in the fiscal year to which they were incurred.

Notes:

¹ For the acquisition card monthly statements, the Section 34 approvals and supporting documents were submitted past the 10 working days deadline stipulated in the department's *Acquisition Card Client Guide (2017)*; one of which was submitted beyond 30 days, and one submitted beyond five months.

Key Findings by Audit Criteria *(Cont'd)*

Criterion 2: *The G&S expenditures were accurately recorded in the department's database in accordance with the FAA, applicable policies and guidance.*

Findings:

- All 20 contract purchases we tested were correctly recorded into the SAP in accordance with the *FAA*, applicable policies and guidance (see Appendix A).
- 2 of the 22 acquisition card transactions we tested, which are recorded into the SAP by the departmental Administrative Officers, had immaterial monetary errors with respect to the recording of sales tax¹ (see Appendix A).
- The 3 employee reimbursement transactions we tested, which are recorded into the SAP by the TBS Accounting Services², had immaterial monetary errors with respect to the recording of sales tax¹ (see Appendix A).

Conclusion:

The majority of the 45 transactions tested were accurately recorded in SAP in accordance with the *FAA*, applicable policies and guidance, and no significant monetary errors³ were identified.

The five monetary errors found were not material and they do not expose the department to significant risks in regards to the accuracy of its financial statement.

Notes:

¹ To ensure accuracy in financial statement reporting, sales tax (GST/HST and QST) must be separated from the total value of applicable purchases as per the TB Directive on Payments and related guide when recording transactions into SAP.

² TBS Accounting Services confirmed that they should have recorded the sales tax in a separate account for employee reimbursement transactions, and advised that they will explore further.

³ The audit team calculated and concluded that it is unlikely that a material error lies in the accounting for COVID-19 G&S remote work expenditures.



Overall Conclusion

The G&S expenditures, that were incurred by the department to support employees working remotely as a result of the COVID-19 crisis, were processed, in all material respects, in compliance with applicable legislation, and Treasury Board (TB) policies and guidance.

Minor areas of improvement were identified with respect to timely submission of approvals and supporting documents to Treasury Board of Canada Secretariat. While these approvals and supporting documents were not submitted within the timeframe outlined in the department's internal guidance, they do not expose the department to a significant risk. The delays identified are also not unreasonable given the context of the COVID-19 crisis.



Recommendation and Management Action Plan



Recommendation – Awareness

Recommendation:

At least once annually, the Financial Management Division should remind Fund Centre Managers and Administrative Officers of their roles and responsibilities with regards to the processing of purchases and payments of goods and services (including their responsibility to submit approvals and supporting documents to TBS in a timely manner).

Management Action Plan:

The department will work with TBS Accounting Services to ensure that Acquisition Card cardholders and managers are annually reminded of their responsibilities on the timely submission of Acquisition Card packages. The department will also update the internal guidance document to reflect current best practices for cardholders.



Appendix A – Compliance Testing Results



Compliance Testing Results

Test Criteria	Acquisition Card Purchases	Employee Reimbursements	Contract Purchases	Value of transactions with compliance issues
	Sample Size: 22	Sample Size: 3	Sample Size: 20	
	Number of transactions with compliance issues (% out of population by type)			
Appropriate Use: Purchase was for authorized government business-related purchases of goods and services.	0 (0%)	0 (0%)	0 (0%)	\$ -
Recording: Expense is recorded correctly into SAP.	2 (19%)	3 (100%)	0 (0%)	\$ 215.19
Section 32 Approval:				
• Expense is approved by appropriate financial delegated authority.	0 (0%)	0 (0%)	0 (0%)	\$ -
• Expense is approved prior to the expense being incurred.	0 (0%)	0 (0%)	0 (0%)	\$ -
Section 34 Approval:				
• Section 34 Certification Authority is performed by the appropriate financial delegated authority.	0 (0%)	0 (0%)	0 (0%)	\$ -
• Expense certified is properly supported with proof of execution and cost.	0 (0%)	0 (0%)	0 (0%)	\$ -
• Approvals and supporting documents are submitted to TBS Accounting Services in a timely manner.	8 (36%)	0 (0%)	0 (0%)	\$ 6,139.40
Total	Total number of transactions with one or more compliance issues (% out of sample size by type)			Total value of transactions with compliance issues
	10 (45%)	3 (100%)	0 (0%)	\$ 6,354.59



Compliance Testing Results *(Cont'd)*

Explanation for Non-compliant Transactions

Test Criteria	Acquisition Card Purchases	Employee Reimbursements	Explanation
	Sample Size: 22	Sample Size: 3	
	# of transactions with compliance issues (% out of population by type)		
Recording: Expense is recorded correctly into SAP.	2 (9%)	3 (100%)	<p>The amounts for sales tax (GST/HST and QST) were not recorded separately in the SAP for:</p> <ul style="list-style-type: none"> Two (2) out of 22 acquisition card transactions tested, which are recorded into the SAP by the departmental Administrative Officers; and All three (3) employee reimbursement transactions tested, which are recorded into the SAP by the TBS Accounting Services. <p>To ensure accuracy in financial statement reporting, sales tax must be separated from the total value of applicable purchases as per the TB Directive on Payments and related guide when recording transactions into SAP.</p>
Section 34 Approval: Approvals and supporting documents are submitted to TBS Accounting Services in a timely manner.	8 (36%)	0 (0%)	<p>We identified three (3) acquisition card monthly statements (8 transactions) where submission of supporting documents to TBS were made past the deadline stipulated in the department's internal guidance, that is, 10 working days from the receipt of acquisition card monthly statement. Of these:</p> <ul style="list-style-type: none"> One (1) monthly statement was approved and its supporting documents submitted to TBS more than 30 days after the receipt of the acquisition card statement; and One (1) monthly statement was approved and its supporting documents submitted to TBS five months after the receipt of the acquisition card statement. <i>(Section 34 approval and submission to TBS for this item was not completed until the transaction was flagged for review by the internal audit team).</i>



Appendix B – Sampling Strategy

Sampling Strategy

The audit team filtered through 4,066 (\$14,444,624) goods and services (G&S) transaction data from March 16 to August 31, 2020, and pulled a list of 331 (\$202,132) transactions that were related to support for remote work during the COVID-19 crisis. The parameters considered to filter the list are:

- 1) Internal Order Codes used to indicate COVID-19 related expenditures in SAP;
- 2) Object Codes used to indicate the types of transactions in SAP; and
- 3) Transactions pulled by the Financial Management Division (FMD) in response to Parliamentary request Q-23, which included: *"[...] furniture, equipment (including IT equipment) and services (including home internet reimbursement) in support of remote work by employees."*

Of the 331 transactions, a sample of 45 transactions were selected using monetary unit interval sampling technique. For low value (<\$12,000) items, 42 transactions were randomly selected. For high value (\geq \$12,000) items, all transactions were tested. The sample distribution is as follows:

Stratification	Count	Value
Low Value (<\$12,000)	42	\$81,138
High Value (\geq \$12,000)	3	\$66,735
Total Count¹	45	
Total Value	\$147,873	

Note:

¹ Out of these 45 transactions selected for testing, 22 (\$12,323) transactions were acquisition card purchases, 3 (\$157) transactions were employee reimbursements, and 20 (\$135,393) transactions were contract purchases.



Ensuring Completeness of Population

To ensure completeness of the audit population (in other words, all transactions related to supporting remote work as a result of the COVID-19 crisis), the audit team performed the following steps:

- 1) Selected 24 transactions from the General Ledger (GL) that were not coded as a COVID-19 related expenditure and followed-up with branches to confirm that these transactions were indeed non-COVID-19 related.
- 2) Selected 24 transactions from the GL that were coded as a COVID-19 related expenditure and followed-up with branches to confirm that these were not remote work related (for example, contract for advertising services).
- 3) From the branches' monthly submissions to FMD, where the branches identified transactions related to COVID-19, the audit team reconciled 311 transactions and verified that the transactions labeled as remote work expenses were indeed included in the audit population.
- 4) Selected 4 transactions with negative entries from the GL without a positive matching entry and confirmed that these were adjusting journal entries by TBS Accounting Services.



Appendix C – Key Information Reviewed



Key Information Reviewed

The following is a non-exhaustive list of key information reviewed by the audit team:

Legislation, Policies and Guidelines

- *Financial Administration Act* (Last amended July 1, 2020)
- Treasury Board Policy on Financial Management (2017)
- Treasury Board Directive on Delegation of Spending on Financial Authorities (2017)
- Treasury Board Directive on Payments (2017)
- Treasury Board Guide to Delegating and Applying Spending and Financial Authorities (2018)
- Treasury Board Guide to Collecting and Paying Federal and Provincial Sales Taxes (2019)

Documents Specific to Department of Finance

- Financial Signing Authorities Guide (2020)
- Delegation of Financial Signing Authorities Instrument (2020)
- Guidelines for the Provision of Additional IT and Office Equipment to Support Remote Work
- Manager's Guide to Contracting (2017)
- Acquisition Card Client Guide (2017)
- Acquisition Card Process Redesign by Treasury Board of Canada Secretariat

...Continued



Key Information Reviewed *(Cont'd)*

Other Documents

- Memorandum of Understanding between Corporate Services Sector Treasury Board Secretariat and the Department of Finance for the Provision of Financial and Administrative Shared Services
- Treasury Board Guidance Communications on Remote Work and Employee Equipment Reimbursement
- Department of Finance Canada Internal Communications on Remote Work and Employee Equipment Reimbursement