Department of Indian Affairs and Northern Development
Corporate Services
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Audit of Sections 32, 33 and 34 of the Financial Administration Act

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For the Departmental Audit and Evaluation Branch, the Sections 32, 33 and 34 of the Financial Administration Act audit was planned and managed by Abbas Rangwala, DAEB Audit Manager.

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Executive Summary

Background

Between May and October 1999, an audit was conducted of the application of Sections 32, 33 and 34 of the *Financial Administration Act* (FAA) in the National Capital Region, Atlantic, Ontario, Quebec, Manitoba, Saskatchewan, Alberta, British Columbia, North West Territories and Yukon Territories Regions of DIAND.

The purpose of the audit was to assess the extent of compliance with departmental and Treasury Board policies and directives related to financial management practices and controls.

The FAA is the legislative authority with respect to financial management. Three sections of the Act are critical to ensuring that controls are in place over expenditures made from parliamentary appropriations. Section 32 covers the control of financial commitments chargeable to each parliamentary appropriation. Section 34 deals with the need to certify that goods and services were received or that a recipient is eligible for payment. Section 33 relates to the need to ensure that payments are subject to authorized requisitions, lawful and within the appropriations level.

The FAA is supplemented by Treasury Board (TB) policies and guidelines. Consistent with these, departmental senior financial managers are responsible for designing and implementing procedures and controls that ensure the appropriate management of departmental financial resources.

The recent delegation of authority to departmental managers has given rise to an increased need for those managers to understand what the authority entails and what they are accountable for.

Treasury Board policies and directives require periodic assessment by internal audit of the financial management responsibilities. In that context, the Departmental Audit and Evaluation Branch's (DAEB) 1996-1997 Audit and Evaluation Plan, approved by the Departmental Audit and Evaluation Committee (DAEC), included an audit of Sections 32, 33 and 34 of the FAA. This audit was delayed pending the completion of the Control Self-Assessment, which was approved in the same plan.

Objectives

The objectives of the audit were:

- to assess whether cost-effective controls, suitable to a government environment and in compliance with applicable policies, are in place to manage financial resources and ensure probity;

- to assess if the department's financial management organization, systems and processes meet the departmental needs and are consistent with the applicable legislation, authorities and policies; and

- to determine if departmental managers with delegated financial authority understand what is entailed, and report on their financial accountability; and to review and develop a detailed process map and identify potential areas of improvement.

The audit considered how Sections 32, 33 and 34 were managed in the three major types of expenditure, Operations and Maintenance, Personnel Costs and Funding Arrangements.

Scope

The scope of the audit covered a review of the application of financial management responsibilities of all levels of managers in respect to Sections 32 (Commitment Authority), 33 (Payment Authority) and 34 (Performance Authority) and related Treasury Board policies during the period April 1, 1997 to March 31, 1999.

General Assessment

The audit conducted visits to all regions of the department and undertook assessment of sample transactions to determine if the financial responsibilities undertaken by departmental managers, pursuant to the FAA, were exercised appropriately. In addition, the audit team conducted interviews with relevant regional and headquarters managers.

In general, the audit found that for Section 32, budget management regimes were documented and communicated. Moreover, audit evidence showed that the Responsibility Centre Managers (RCMs) have controls in place including monthly budget status reports and monthly variance analysis. However, the audit found that, at times, the RCMs delegate management of Section 32 to administrative staff who have not been provided with guidelines or training.

For Section 33, the audit found that this authority is appropriately applied and managed by senior staff. Nonetheless, the use of the post-audit for O &M costs is not applied consistently from region to region. Several regions did not have a formal, documented process covering the post-audit cycle, despite NHQ guidelines to address this control.

For Section 34, the audit found that standards are in place to exercise this authority, including readily available directives and guidelines and training sessions for all officials with Section 34 authority.

A summary of the findings for all regions, by type of expenditure, is presented below.

Operating and Maintenance

In general, Commitment Authority is appropriately executed. Specifically, commitments are made against the budget with the knowledge of the RCM; there is periodic review of the outstanding commitments and adjustments are approved at the RCM level. However, the audit found that some procedures are not approved or documented. In addition, RCMs often rely on support staff to monitor and manage their budget.

The post audit is the principal control in ensuring the integrity of Payment Authority. In a few regions, the post audit process is used as intended, i.e., as an expenditure control. In other regions, however, the effectiveness of the post audit process was limited because of several factors including large backlogs, designation of the post audit process as a "low priority" activity, lack of follow-up on post audit errors, conduct of the post audit process by inexperienced personnel and inaccurate reporting of errors to headquarters.

In general, the audit found that the Performance Authority is appropriately managed. However, instances were noted where RCMs relied extensively on inexperienced support staff in preparing and validating Section 34 documents. Also, directives and guidelines were available but difficult to find, and training sessions were aimed at, but sparsely attended by, RCMs.

Personnel Costs

The audit found that regional Human Resources personnel are aware of their responsibilities under Section 32 (i.e., Commitment Authority). However, the audit found weaknesses in the reconciliation of Salary Information Management System (SIMS) Reports with the Departmental Accounting System (DAS) Report. This weakness is a constraint in the effective management of the Personnel budget. Also, the audit found that the approval of overtime for regional personnel is often undertaken informally, without adequate controls applied to ensure accountability for use of overtime resources.

The management of Section 33 (i.e., Payment Authority) is managed appropriately. Specifically, senior, knowledgeable staff exercise payment authority, some peer review is implemented and changes to payroll status is reviewed closely and authorized.

The audit found that responsibilities for Performance Authority are defined and adopted, including separation of duties and reporting requirements. However, we found one isolated instance was noted where Section 33 and Section 34 were signed by the same individual.

Funding Arrangements

Effective exercise of Section 32 ensures there is a sufficient unencumbered balance available for commitments. In most regions, for the larger dollar program areas, the audit noted the existence of well-documented and well-analysed management of program monies. Thus, the audit concluded that for Section 32, regional management accountability was evident, including the application of regional directives, evidence of management accountability for compliance and adequate reporting to support the exercise of Section 32.

The exercise of Payment Authority is inconsistent, and sometimes inadequate. In some cases, Payment Authority is exercised on the assumption that Performance Authority has been adequately exercised.

Performance Authority is applied inconsistently. Adequate execution of Section 34 depends on the receipt, review and acceptance by DIAND of a number of reports specified in the terms and conditions of each funding arrangement. In some instances, management of the "reporting requirements cycle" (i.e. receipt, review, follow-up and acceptance of the reports) is inadequate.

Key Recommendations

Operating and Maintenance

It is recommended that the Director General, Finance Branch, in consultation with RCMs, should:

- develop guidelines covering the exercise of Section 32 authority, in emergency and other unusual situations;
- require that regions document and maintain approved regional post-audit guidelines;
- require that regions ensure the post-audits are conducted by adequately trained personnel;
- communicate the need for completion and monitoring of post audits as a high priority process; and
- communicate the need for RCMs to act on their responsibilities related to the Section 34 process, including improved familiarity with policies and guidelines.

Personnel Costs

It is recommended that the Director General, Finance Branch, in consultation with the Corporate Staff Relations and Compensation Division, Human Resources Branch should:

- ensure that RCMs make use of reporting mechanisms of their free balance position before committing funds; and
- develop, approve and communicate guidelines for approving and requesting overtime including time in lieu of funds.

Funding Arrangements

It is recommended that the Director General, Finance Branch, should:

- establish and implement initial and periodic training programs for officers with Sections 32, 33 and 34 authority, (i.e., tailored to each type of funding) on the requirements for exercising their authorities;

- provide direction and guidance on the roles and responsibilities for the exercise of Sections 33 and 34 between program or funding personnel and finance personnel.

It is recommended that the Assistant Deputy Minister, Corporate Services should:

- establish approved and documented standards for each relevant reporting requirement, including processes to support such standards, for the entire "reporting requirements cycle"(all eight phases, as previously discussed);

- establish training programs to ensure understanding of the approved standards; and

- establish adequate monitoring processes to ensure compliance with approved standards.

It is recommended that the, Assistant Deputy Minister, Socio-Economic Policy and Programs and Programs should:

- on a periodic basis, functionally review regional compliance with identified, approved, documented and communicated reporting requirements.

Section 1 - Introduction

Purpose

The purpose of the audit was to assess the extent of compliance with departmental and Treasury Board policies and directions related to financial management practices and controls. It involved assessing compliance with relevant departmental and Treasury Board policies and direction over financial management responsibilities within the department.

Need for the Audit

There are several factors driving the need to conduct this audit, including:

- *senior management concerns* - Over the last few years, the Deputy Minister (DM) and Assistant Deputy Ministers (ADMs) has reminded departmental employees with FAA signing authorities of the importance of abiding by the application of the Act;

- *delegation of authority* - There is a desire to ensure that managers directly involved in the underlying activities possess the authority required to meet their responsibilities without having to refer to a higher order of authority;

- *moving from direct delivery to a "funding agency*" - The Office of the Auditor General, over time, has raised the question of what program delivery responsibilities have been delegated to First Nations. During the last few years, a conception of the department as a "funding agency" has evolved and a number of actions have been taken to implement that concept;

- *minister's accountability to Parliament* - The Minister must be in a position to account to Parliament for compliance with the applicable legislation, the services being delivered and for the use of public funds transferred to First Nations. Although the management of funds has been transferred to the First Nations under the "funding agency" concept, the Minister's accountability to Parliament has not changed, only the means through which the Minister fulfils his obligation to Parliament has changed.

- *risk management* - The major area of focus in the department in terms of managing the increased risk of devolution has been identified as the development of terms and conditions for funding arrangements. It is important to look at the results achieved in terms of control of that risk and its eventual reduction. It is possible that the element of risk that relates to parliamentary accountability has not been adequately addressed by the terms and conditions. As the central element of risk management, by definition, the terms and conditions must be:

- designed in a way that mitigate or ‘control’ the risk;
- included in the funding arrangements, and
- fully adhered to.

- *treasury Board Policies* - Treasury Board policies and directives require periodic assessment by internal audit of financial management responsibilities. In that context, the 1996-1997 Audit and Evaluation Plan identified the Sections 32, 33 and 34 of the FAA for audit; and

- *evolving standards of Comptrollership* - The government currently is examining the evolution required for comptrollership in support of governance. The traditional model of comptrollership based on process will be replaced by a modern standards model that is more results oriented. This shift in comptrollership will have an impact on the manner in which the department fulfills its obligations under the FAA.

Background

The audit covers DIAND’s application of Sections 32, 33 and 34 of the Financial Administration Act (FAA). Section 32 addresses the control of financial commitments, certifying that sufficient unencumbered funds exist within the budget. Section 33 relates to the need to ensure that a payment is authorized by an appropriate requisition, that it is a lawful charge against the budget and is within the appropriation level. Section 34 deals with the need to certify that goods and services were received or that a recipient is eligible for payment and in compliance with the terms and conditions of the funding arrangements. The FAA is supplemented by regulations and by Treasury Board guidelines and decisions covering a broader range of issues.

DIAND’s activities are divided into three major programs: Administration (Vote 1), Indian and Inuit Affairs (Vote 5,10 and 15) and Northern Affairs (Vote 30 and 35). The Vote Control Codes for 1998-1999 are presented in the table 1.

Table 1 - Overview of DIAND Vote Control Codes

Program	Vote	Description	Example of use of the vote
Administration	1	O&M	General Usage
			Corporate Support
Northern Affairs	30	O&M	General Usage
	35	Grants & Contributions	Management of Federal Interest
			Sustainable Development
	45	O&M	Northern Air Stage Subsidy
Indian & Inuit Affairs	5	O&M	General Usage
	15	Grants & Contributions	Claims
			Lands and Trust Services
			First Nations Funding
	10	Capital	Land Purchases
			Acquisition/Construction Housing

Through an annual Appropriation Act, Parliament votes the funds required for the operation of government. This Act specifies the upper limit of the funds to be spent and the purpose for which they must be used. The administration of these funds must comply with the FAA and Treasury Board policies.

Putting the above into a financial perspective, the activities of these programs costs are as follows:

Table 2 - Total Program Costs (in millions)

Category	1997-1998	1998-1999
Personnel Costs	$212	$240
Funding Arrangements	$3,978	$4,450
O&M	$351	$218
Total	**$4,541**	**$4,908**

Description of the Audit Entity

In DIAND, Sections 32, 33 and 34 are managed in a highly decentralized fashion. Within the three expenditure types, noted above, the following attributes were constant:

Section 32 - Commitment Authority

Commitment control is system based, in that the Responsibility Centre Manager (RCM) is presented with his or her budget by the Resource Planning Manager. The Departmental Accounting System (DAS) automatically tracks transfers between budgets. All commitments are deducted from the budget, increases to the budget are added to the remaining free balance. The RCM's responsibilities are to ensure that:

- no commitment is made against the budget without his knowledge and concurrence;
- commitments are accurate and complete;
- outstanding commitments are periodically reviewed;
- commitments are not made unless sufficient funds are available; and
- adjustments between budgets are approved at the RCM level.

Section 33 - Payment Authority

Generally, Section 33 is exercised by departmental financial officers. In exercising their responsibility, these officers have to ensure that:

- payments have been verified pursuant to Section 34 of the FAA; and
- the Section 34 process is being properly and conscientiously followed.

In the case of contributions and personnel costs, the transactions are authorized in the region. In the case of O & M, after an on-line review, batched O&M transactions are authorized for payment by headquarters Financial Services. These batches are subjected to a Post Audit process, whereby a sample of transactions is selected by headquarters Financial Services, and sent to the regions. The transactions in the sample are audited by region finance officers and the results are reported to headquarters. This process fulfils certain statutory control requirements and provides an independent assessment of how officers exercise financial authorities.

Section 34 - Performance Authority

The RCM's responsibilities in exercising this authority are to ensure that:

- there is an adequate system to ensure that the work, supplies and services meet the required performance;

- the various functions, such as procurement, receiving and accounts verification are adequately segregated;

- there is compliance with directives and guidelines; and
- in the case of:
  - O&M, including personnel costs, this is supported by reviewing supporting documentation, such as purchase orders, requisitions, contracts, leases, invoices and payroll documents; and in the case of
  - contributions, the support is the assurance that the recipient has complied with the terms and conditions of the agreement.

An overview of the processes and controls for Sections 32, 33 and 34 of the FAA is presented in the various process maps in *Appendix 1*. For instance, the Funding Service Officers (FSOs) manage funds, supported by informatics systems, such as TPMS and TPMS Manager. A basic control point is the assessment made by the FSO of the compliance to the terms and conditions of the funding arrangements and corrective action taken where problems exist. The effectiveness of this control was assessed during the audit. In particular, the following was assessed for completeness and documentation in support of decisions made:

- entry decision (i.e., whether a recipient can be expected to fulfil terms and conditions);
- terms and conditions (ensuring appropriate T&Cs are included in arrangements);
- monitoring compliance (ensuring the recipients comply with agreed upon terms and conditions); and
- remedial action (undertaking actions where T&Cs are not met).

Section 2 - Objectives and Scope

Objectives

Objectives of the audit were to assess the extent of compliance with departmental and Treasury Board policies and directives and to verify whether:

- the financial management systems and processes meet DIAND's needs and are consistent with the applicable legislation, authorities and policies;
- departmental managers with delegated financial authority understand what is entailed, and report on their financial accountability; and to
- review and develop a detailed process map and identify potential areas of improvement.

Scope

The scope of the audit covered a review of the application of financial management responsibilities of all levels of managers in respect to the Sections 32, 33 and 34 of the FAA and related Treasury Board policies during the period April 1, 1997 to March 31, 1999. In addition, the audit team reviewed a sample of financial transactions in each region to arrive at an assessment of the relative strengths and weaknesses of the key control points for the FAA.

The audit covered the systems, procedures and controls related to the management and protection of financial resources, including the exercise of responsibility by managers and their accountability at headquarters and in the regions.

Audit Approach

A steering committee comprising of senior regional and headquarters officials was consulted and provided advice to the audit team during the conduct of the audit.

The audit program was developed during the planning phase of the audit which was conducted at the National Capital, Atlantic and Ontario regions between January and March, 1999. The program was then applied in the remaining regions: Quebec, Manitoba, Saskatchewan, Alberta, British Columbia, Yukon and North West Territories regions. The findings of the planning phase are included in this report.

The three types of expenditures considered were:

- operating and maintenance - votes 1, 5 and 30;
- personnel costs - votes 5 and 30; and
- funding arrangements - votes 15 and 35.

Operating and Maintenance (votes 1, 5 and 30)

A sample of post-audits (one post audit report from each of 1997-1998 and 1998-1999) was selected for review in each region. The transactions in these post-audit reports included a variety of O&M types of expenditure. These transactions were reviewed to ensure that no errors were missed and that any errors recorded in the reports were corrected. In effect, the post-audit process was tested in the region to conclude that the process was working effectively.

The review of transactions was supplemented by discussions with regional financial officials to confirm that the post-audit process was being conducted appropriately and identify whether any pre-audit activities were being conducted in the region.

Personnel Costs (votes 5 and 30)

The process for exercising Sections 32, 33 and 34 was reviewed with the relevant regional officials, usually, the Director of Human Resources and senior compensation personnel. Documents, such as initial salary plans with approved pay rates, new employee salary classifications, employee terminations, regular salary payments, were reviewed to confirm the process was operating as described, noting signatures for each authority exercised.

Funding Arrangements (vote 15 and 35)

Funding arrangements make up most of DIAND's expenditure. Accordingly, in auditing the funding arrangements, emphasis was placed on ensuring, "that the payee is eligible for or entitled to the payment," as opposed to ensuring, "that services/goods were received, etc.," the criterion in auditing O&M type expenditure.

The audit was to assess the extent to which DIAND was ensuring that the terms and conditions of the agreements were being continuously monitored and met by the recipient. A sample of up to 19 agreements was selected for each region, based on the listing of funding agreements for 1997-1998 and 1998-1999, provided by Funding Arrangements Directorate in headquarters. The distribution of the sample was reflective of the number of agreements within each category, i.e., Alternative Funding Arrangements, (AFA), Comprehensive Funding Arrangements, (CFA), Financial Transfer Agreements, (FTA), as well as the relative size of the flow of funds under each one. Within each of these agreements, there are a number of reports required under the terms and conditions, as dictated by the National Reporting Guide. The audit reviewed a sample of those reports to ensure that the reporting requirements under the terms and conditions have been met. The sample of reports was selected from TPMS for the selected agreement, if used, or from the generic National Reporting Guide. If all selected reports have been received, the audit concluded that the terms and conditions of that agreement have been met and Section 34 authority has been exercised appropriately. If there were instances where reports had not been received, corrective action was reviewed. In no case was the entire reporting cycle reviewed for any agreement.

Section 3 - Observations

Introduction

For the three expenditure types assessed as part of the audit, (i.e., O&M, Salary and Benefits and Funding Arrangements), seven criteria were applied to determine the effective application of Sections 32, 33 and 34 of the *Financial Administration Act*, as follows:

Knowledge of Treasury Board requirements for Sections 32, 33 and 34:

- all personnel required to exercise the authorities would have an understanding of Treasury Board requirements;

Regional Directives and Guidelines:

- directives and guidelines should concur with headquarters policies, be up-to-date and provide guidance to personnel exercising the authorities;

Understanding and Application of the Directives and Guidelines:

- individuals exercising the authorities would understand and use the directives and guidelines;

Management Accountability:

- management would support and require compliance with directives;

Corrective Measures:

- in instances of systemic or single examples of non-compliance, management would ensure corrective action;

Reporting:

- reporting required to support the authorities would be accurate, meaningful and timely;

Documentation:

- documents supporting the authorities would be well organized, available to appropriate personnel and would be safeguarded.

In the following sections, the issues are presented according to the three expenditure types, specifically, O&M, Salary and Benefits and Funding Arrangements.

Operating and Maintenance

Section 32 - Commitment Authority (Operating and Maintenance)

Core Principles

Budget management regimes are well documented and communicated and support the signing authorities. RCMs are actively involved in preparing and reviewing:

- monthly budget status reports;
- monthly variance analyses; and
- short and long term funding requirements.

Findings

The audit found that the exercise of Section 32 supports these core principles The original budget is allocated by a senior resource officer who monitors the commitment system. Movement of funds between RCM's budgets requires senior management authority.

The audit found that, in general, the RCMs are knowledgeable, or are acquiring greater awareness of the budgetary, funding pressures and variance analysis processes. However, the audit found instances where RCMs left the management of Section 32 authority to administrative staff. This inappropriate delegation included the monitoring of variance reports.

The majority of regional personnel responsible for the exercise of Section 32 for O & M costs were aware of Treasury Board requirements. Regional guidelines in support of those requirements were readily available and were well understood. Management meetings to discuss the results of month end variance reports ensures accountability for compliance with regional directives.

Risk

DIAND's regional management must consider the capacity and ability to manage risk at every level, commensurate with fewer rules and more discretion at the working level. The risk to the department due to over-reliance on administrative staff by RCMs, may reduce their effectiveness in managing their own, and consequently, the regional budget. This could negatively affect management's ability to manage changing priorities and reallocate budgets between cost centres.

Section 33 - Payment Authority (Operating and Maintenance)

Core Principles

Section 33 authority is applied or managed by senior staff. Omissions and errors found during the post audit exercise are followed-up diligently and reported accurately.

Findings

With respect to O & M funding, the post audit is the principal control for ensuring the integrity of the Section 33 payment approval process, principally by ensuring the adequacy of the Section 34 verification process.

A sample selection of documents is provided monthly to regional finance by headquarters. Regional finance then audits the sample, corrects errors, if necessary, tabulates the findings and reports to headquarters. From the results reported by the regions, headquarters compiles and prepares periodic statistical reports for senior management for comparative purposes. To have value to senior management, the sample (i.e., a small percentage of the total documents), must be audited thoroughly and reported on accurately. Without this attention, the reports being given to senior management will not be an accurate picture of how well Section 33 is being managed.

The post audit process is very strong some regions. However, in other regions the post audit process is weak. This inconsistency limits the usefulness of information reported to headquarters. Some regions do not view the post-audit process as critical to satisfying the requirements of Section 33, and therefore there was little recognition that a poorly executed post-audit process increases the risk of ineffective exercise of Section 33. Other factors contributing to a weak post audit process in some regions include:

- delays experienced in the receipt of post audits to the regions. This has caused backlogs in some regions;
- delegation of responsibility for the post audit process to relatively junior personnel;
- completion of the post audit process done only when time became available;
- little supervision or guidance from more senior personnel;
- lack of support by more senior personnel, and therefore ineffective follow-up on errors;
- although headquarters provides guidelines for performing the post audits, several regions do not have a documented formal process that addresses the entire post-audit cycle; and
- in other instances where there were documented processes, they were not consistently followed.

Components of the post audit cycle that should be documented include:

- documentation standards to support Section 34 (the extent of documentation filed, reviewed and accepted by Corporate Services varied from region to region, and within each region. Some transactions included all required documentation, others were accepted by Corporate Services, but were missing receiving slips, invoices, receipts, or other supporting documentation.);

- definitions for “materiality” regarding what should and should not be recorded as an error on the reports to headquarters;

- definitions for “materiality” regarding which errors should be corrected and followed up;

- requirements and responsibility for following-up on identified errors (including timelines); and

- guidelines for safeguarding and filing of supporting documentation.

During the audit, a total of fourteen post audit lists (seven from each of the two selected fiscal periods) was redone in the seven regions. In the other three regions, during the Planning Phase, an additional six post audit lists were redone. In total, we reviewed 270 transactions. Examples of errors and omissions found in some, but not all, regions, included:

- errors were recorded at the regional level but not reported to headquarters (and regions could not explain the basis for such decisions);

- errors were not identified by the regional post audit process, but were identified during the audit (for example, the audit identified errors due to missing documentation that apparently the post audit person had access to during their review, but was not made available for the audit);

- errors were reported to headquarters but were never followed up, or were not followed up on a timely basis (again, regional personnel could not define the criteria for determining whether or not an error should be followed up);

- documentation could not be located to support the post audit sample; and

- receipt of the post audit samples was not timely.

It was also noted that some finance officers are not completely at ease with the post audit process. These officers quickly review transactions before they are batched for payment. Their intent is to spot any transactions that “don’t look right.”

With respect to the exercise of Section 33 for O & M, Finance personnel interviewed for the audit were aware of the Treasury Board Requirements. With respect to regional directives, the audit found that several regions’ directives were incomplete and or personnel were unaware of the directives. During the audit, it was apparent that several regions were not holding personnel accountable for compliance with Section 33 and post-audit requirements.

Risk

The post audit process is a vital control over the payment process and replaces a pre-audit process whereby all transactions were audited before payment was made. Without a reliable post-audit process including effective follow-up, the risk of issuing improperly authorized and unauthorized payments increases.

Section 34 - Performance Authority (Operating and Maintenance)

Core Principles

Standards for applying Section 34 authority are well understood by:

- readily available directives and guidelines;
- mandatory attendance, to training sessions, by all officials with Section 34 authority; and
- strict attention to the audit process.

Findings

Interviews with RCMs and support staff indicated that some had a good knowledge of Section 34, and reviews of documentation indicated that they generally meet their responsibilities. However, there were three areas, in some regions, where the RCMs did not fully meet their responsibilities:

- some RCMs over-relied on support staff in the preparation and validation of the documents for their Section 34 signature. Although it is not necessary for the RCM to review every document, the RCM is responsible for the integrity of the Section 34 control and cannot totally rely on support staff to take over this responsibility. This is particularly important when inexperienced support staff are involved in the Section 34 exercise;

- some of the documents that originated the transaction were not readily available, and therefore the basis of authorization was unclear (for example, this was particularly in the case of standing offers); and

- RCMs and support staff considered that their knowledge of Section 34 was up-to-date. However, the unavailability of directives and guidelines both from NHQ and the region, particularly, and the consistent absence of some RCMs at training sessions, are not compatible with their belief.

With respect to the exercise of Section 34 for O & M, most personnel were familiar with Treasury Board Requirements. We found some regions' directives were incomplete and or personnel were unaware of the directives. During the audit, it was apparent that some regions were not consistently holding personnel accountable for compliance with Section 34.

Risk

Section 34 approval may not be properly exercised, leading to risk of inappropriate payments. In view of the small number of transactions reviewed in the post audit exercise, the department is vulnerable to improper or unauthorized payments.

Recommendation

1. It is recommended that the Director General, Finance Branch, in consultation with RCMs, should develop guidelines covering the exercise of Section 32 authority, in emergency and other unusual situations.

2. It is recommended that the Director General, Finance Branch, in consultation with RCMs, require that regions document and maintain approved regional post-audit guidelines.

3. It is recommended that the Director General, Finance Branch, in consultation with RCMs, require that regions ensure the post-audits are conducted by adequately trained personnel.

4. It is recommended that the Director General, Finance Branch, in consultation with RCMs, communicate the need for completion and monitoring of post audits as a high priority process.

5. It is recommended that the Director General, Finance Branch, in consultation with RCMs, communicate the need for RCMs to act on their responsibilities related to the Section 34 process, including improved familiarity with policies and guidelines.

Personnel Costs

Section 32 - Commitment Authority (Personnel Costs)

Core Principles

The payroll system provides management with regular, accurate and current information on personnel costs. Overtime amount, paid and in lieu, is tracked by the responsible official, in a consistent and effective manner.

Findings

Human Resource personnel are well aware of their responsibilities with respect to Section 32. The basic process which is followed by Human Resources is, as follows:

- initially, staff levels are given to the directors, by Human Resources based on the approved organization chart. Staff changes are approved by Human Resources; and

- the budget is entered into the Departmental Accounting System, (DAS). Section 32, or the commitment control, is established when the director enters the position and salary into the Salary Information Management System, (SIMS). SIMS is updated from information supplied by PWGSC which is produced several weeks later than the DAS transactions. On receipt, the SIMS transactions are loaded into DAS. At this time, the delegated HR or finance officer can now, by a time consuming data manipulation task, identify the free balance situation. There is potential that funds may be overspent before the DAS receives the up-to-date SIMS data.

Overtime approval is often informal and verbal. In a few cases, this is unavoidable, due to emergencies, such as fire fighting. Commitment control is exercised formally after the event. Where time in lieu of funds is offered, the liability may not be tracked and reported. There are no guidelines to support decisions that have to be made in unusual situations.

The majority of Human Resource personnel with Section 32 authority are familiar with and understand the relevant Treasury Board requirements. Regional directives that support those requirements exist in most regions, and these directives are well understood and implemented. Although the reporting of total personnel costs and variance analysis was well done in most regions, some regions had difficulties accumulating and presenting the required information on a timely basis. The specific reasons for these difficulties are beyond the scope of this audit, however, regional personnel cited the incompatibility between pay, personnel and financial systems as one reason.

Risk

Without up-to-date information, RCM's are constrained in making staffing decisions. Effective management of personnel budgets is also inhibited without accurate information. If personnel budgets are not effectively managed, there is a risk that commitments in excess of available funds could be made, for example, for overtime or for payments on account of "time in lieu" charges that must be paid at year end.

Section 33 - Payment Authority (Personnel Costs)

The exercises of Payment Authority, Section 33, for personnel costs is not subject to the post audit process. The input for payment is usually done by a compensation clerk, while Section 33 authority is exercised by an authorized senior compensation official.

Section 33 authorization consists of a review of the payroll to ensure that any changes have been properly authorized and accounted for.

Core Principles

Section 33 authority is exercised by senior and knowledgeable staff, and junior staff are mentored and aware of their responsibilities.

Findings

The payroll function is managed by knowledgeable compensation staff. In some regions a peer review process during data preparation and input was in place. In all but one region, Section 33 is authorized by an independent person. Payroll is set up at the beginning of the year and during the year it is very stable. Changes are closely reviewed and properly authorized.

In one region, high staff turnover in the Human Resource department, and the inability to fill positions on a timely basis with experienced personnel, necessitated a period where one individual was exercising both Sections 33 and 34. This issue was brought to the attention of Senior Regional management for follow up.

Human Resource personnel responsible for the exercise of Section 33 were familiar with Treasury Board requirements, and these requirements were supported by regional directives. Regional directives were well understood by personnel and supported by management.

Risk

Due to the stability of the personnel costs function and in most instances, the well experienced staff involved, the level of risk is low.

Section 34 (Personnel Costs)

Core Principles

Section 34 authority is assigned to well trained and experienced staff. The exercise of Section 34 by Human Resource personnel is periodically reviewed by relevant managers outside the Human Resource area.

Findings

These responsibilities are well managed with one exception noted as discussed in the previous section on Section 33.

Human Resource personnel who are assigned responsibility for the exercise of Section 34 are aware of and understand Treasury Board requirements.

Human Resource personnel with Section 34 authority are familiar with and understand the relevant Treasury Board requirements. Regional directives that support those requirements exist in most regions, and these directives are well understood and implemented. To independently confirm the accuracy and validity of the exercise of Section 34, Human Resource personnel in some, but not all, regions routinely distribute variance analyses of personnel costs, by employee, to the relevant supervisory managers.

Risk

Due to the stability of the personnel costs function and in most instances, the well experienced staff involved, the level of risk is low. However, the risk of improper payments related to personnel costs can be further minimised if detailed payroll information, by employee, is made available to the relevant supervisory managers (ie. Non-Human Resource managers).

Recommendations

6. It is recommended that the Director General, Finance Branch, in consultation with the Corporate Staff Relations and Compensation Division, Human Resources Branch should ensure that RCMs make use of reporting mechanisms of their true free balance position before committing funds.

7. It is recommended that the Director General, Finance Branch, in consultation with the Corporate Staff Relations and Compensation Division, Human Resources Branch should develop, approve and communicate guidelines for approving and requesting overtime including time in lieu of funds.

Funding Arrangements

The exercise of Sections 32, 33 and 34 related to funding arrangement takes place during the development and approval of the initial arrangement. A key document included in the initial arrangement is the Cash Flow (commonly referred to as Schedule 1), a document which sets out:

- the amount of funding per program area (determined largely through a formula driven process); and

- a payment schedule mutually agreed upon between DIAND and the recipient.

As payments are released in accordance with the approved Cash Flow, therefore, Section 32 is not normally exercised a second time. Section 34 is exercised to a limited extent, in that any delinquency in the receipt of certain "key" reports required under the funding arrangement, can affect the flow of non-discretionary funds. Section 33, is, however, exercised by Corporate Services.

For every payment that is a variation (amount or timing) from the originally approved Cash Flow, Sections 32, 33 and 34 for funding arrangements is subsequently and formally exercised. There are numerous examples of such variations, including:

- releases from funding pools or reserves (some of the program funding may have been set up in the Cash Flow as a pool or reserve, rather than as part of one of the monthly payment releases. Release of these funds requires transfer from the pool);

- transfers to a pool or reserve to stop a scheduled payment (the Section 34 authority may determine that a scheduled payment set out in the Cash Flow should not be released due to failure in complying with a reporting requirement);

- payment changes due to a budget adjustment (for example, education funding may be adjusted on account due to changes in student enrolment); or

- an amendment to the arrangement for a new project or program.

Section 32 - Commitment Authority (Funding Arrangements)

Effective exercise of Section 32 ensures there is a sufficient unencumbered balance available for commitments made to First Nations by DIAND. If Section 32 is not effectively exercised, commitments could be made for which there are no available funds, and DIAND would then be forced to manage the situation to the satisfaction of the applicable recipient(s).

Core Principles

Core principles of effective exercise of Section 32 include effective, well documented, and well understood processes for :

- ongoing review of program budget status;

- identification of recipient requirements;

- allocation and re-allocation of program monies; and

- inclusion of the exercise of Section 32 as an integral part of the development of agreements and amendments to agreements.

Findings

As previously noted, apart from the initial establishment of the Cash Flow, Section 32 is subsequently exercised only for any payment that varies from the previously approved Cash Flow. The ongoing allocation and re-allocation of monies between arrangements (i.e., recipients) is generally accomplished in the regions through formal processes that include Section 32 authority as an integral part. Every amendment or budget adjustment process is reviewed, included sign-off by the Section 32 authority.

In most regions, for the larger dollar program areas, the audit noted the existence of well-documented and well-analysed management of program monies. The results of these program budget analyses were used as the basis for the amendment or budget adjustment processes. As evidence of effective budget management and, therefore, effective exercise of Section 32 for amounts that vary from the originally approved Cash Flows, some regions were able to provide us with:

- formalised amendment and budget adjustment procedures, including routing lists and requirement check lists that included Section 32 authority sign-off;
- detailed program area budgets that analysed total program dollars by recipient, including initial allocations as well as subsequent adjustments; and
- narratives and other documentation to support allocation decisions (some of the best examples were provided by the capital project programs where documentation submitted by recipients and reviewed and analysed by DIAND included annual plans, five year plans, and ranked assessments of project proposals).

Managers responsible for the exercise of Section 32 related to funding arrangements were aware of and understand Treasury Board requirements. Regional directives exist to support these requirements. Compliance with these directives was high for the larger dollar program areas, but inconsistent for the smaller dollar programs. The extent of reporting and documentation to support the exercise of Section 32 varied by region. However, in most regions there was formal and comprehensive documentation for the larger dollar program areas; and ad hoc or informal documentation for the smaller program areas.

Risk

If Section 32 is not effectively exercised, commitments could be made for which there are no available funds, and DIAND would then be forced to manage the situation to the satisfaction of the applicable recipient(s). The department can effectively manage this risk by adhering to the established controls for the setting of the Funding Arrangement budgets, adjustments and amendments.

Section 33 - Payment Authority (Funding Arrangements)

Core Principles

- well defined and documented Quality Assurance processes carried out by Section 33 authority for agreements, amendments and adjustment;
- quality Assurance process that addresses appropriate risk areas within the region (eg. program areas with relatively inexperienced staff, new funding arrangements, new programs, inter-governmental agreements, etc.);
- evidence of routine queries and discussions between Sections 33 and 34 authorities;

- documented processes and standards for the exercise of Section 33 authority, including the requirement to check the funding status of each recipient (i.e. whether funding has been halted due to non-compliance); and

- exercise of Section 33 by experienced and well trained personnel.

Findings

Routine releases of payments in accordance with the original Cash Flow require Section 33 sign-off by Corporate Services. In general, the Section 33 authority carries out limited review. Some Section 33 authorities noted that unless specifically told to stop or change a payment previously approved by the original Cash Flow, effective exercise of Section 34 is assumed, Section 33 is automatic, and the payment is released. A partial compensating control may be the fact that some Section 33 authorities are very experienced and knowledgeable personnel who are familiar with the recipients, arrangement types, and day to day details. This informal knowledge may or may not be used to support the exercise of Section 33.

Some regions consider a check to ensure that the DAS-generated payment is set up in TPMS is sufficient work to support the exercise of Section 33. Some regions reconcile TPMS to DAS for every cheque run, others reconcile only at year-end. If TPMS is not reconciled to DAS for every cheque run (and if TPMS does not accurately reflect the most current arrangement details), the validity of an accuracy check to TPMS is compromised.

There were very few instances where anything other than a “check to TPMS” is carried out for routine releases. There are two underlying assumptions of this premise that only the accuracy of the dollar amount needs to be checked to support the effective exercise of Section 33 for the release of the payments set out in the initial Cash Flow:

- the negotiation and final Cash Flow has appropriately considered the risks specific to each recipient regarding the ability to comply with subsequent reporting requirements; and

- Section 34 authority is diligently and continuously exercised throughout the fiscal period, and any conditions that come to light affecting the release of funds as a result of the receipt, non-receipt, or unacceptability of a report, are consistently followed up to stop or delay funds (Note that funds cannot be delayed or halted, as a result of report issues, for much of the core funding for programs such as education, housing and social assistance).

Several instances noted during the audit suggest that these assumptions are not always warranted, and therefore Section 33 is being authorised with insufficient understanding of whether Section 34 was exercised . With respect to the first assumption, the extent of risk analysis carried out during negotiation of the initial Cash Flow varies. Funding Service personnel (or equivalent) in several regions noted that, for those recipients for whom they were confident of delivery and compliance, a high percentage of funds were set up to be released in advance of reporting requirements and/or few funds were “pooled”. For those recipients who had not cooperated, delivered or complied with funding arrangement requirements in previous periods, such approaches were not considered. However, Funding Service personnel in other regions did not note consideration of such issues during the negotiation of the initial Cash Flow. There was no evidence of regional directives detailing risk analysis and other requirements for the negotiation, development and approval of initial funding arrangements and Cash Flows.

The second assumption, that Section 34 authority is diligently and continuously exercised throughout the fiscal period, and that any conditions that come to light affecting the release of funds are consistently followed up, may also be unwarranted. For example, the following instances were noted during the audit:

- newly hired staff were in the process of being trained and therefore Section 34 may not be fully understand or well managed during the training period;

- disruption of an otherwise effective exercise of Section 34 by pressures related to workload, insufficient training, regional politics or other factors ; and

- inconsistent compliance with regional directives, guidelines or processes for the effective exercise of Section 34.

With respect to the exercise of Section 33 for payments that vary from the originally approved arrangement and Cash Flow, the requirement for supporting documentation and the extent of review by the Section 33 authority varies. In some regions, the exercise of Section 33 is done “passively” by inexperienced personnel or by personnel with the mind set that if the Section 34 authority has signed off, Section 33 is automatic. In these instances, the extent of supporting documentation reviewed by the Section 33 authority may include only the updated Cash Flow document signed off by the Section 34 authority. Such documentation is inadequate to enable effective exercise of Section 33.

There were several examples of ineffective exercise of Section 33. One example, involving a substantial amount, was the exercise of Section 33 for social assistance funding. Although the verification, analysis and reconciliation by regional DIAND personnel of monthly social reports had fallen behind by six or more months, Sections 33 and 34 authorities continued to release payments. In the absence of any regional directives for the analysis and review requirements in such instances, the Section 34 authority released payments based upon his or her judgement. The Section 33 authority approved the payment assuming Section 34 had been effectively exercised. When the monthly reports were eventually reconciled, the region discovered substantial overpayments. Resolution of the overpayments required adjustments to the recipients’ subsequent year funding arrangements, which was:

- an unnecessary administrative exercise for DIAND; and
- an unexpected cash flow situation to be managed by the recipient.

A similar situation was found in another region where the Section 34 authority had erroneously calculated and approved summer housing allowances, based on winter rates. Again, Section 33 authority had been exercised on the assumption that Section 34 had been done effectively. Discovery of the error required adjustment to all of the affected arrangements in the next fiscal period. Both this, and the previous situation could have been avoided by effective exercise of Sections 33 and 34.

In some regions, experienced and knowledgeable personnel, guided by documented regional directives, effectively exercise Section 33. The documentation reviewed and analysed by Section 33 authorities included sufficient evidence to support the exercise of the authority. Examples of such documentation are listed below:

- standardised form letters or memos completed and signed by the Section 34 authority attesting to the fact that all related reporting requirements have been met to his or her satisfaction;

- an updated cash flow recommended by the Funding Service Officer as the "pre-Section 34 authority", and signed by the Section 34 authority (Manager or Director); and

- an attached copy of the actual reporting requirement.

Although the majority of managers responsible for the exercise of Section 33 related to funding arrangements were aware of Treasury Board requirements, there were several instances of inadequate knowledge of or familiarity with the requirements. Regional directives related to the exercise of Section 33 for funding arrangements were incomplete. The extent of compliance with Section 33-related directives for funding arrangements varied by region; a high level of compliance and management support in some regions and a very low level of compliance and management support in others. Similarly, those regions with comprehensive directives and strong management support of those directives were able to:

- explain the basis for the exercise of Section 33; and
- provide formal and well documented evidence to support the exercise of Section 33.

Risk

Section 33 relates to the need to ensure that payments are subject to authorised requisitions, lawful and within the appropriations level. Therefore one objective of the exercise of Section 33 is to ensure payments are duly authorized.

In some regions, the exercise of Section 33 for funding arrangements is done inconsistently, and therefore ineffectively. Ineffective exercise of Section 33 limits DIAND's assurance that released funds will be used, or have been used, as intended by the funding arrangement. If the exercise of both Sections 33 and 34 have been ineffective, DIAND's assurance can be further compromised.

Section 34 (Funding Arrangements)

The exercise of Section 34 related to funding arrangement takes place initially during the development and approval of the initial arrangement. A key document included in the initial arrangement is the Cash Flow (commonly referred to as Schedule 1), a document which sets out:

- the amount of funding per program area (determined largely through a formula driven process); and
- a payment schedule mutually agreed upon between DIAND and the recipient.

As payments are released in accordance with the approved Cash Flow, Section 34 is exercised to a limited extent, in that any delinquency in the receipt of certain “key” reports, required under the funding arrangement, will affect the flow of funds. For every payment that is a variation (amount or timing) from the originally approved Cash Flow, Section 34 is subsequently and formally exercised.

Core Principles

- timely and accurate reporting of the status of the receipt of reporting requirements prepared by or for Section 34 authorities;
- well documented and well understood processes detailing the region’s requirements for the entire “reporting requirement process” for each reporting requirement;
- well trained and experienced personnel exercising Section 34 authority;
- review of supporting documentation by Section 34 authority based upon knowledge of the region’s documented standards;
- formal processes in place for flagging recipients who have not met specific reporting requirements and whose funding may therefore be affected; and
- formal processes in place for sharing above information with all financial authority personnel and relevant program personnel.

Findings

The extent of knowledge and familiarity of Treasury Board requirements (related to the exercise of Section 34 for funding arrangement payments) varied by region, some very knowledgeable, others not. Very few regional directives were in place regarding the exercise of Section 34 and the management, tracking and documentation of the report cycle for reporting requirements set out in funding arrangements. For example:

- other than for the audit reporting requirement, very few directives for report review standards are provided to, or required to be followed by, funding service personnel (or equivalent);

- other than for the audit and management assessment reporting requirements, the full report cycle, including the status of receipt, is not formally tracked;

- very few directives exist for filing, retaining and safeguarding reports, or if directives exist, compliance is inconsistent;

- comprehensive directives do not exist that prescribe required documentation and justification for the exercise of Section 34;

- directives related to halting funds on account of the non-receipt or non-acceptance of the audit requirement are often unclear, or if clearly documented, the application of such directives is inconsistent; and

- in the majority of regions, the status of receipt is not formally monitored (this is particularly important for reporting requirements that are set out in amendments).

Other findings related to the exercise of Section 34 for funding arrangements are discussed below in two broad categories: Responsibility for the Exercise of Section 34; and Management of the "Report Cycle".

<u>Responsibility for the Exercise of Section 34:</u> Responsibility for the exercise of Section 34 varies with the organisational structure of each region. In some regions, all or most of Section 34 authority is exercised by Funding Services (or as it is referred to in some regions, Budget Centres). In other regions, Section 34 authority for some funding is signed by Funding Services, while specific program officers sign for other program monies, like social, education and O &M. In the course of the review, there were indications that some regions were struggling with re-organisation and the need to clarify roles and responsibilities for management of funding arrangements, including responsibility for effective exercise of Section 34 authority.

<u>Management of the "Report Cycle"</u>: Effective management of the "report cycle" for reporting requirements is critical to the effective exercise of Section 34 or "Section 34-like" authority.

The report cycle requires improvement as the management of the report cycle was found to be inconsistent, not only across regions, but within each region.

During the audit field work in the Spring and Summer of 1999, few regions were using TPMS Manager to track reporting requirements. In some regions, stand-alone reports (i.e. basic word-processing or spreadsheet documents) are maintained to record the receipt status of key reports such as the annual audit, management assessment reports, education-related reports and monthly social reports. It was noted that every region tracks at least the receipt phase of the reporting cycle for the annual audit report. Although regional stand-alone reports are usually shared or made available to applicable regional personnel, such reports did not necessarily track the entire report cycle, nor were they always kept current. The responsibility to track the entire report cycle is apparently accorded to the assigned funding or programs officer. There was no evidence of any directives related to such responsibilities, nor examples of any tracking of the entire report cycle done by a specific program or funding service officer.

The regions were requested to provide 740 reporting requirements, from a sample of 81 arrangements. The results are summarised in the table below:

Table 3 - Summary: Review of Receipt/Non-receipt of Funding Arrangement Reporting Requirements

	Number	Per Cent	Comments
Reports requested	**740**	**100%**	We requested regional personnel to provide us with approximately 10 reporting requirements for each arrangement. For every arrangement, the annual audit, and the management assessment and development plan if applicable, were included in the sample.
Reports provided to PwC	540	73%	Regional personnel were able to provide us with the original report or a copy of the original report.
Reports not received by regions (but should have been)	42	5%	In some instances, although required and due (or past due), regional personnel indicated the reports had not been received. In each of these instances, regional personnel could not provide us with: • the original report or a copy of the report; • documentation supporting why the report was no longer required; or • documentation that alternative reporting or other activities had otherwise satisfied the reporting requirement.
Status of receipt of report unknown, was received by region but could not be provided to PwC or was incomplete	158	22%	In some instances, although required and due (or past due), reports could not be provided. In these instances regional personnel indicated: • the status of the receipt of the report was unknown; • although believed to have been received by the region, the report could not be located during the audit; or • the reports were incomplete, eg., signature omitted, etc.
Reports requested	**740**	**100%**	

The "Report Cycle" for each funding arrangement reporting requirement should address, to a degree reflective of the report's relative risk and importance, tracking and monitoring of:

- receipt of report;
- review of report;
- identification of report deficiencies;
- follow-up on report deficiencies;
- acceptance/rejection of report;
- DIAND's response to non-receipt or failure to correct deficiencies;

- identification of monies due to or from the Crown; and
- follow-up on monies due to or from the Crown.

Although the lack of an effective process for tracking and managing the reporting requirements cycle was a concern in some regions, there were instances of good practices. For example:

- in one region, it is general practice for senior management to review the current status of any outstanding reporting requirement at every official meeting between senior officials of the recipient entity and DIAND. Prior to attendance at any meeting, the senior management of the region requests funding services to provide a detailed "report card" on the status of the applicable recipient's reporting requirements. This practice is very solid evidence of senior management support;

- in several regions, examples were noted where use of standardised "form letters" or memos from DIAND to recipients helped to streamline management of the terms and conditions (i.e., reporting requirements) of funding arrangements. The improved management helps to ensure compliance with the terms and conditions, and therefore increases DIAND's assurance that funds have ben used as intended; and

- standardized form letters and memos completed and signed by the Section 34 authority that not only clearly documented the basis for the exercise of Section 34, but also served to clarify same for the Section 33 authority.

Risk

Ineffective exercise of Section 34 increases the risk that arrangement funds are not used as intended by DIAND. If the exercise of both Section 33 and 34 has been ineffective, DIAND's assurance is further compromised.

Recommendations

8. It is recommended that the Director General, Finance Branch, should establish and implement initial and periodic training programs for officers with Sections 32, 33 and 34 authority, (i.e., tailored to each type of funding) on the requirements for exercising their authorities;

9. It is recommended that the Director General, Finance Branch, provide direction and guidance on the roles and responsibilities for the exercise of Sections 33 and 34 between program or funding personnel and finance personnel;

10. It is recommended that the Assistant Deputy Minister, Corporate Services, establish approved and documented standards for each relevant reporting requirement, including processes to support such standards, for the entire "reporting requirements cycle"(all eight phases, as previously discussed);

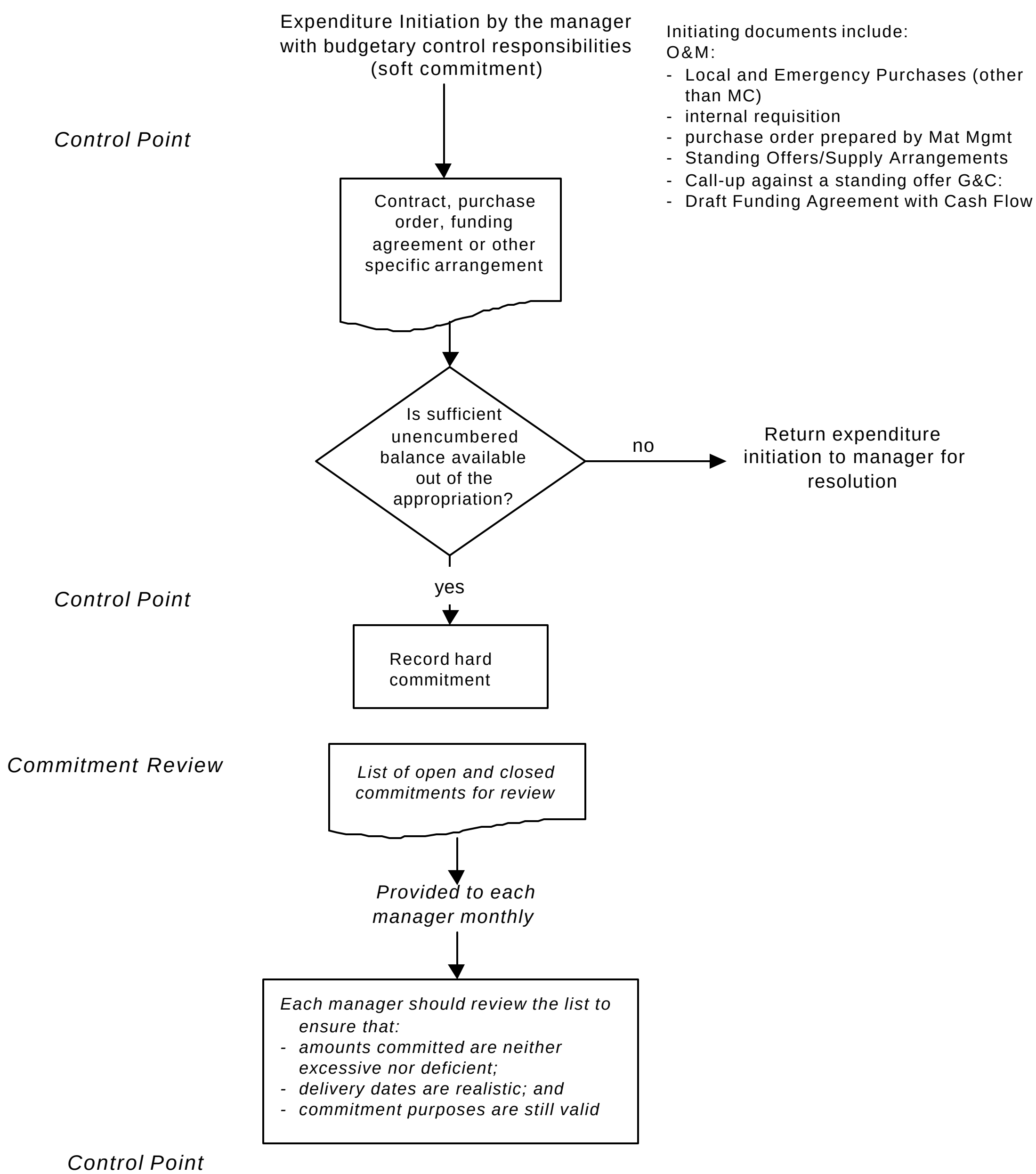
11. It is recommended that the Assistant Deputy Minister, Corporate Services, establish training programs to ensure understanding of the approved standards.

12. It is recommended that the Assistant Deputy Minister, Corporate Services, establish adequate monitoring processes to ensure compliance with approved standards.

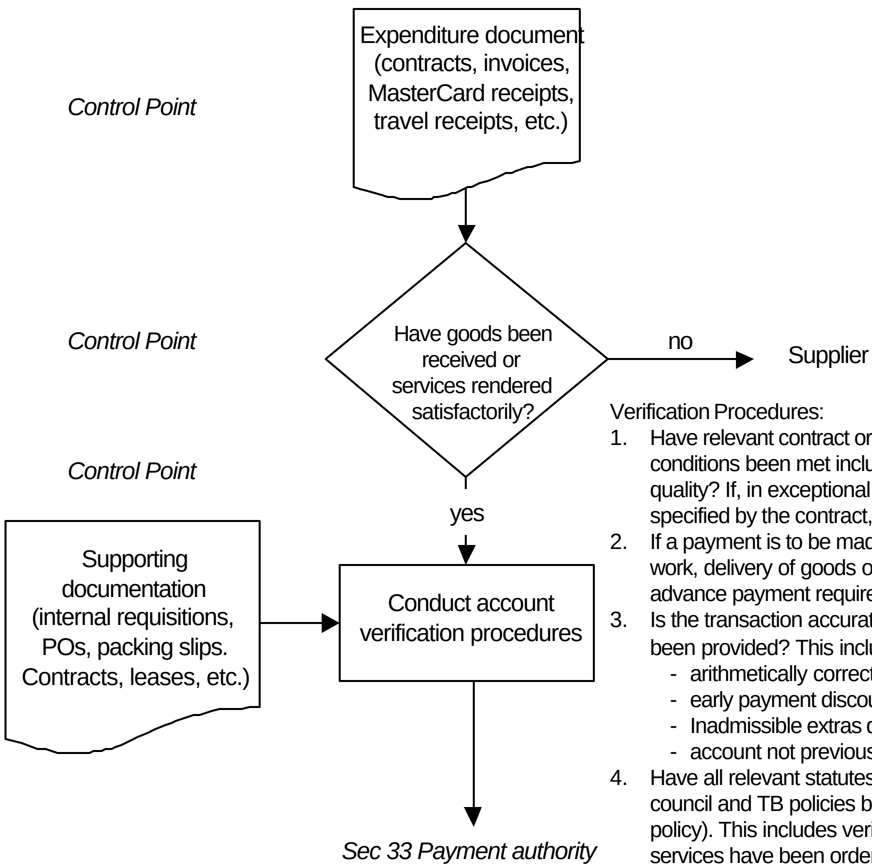
13. It is recommended that the Assistant Deputy Minister, Corporate Services, in consultation with Socio-Economic Policy and Programs should, on a periodic basis, functionally review regional compliance with identified, approved, documented and communicated reporting requirements.

Appendix 1 - Process Map

Section 32 Commitments (O&M and Grants & Contributions)



Section 34 Confirm Performance and Price (O&M transactions)



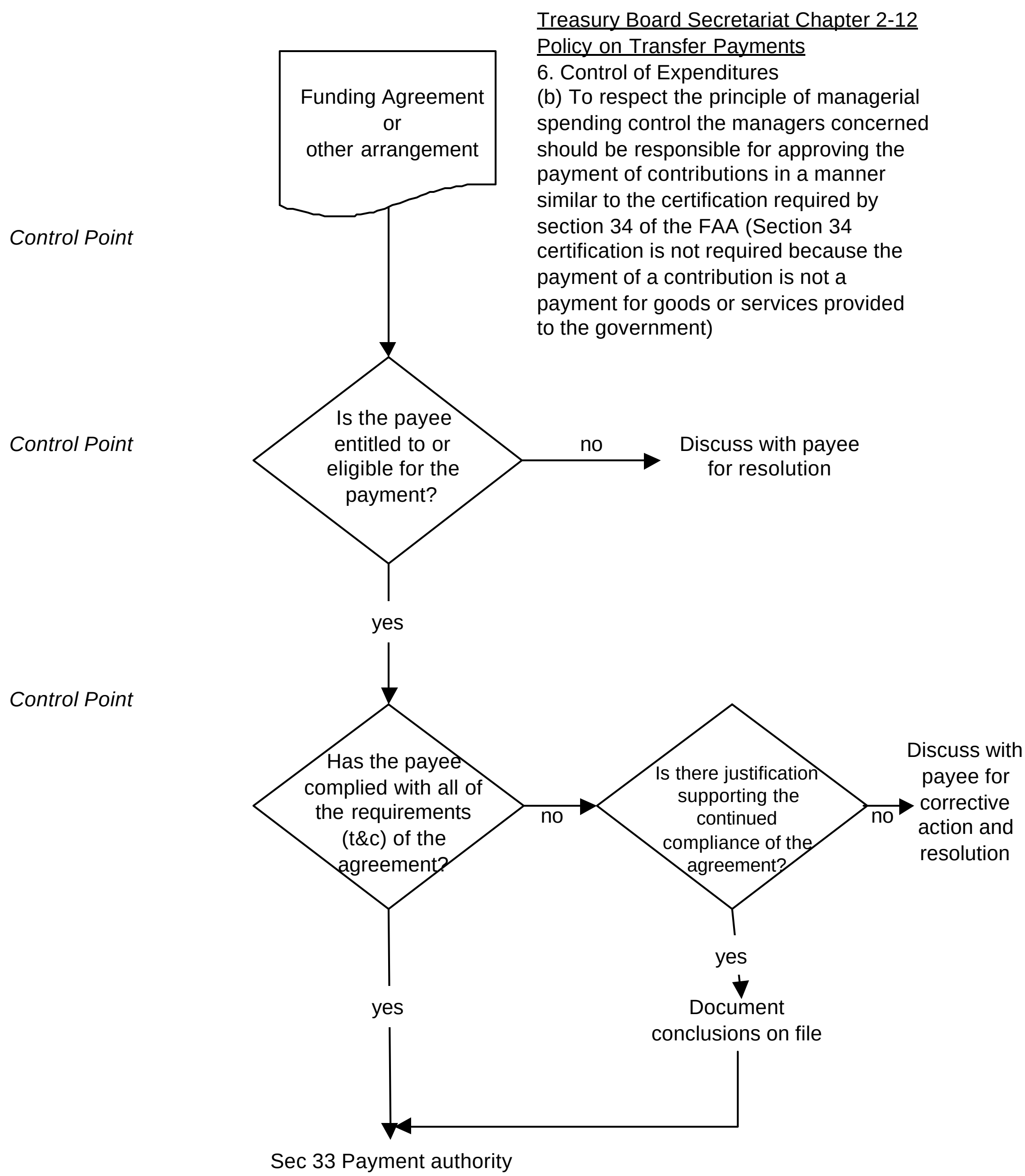
Verification Procedures:

1. Have relevant contract or agreement terms and conditions been met including price, quantity and quality? If, in exceptional circumstances, the price is specified by the contract, is it reasonable?
2. If a payment is to be made before completion of the work, delivery of goods or rendering of services, is the advance payment required by the contract?
3. Is the transaction accurate and has the financial coding been provided? This includes verifying that:
   - arithmetically correct;
   - early payment discounts applied;
   - Inadmissible extras deducted (e.g. PST)
   - account not previously paid, either in part or in full
4. Have all relevant statutes, regulations, orders-in-council and TB policies been complied with (e.g. travel policy). This includes verifying that the goods or services have been ordered by an individual with expenditure initiation authority.

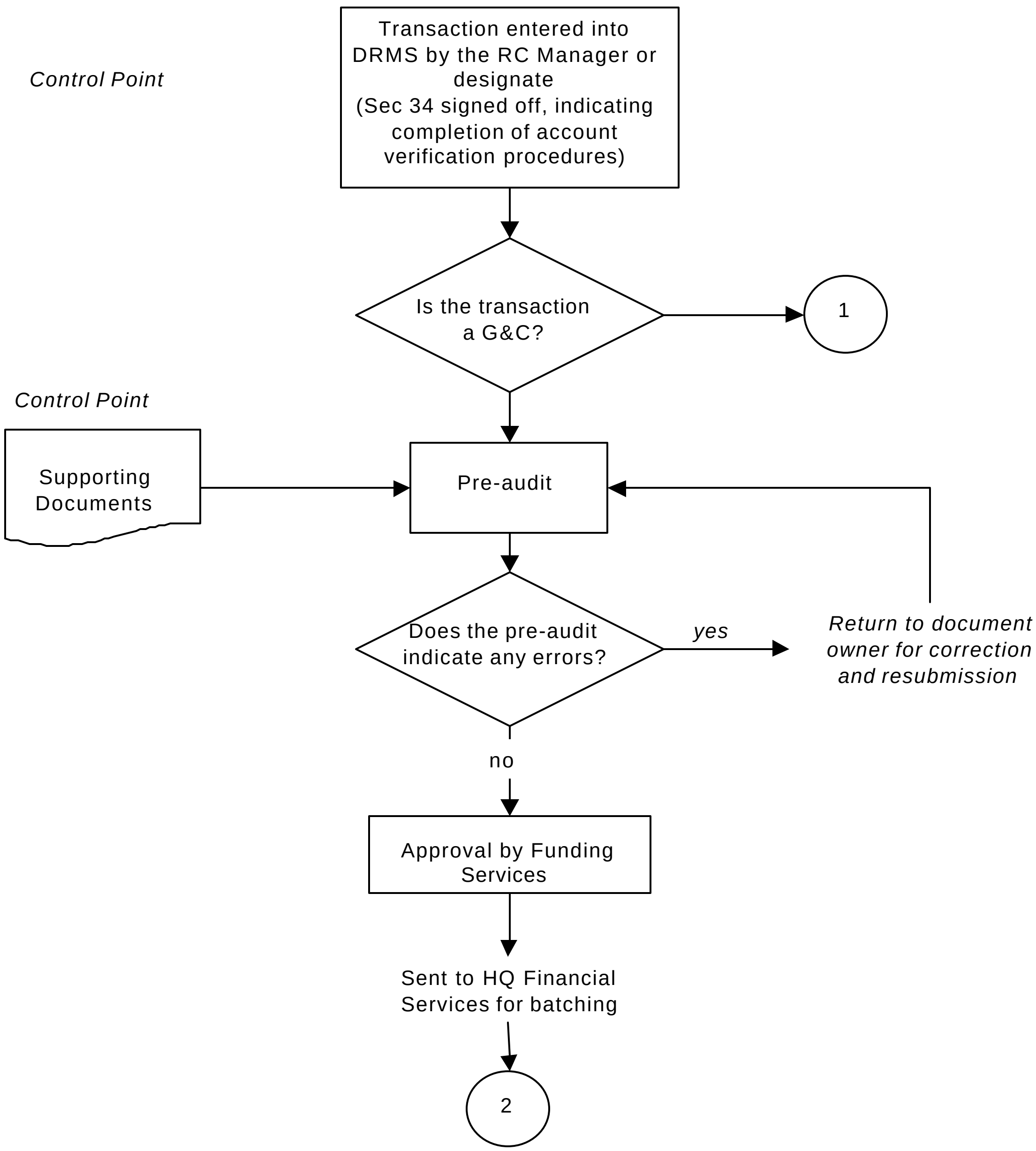
Account Verification Procedures are identified for the following:

1. Purchases of Goods
2. Contracts
3. Acquisition Cards (Mastercard)
4. Travel
5. Hospitality
6. Memberships
7. Conferences
8. Relocation

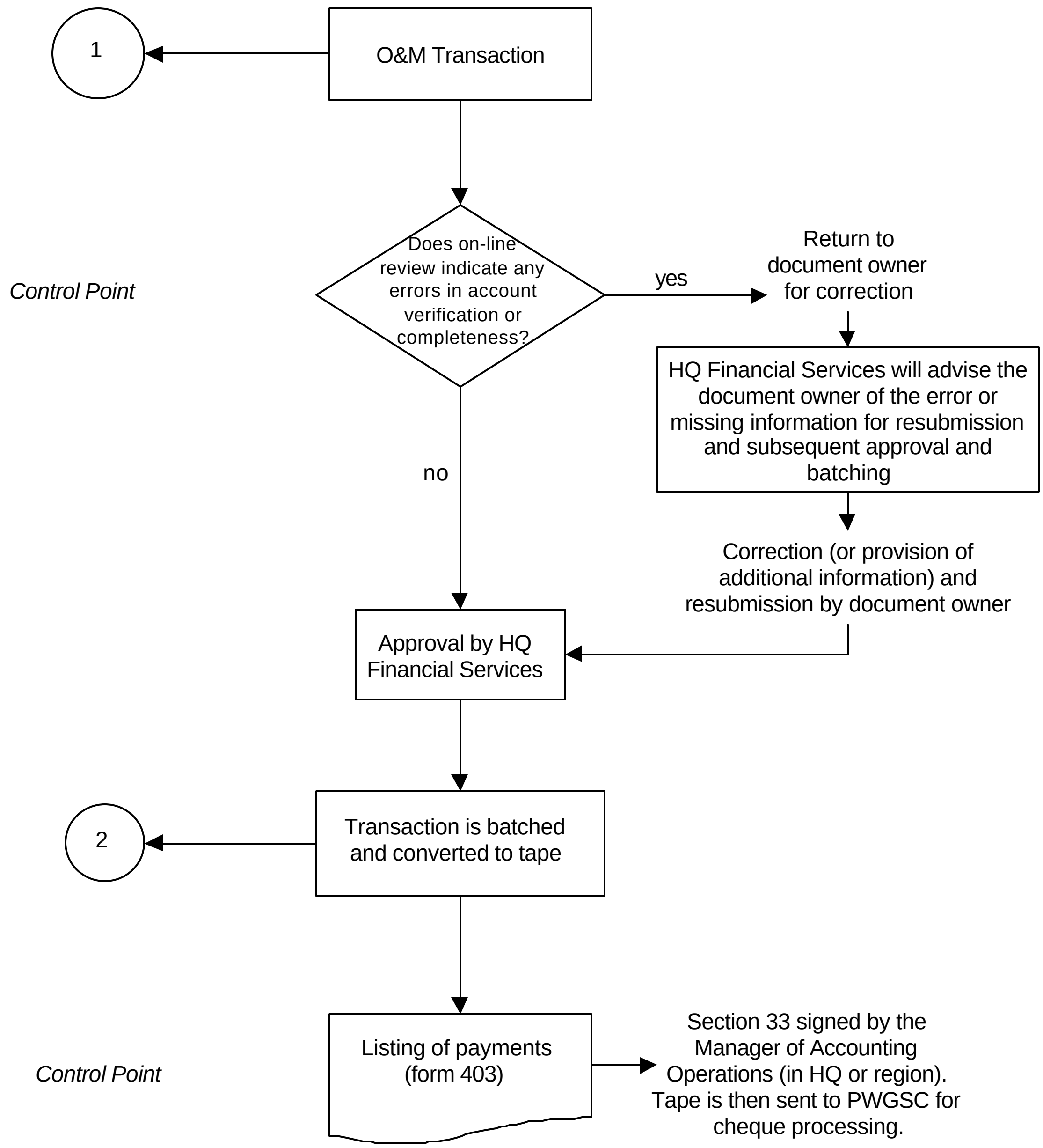
Section 34 (G&C transactions)



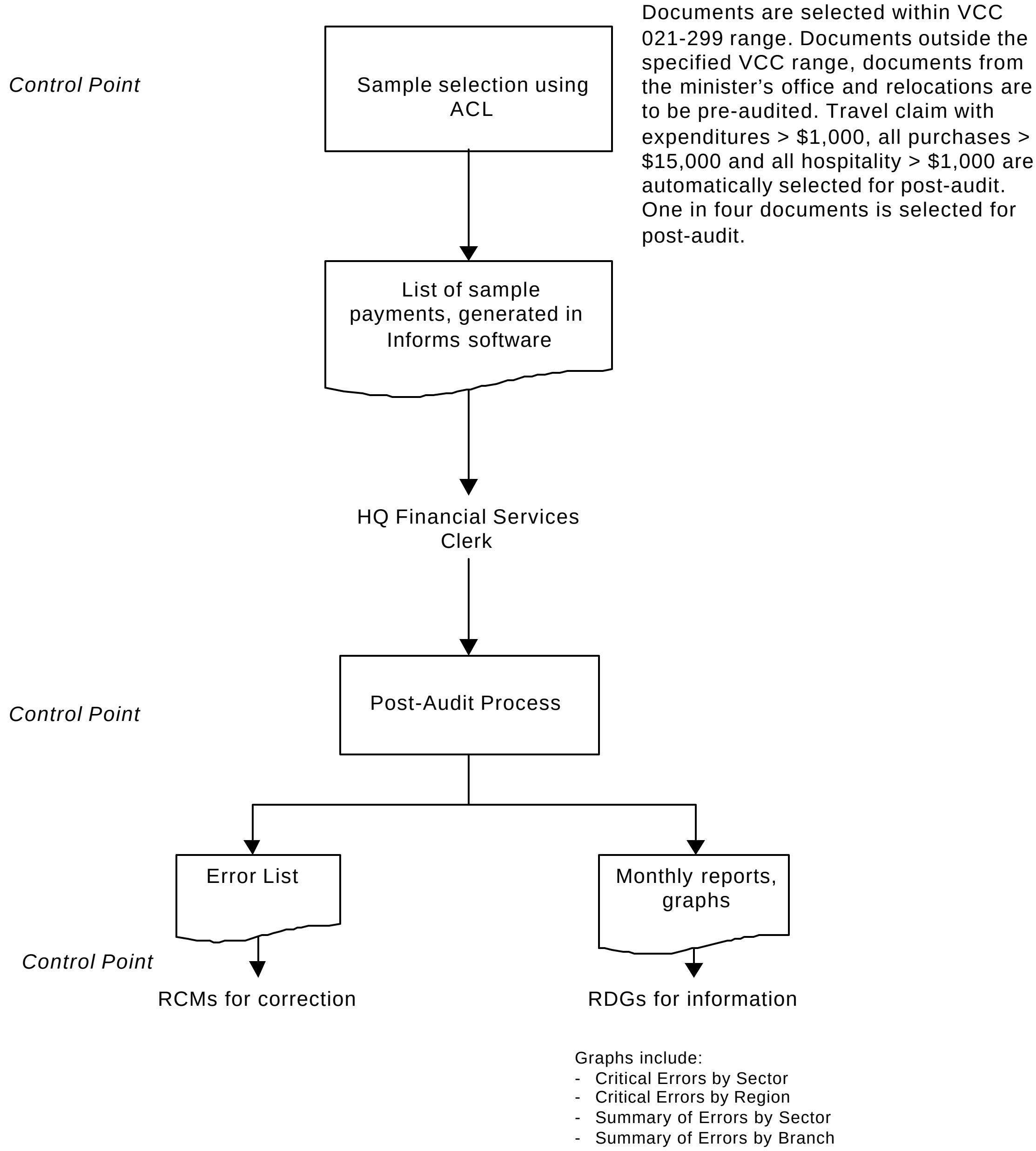
Section 33 Spending Authority
(O&M and G&C)



Section 33 Spending Authority
(O&M and G&C)



Sampling and Post-Audit Process



Terms of Reference

Terms of Reference

Audit of Sections 32, 33 and 34 of the Financial Administration Act

Background: The *Financial Administration Act* (FAA) is the legislative authority with respect to financial management. Three sections of this Act are of particular importance in ensuring that controls are in place over expenditures made from parliamentary appropriations. Section 32 covers the controls of financial commitments chargeable to each parliamentary appropriation. Section 34 deals with the need to certify that goods and services were received or that a recipient is eligible for payment. Section 33 relates to the need to ensure that payments are subject to authorized requisitions, lawful and within the appropriation level.

The legislative authority is supplemented by Treasury Board policies and guidelines. Consistent with these, departmental senior financial managers are responsible to design and implement procedures and controls that ensure the appropriate management of departmental financial resources.

In the last few years, the trend in the financial management philosophy of the government has been to delegate more authority to managers. This delegation of authority is premised on the belief that more decisions should be made by the managers since they have a better knowledge of local conditions.

Need: The delegation of authority has given rise to an increased need for managers to understand what this authority entails and what they are accountable for. Earlier this year, in relation to the responsibilities that managers exercise under Section(s) 33 and/or 34 of the FAA, the Deputy Minister indicated that he attaches the “utmost importance to the integrity that must be exercised in fulfilling these responsibilities”.

Treasury Board policies and directives require periodic assessment by internal audit of the financial management responsibilities. In that context, the Departmental Audit and Evaluation Branch's (DAEB) 1996-1997 Plan, approved by the Departmental Audit and Evaluation Committee (DAEC), includes an audit of Sections 32, 33 and 34 of the FAA.

Scope: This audit will cover the exercise of financial management responsibilities within the department, from the senior to the lower level managers, in relation to Sections 32, 33 and 34 of the FAA and the related Treasury Board policies.

It will cover the systems, procedures and controls related to the management and protection of departmental financial resources, including the exercise of responsibility by managers and their accountability.

Issues: The purpose of this audit is to assess the extent of compliance with departmental and Treasury Board policies and direction. The main objective of the audit will be to verify whether:

- cost-effective controls, suitable to a government environment and in compliance with applicable policies, are in place to manage financial resources and ensure probity;
- the financial management organization, systems and processes meet the department's needs and are consistent with the applicable legislation, authorities and policies;
- departmental managers with delegated financial authority understand what is entailed, and report on their financial accountability.

Approach: The audit will look at the systems and procedures in place in the department to ensure compliance with legislative and administrative requirements regarding financial management.

The audit will also include appropriate testing of the operations of these systems and procedures, including managers' understanding of their roles and responsibilities, at headquarters and in four regions: Quebec, British Columbia, Northwest Territories and Yukon.

In order to benefit from the knowledge and experience of departmental staff involved in the design of systems and functions, to ensure a preliminary validation of the audit findings, and to discuss possible improvements in departmental financial management procedures, an audit committee will be created. The composition and roles of the committee will be determined at the planning stage, keeping in mind the need to ensure the independence of the audit process.

Time Frame: The audit planning will begin in November 1996. The fieldwork should take place in January and February 1997. The report on the audit finding will be ready in May 1997.

Resources: The work will be carried out in part by DAEB staff and in part by consultants under DAEB supervision.

Cost: A budget of $210K has been established for consulting work.

Approved by:

Brent DiBartolo
Assistant Deputy Minister
Corporate Services
October 21, 1996

Action Plan

AUDIT AND EVALUATION / VÉRIFICATION INTERNE ET ÉVALUATION

REQUEST FOR ACTION PLAN / DEMANDE DE PLAN D'ACTION

PROJECT TITLE / TITRE DU PROJET : Audit of Sections 32, 33 and 34 of the Financial Administration Act

REGION OR SECTOR / RÉGION OU SECTEUR : Corporate Services, Finance Branch

(1) RECOMMENDATIONS / RECOMMANDATIONS	(2) REPORT / RAPPORT PAGE NO.	(3) ACTION PLAN / PLAN D'ACTION	(4) RESPONSIBLE MANAGER / GESTIONNAIRE RESPONSABLE (TITLE / TITRE)	(5) PLANNED IMPLEMENTATION DATE / DATE PRÉVUE DE MISE EN OEUVRE
1. It is recommended that the Director General, Finance Branch, in consultation with RCMs, should develop guidelines covering the exercise of Section 32 authority, in emergency and other unusual situations.	13	The Director General, Finance Branch, will follow-up with the Director General, Human Resources Branch to discuss the development of policy guidelines under Section 32 pertaining to salary/wage emergencies where inadequate commitment authority exists. FPSAD will assure the FIS policy implications are addressed.	Director, FPSAD Director, Corporate Human Resources Services	March 31, 2001
2. It is recommended that the Director General, Finance Branch, in consultation with RCMs, require that regions document and maintain approved regional post-audit guidelines	13	The Director, FPSAD and the Regional Directors, Corporate Services will review and update the <u>existing</u> Account Verification and Post-Audit Manual and promulgate its use.	Director, FPSAD	March 31, 2001
3. It is recommended that the Director General, Finance Branch, in consultation with RCMs, require that regions ensure the post-audits are conducted by adequately trained personnel	13	The Director, FPSAD and the Regional Directors, Corporate Services will develop a strategy to train all staff involved in the processing of financial transactions in the application of the FAA and account verification processes.	Director, FPSAD	December 31, 2000

PROJECT TITLE / TITRE DU PROJET : Audit of Sections 32, 33 and 34 of the Financial Administration Act

REGION OR SECTOR / RÉGION OU SECTEUR : Corporate Services, Finance Branch

(1) RECOMMENDATIONS / RECOMMANDATIONS	(2) REPORT / RAPPORT PAGE NO.	(3) ACTION PLAN / PLAN D'ACTION	(4) RESPONSIBLE MANAGER / GESTIONNAIRE RESPONSABLE (TITLE / TITRE)	(5) PLANNED IMPLEMENTATION DATE / DATE PRÉVUE DE MISE EN OEUVRE
4. It is recommended that the Director General, Finance Branch, in consultation with RCMs, communicate the need for completion and monitoring of post audits as a high priority process.	13	The Director General, Finance Branch will prepare a letter for the signature of the ADM, Corporate Services to Assistant Deputy Minister and Regional Directors General identifying this issue as a priority and outlining the revised post-audit sampling and reporting processes as of April 1, 2000.	Director, FPSAD	December 31, 2000
5. It is recommended that the Director General, Finance Branch, in consultation with RCMs, communicate the need for RCMs to act on their responsibilities related to the Section 34 process, including improved familiarity with policies and guidelines.	13	The Director General, Finance Branch will prepare a letter for the signature of the ADM, Corporate Services to Assistant Deputy Ministers and Regional Directors General identifying this issue as a priority and outlining the revised post-audit sampling and reporting process as of April 1, 2000. In addition, monthly reports identifying critical error rates by sector/region will also promulgate corrective action to be undertaken.	Director, FPSAD	December 31, 2000

PROJECT TITLE / TITRE DU PROJET : Audit of Sections 32, 33 and 34 of the Financial Administration Act

REGION OR SECTOR / RÉGION OU SECTEUR : Corporate Services, Finance Branch

(1) RECOMMENDATIONS / RECOMMANDATIONS	(2) REPORT / RAPPORT PAGE NO.	(3) ACTION PLAN / PLAN D'ACTION	(4) RESPONSIBLE MANAGER / GESTIONNAIRE RESPONSABLE (TITLE / TITRE)	(5) PLANNED IMPLEMENTATION DATE / DATE PRÉVUE DE MISE EN OEUVRE
6. It is recommended that the Director General, Finance Branch, in consultation with the Corporate Staff Relations and Compensation Division, Human Resources Branch should ensure that RCMs make use of reporting mechanisms of their true free balance position before committing funds.	16	The Director General, Finance Branch, will follow up with the Director General, Human Resources Branch, to assure that the requirements of FAA, Section 32 authority is reviewed by both branches and that direction be provided to RCMs making them aware of the importance of commitment control regarding their budgets. FPSAD will assure that FIS policy issues are addressed.	Director, FPSAD Director, Corporate Human Resources Services	March 31, 2001
7. It is recommended that the Director General, Finance Branch, in consultation with the Corporate Staff Relations and Compensation Division, Human Resources Branch should develop, approve and communicate guidelines for approving and requesting overtime including time in lieu of funds.	16	The Director General, Finance Branch, will follow up with the Director General, Human Resources Branch, to assure that the requirements of FAA, Section 32 authority is reviewed by both branches and that direction be provided to improve the process of requesting and approving of overtime including time in lieu of overtime. FPSAD will assure that FIS policy issues are addressed.	Director, FPSAD Director, Corporate Human Resources Services	March 31, 2001

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8. It is recommended that the Director General, Finance Branch, should establish and implement initial and periodic training programs for officers with Sections 32, 33 and 34 authority, (i.e., tailored to each type of funding) on the requirements for exercising their authorities;	25	Finance will review its training manuals with regard to the exercise of Sections 32, 33 and 34 of the FAA. Finance will assure that officers and RCMs are given the opportunity for training when requested. The Financial Signing Authority Manual is currently posted on the Departmental Web Site for easy access by users for reference. The FSA is constantly updated.	Director, FPSAD	December 31, 2000
9. It is recommended that the Director General, Finance Branch, provide direction and guidance on the roles and responsibilities for the exercise of Sections 33 and 34 between program or funding personnel and finance personnel;	25	The Director General , Finance Branch, will work closely with Directors of Funding Services and Corporate Services to develop guidelines to clarify the roles and responsibilities for the exercise of Sections 33 and 34 between program or funding personnel and finance personnel.	Director, Transfer Payments and Director, Financial Policies, Systems and Accounting	November 30, 2000

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10. It is recommended that the Assistant Deputy Minister, Corporate Services, establish approved and documented standards for each relevant reporting requirement, including processes to support such standards, for the entire “reporting requirements cycle”(all eight phases, as previously discussed);	25	The ADM Corporate Services will initiate discussions with other ADMs at headquarters to establish a collaborative approach to address the issue of reporting standards. This recommendation is broader than Corporate Services and requires input from the various program sectors. Standards for each relevant reporting cycle are established by the various sectors and then included in TPMS as BF items to facilitate corporate reporting. This was noted in the Flying Squad Report which was tabled at Operations Committee back in April of this year.	ADM , Corporate Services with other ADMs at headquarters	March 31, 2001
11. It is recommended that the Assistant Deputy Minister, Corporate Services, establish training programs to ensure understanding of the approved standards.	26	Once standards are determined as per recommendation 10, appropriate training will be developed to ensure regions understand the approved standards and apply them consistently . Various program sectors at headquarters will have a role in determining the appropriate training strategies.	Director, Transfer Payments and other headquarters sectors as appropriate	March 31, 2001

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12. It is recommended that the Assistant Deputy Minister, Corporate Services, establish adequate monitoring processes to ensure compliance with approved standards.	26	Once appropriate standards are established, Transfer Payments, in cooperation with other headquarters sectors will determine appropriate monitoring processes and action to be taken in the event of non-compliance. Relevant policies addressing the issue of monitoring will be updated as required. For example, Chapters 5.6, Funding Arrangements: Monitoring of Compliance and 5.9 Information Management will be updated. As well, Transfer Payment Directorate will institute on-site reviews to assess how regions are performing against the Management Control Framework.	Director, Transfer Payments and other headquarters sectors as appropriate	March 31, 2001 On-site visits to regional offices would be an ongoing activity

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13. It is recommended that the Assistant Deputy Minister, Corporate Services, in consultation with Socio-Economic Policy and Programs, should, on a periodic basis, functionally review regional compliance with identified, approved, documented and communicated reporting requirements.	26	a. Regions to submit written descriptions of regional processes related to reporting requirements to ensure Section 34 of the FAA is appropriately exercised before Section 33 of the FAA.	Director, Transfer Payments	March 31, 2001
		b. As part of on-site visits to verify the effectiveness of the Management Control Framework, regional practices with respect to compliance with reporting requirements will be reviewed against the terms and conditions of the funding arrangement to ensure appropriate application of Section 34 of the FAA. Tracking of reports is to be monitored through TPMS.	Director, Transfer Payments	March 31, 2002