



1999-709 Final Report

**Audit of the Delivery of Payment Issue
Products**

2000-04-11



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Draft Report

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Executive Summary

Authority for the Project

The audit of the Delivery of Payment Issue Products was included and approved by the Audit and Review Committee (ARC) as part of the 1999-2000 Audit Plan.

Objectives

To assess the adequacy of and compliance with managerial and operational controls which ensure the timeliness, accuracy, integrity, and completeness of payment data and payment products processed.

Scope

The audit reviewed common payment issue processes for samples of selected products managed by GOSB and GTIS. This audit included a review of both the Standard Payment System (SPS) and Legacy Systems payment products.

The audit considered risk and threat assessment studies conducted by GTIS. Several changes to the payment issue process include significant use by most clients of the SPS for accounts payable under the Financial Information Strategy (FIS), planned significant downsizing of PWGSC Responsible Sites by year 2001, reduction from four to three Regional Cheque Production Centres by March 2000, production of millennium cheques, and other planned technological improvements.

Background

The ADM, GOSB has responsibility for the Receiver General (RG) function which includes issuing approximately 195 million payments annually (68 million cheques) on behalf of the Receiver General for Canada.

GTIS supports the Receiver General function by producing payment products using systems operated in data centres managed by Network and Computer Services, National Capital Area and with cheque production centres operated by GTIS Regional Directorates across Canada.

The regional Responsible Site supports the payment process by inputting payment data, processing exceptions, providing post issue support for returned and duplicate payments, and providing business expertise in support of the payment function. The Site reports through the Supply and Services Regional Directorate.

Key Findings

Winnipeg Responsible Site

The Winnipeg Responsible Site is overall well managed and adhering to an adequate system of controls in the areas of: payment processing; the issuance of duplicate, replacement, urgent (legacy) and priority (SPS) cheques; and the reporting to the Cheque Redemption Control Directorate (CRCD) and the Central Accounting System (CAS).

Employees reported that morale is very good in the Winnipeg Responsible Site and the auditors noted that although the Site is scheduled to close by April 2001, the professionalism, dedication to providing excellent service to clients, and "esprit de corps" was actively demonstrated. Employees attributed their positive morale to the strong support they receive from the Manager of the Responsible Site and senior regional management.

Winnipeg Production Centre

Overall the Winnipeg Production Centre is effectively providing timely and complete cheque production services for its clients. The Centre achieved ISO-9002 certification in April 1999 and is in the process of identifying further refinements and improvements needed to meet future challenges. National, regional, and local quality assurance efforts should continue to ensure that existing performance indicators and service standards are improved to enable full measurement of efficiency, effectiveness, and quality.

Signature plate controls are overall inadequate and more rigour is required in this area. Improvements are needed to ensure complete registers and records are maintained for signature plates and that accurate, quarterly, independent signature plate stocktaking is being performed as per the Banking and Cash Management Standards Manual.

Cheque production processing and *cheque inventory and stock controls* are overall adequate. However, the Winnipeg Production Centre does not regularly conduct quarterly, independent, stocktaking of the inventory and report on the results in accordance with the Banking and Cash Management Standards Manual, Section 2, s/s7C-D. The last quarterly stocktaking was performed in February 1999. This issue was also reported last year in the Audit of the Delivery of Payment Issue Products (1998-709) at the Dartmouth Production Centre.

HQs Payment Standards Division monitors the Monthly Cheque Inventory Status Reports but does not request reports of the independent quarterly stocktaking from the regions. This issue was also reported last year in the Audit of the Delivery of Payment Issue Products (1998-709) at the Dartmouth Production Centre.

Conclusion

With the exception of the signature plate and specific areas of cheque inventory and stock controls noted above, an overall effective system of controls is ensuring the completeness, accuracy and authenticity of payments processed by the Winnipeg Responsible Site and Production Centre.

Recommendations

It is recommended that the Assistant Deputy Minister, GTIS ensures that:

- 1 *The Regional Director, GTIS, Western Region in collaboration with the Regional Manager, Winnipeg Production Centre, ensure accurate and complete signature plate logs and records are maintained as per the Banking and Cash Management Standards Manual.*

- 2 *The following improvement be undertaken to improve cheque form inventory controls: that the Regional Director, GTIS, Western Region, in collaboration with the Regional Manager, Winnipeg Production Centre, ensure regular independent quarterly stocktaking of cheque form inventory are undertaken as per the Banking and Cash Management Standards Manual, Section 2, Sub-section 7-C.2; and that a copy of the results are sent to HQ Payment Standards Division.*

1 Introduction

1.1 Authority for the Project

The audit of the Delivery of Payment Issue Products was included and approved by the Audit and Review Committee (ARC) as part of the 1999-2000 Audit Plan.

1.2 Objectives

To assess the adequacy of and compliance with managerial and operational controls which ensure the timeliness, accuracy, integrity, and completeness of payment data and payment products processed.

1.3 Scope

The audit reviewed applicable common payment issue processes for samples of selected products managed by GOSB and GTIS. This audit included the review of both SPS and Legacy Systems payment products.

The audit considered risk and threat assessment studies conducted by GTIS. Several changes to the payment issue process include significant use by most clients of the Standard Payment System (SPS) for accounts payable under the Financial Information Strategy (FIS), planned significant downsizing of PWGSC Responsible Sites by year 2001, reduction from four to three Regional Cheque Production Centres by March 2000, production of millennium cheques, and other planned technological improvements.

1.4 Background

The ADM, GOSB has responsibility for the Receiver General (RG) function which includes issuing approximately 195 million payments annually (68 million cheques) on behalf of the Receiver General for Canada.

GTIS supports the Receiver General function by producing payment products using systems operated in data centres managed by Network and Computer Services, National Capital Area and with cheque production centres operated by GTIS Regional Directorates across Canada.

The regional Responsible Site supports the payment process by inputting payment data, processing exceptions, providing post issue support for returned and duplicate payments, and providing business expertise in support of the payment function. The Site reports through the Supply and Services Regional Directorate.

2 Issues Examined

The audit of the Responsible Site covered the following areas: mailroom and urgent cheque procedures; signature card maintenance; the issuance of duplicate, replacement, urgent (legacy) and priority (SPS) cheques; the processing of returned cheques; the reporting to Cheque Redemption Control Directorate (CRCDD) and the reporting to the Central Accounting System (CAS).

The review of the Production Centre covered key management practices and controls; production processing; cheque inventory and stock control and signature plate control.

3 Findings, Conclusions and Recommendations

Overall, an effective system of controls ensuring the completeness, accuracy and authenticity of payments processed is in place and is being complied with by the Winnipeg Responsible Site and Cheque Production Centre. Improvements are necessary in the areas of signature plate controls and the Cheque Inventory and Stock Control.

3.1 Winnipeg Production Centre

Overall the Winnipeg Production Centre is effectively providing timely and complete cheque production services for its clients. The Centre achieved ISO-9002 certification in April 1999 and is in the process of identifying further refinements and improvements needed to meet future challenges. National, regional, and local quality assurance efforts should continue to ensure that existing performance indicators and service standards are improved to enable full measurement of efficiency, effectiveness, and quality.

3.1.1 Signature Plate Control

Signature plate controls are overall inadequate and more rigour is required in this area. Improvements are needed to ensure complete registers are maintained for signature plates and that accurate, quarterly, independent cheque form inventory and signature plates stocktaking is being performed regularly as per the Banking and Cash Management Standards Manual.

The Production Centre's signature plate controls are, in key areas, in non-compliance with Banking and Cash Management Standards Manual, Chapter 1, Section 5, Sub Section 1. The Signature Plate Register does not capture complete information for the plates issued, received, distributed, returned and destroyed, as per the Banking and Cash Management Standards Manual, Chapter 1, Section 5, sub-section 1-E. 1, *Control of Signature Plates*.

For 5 different series of signature plates, the Payment Standards Division signature plate log at HQs Payment Standards Division did not agree with the total number of plates reported in the stocktaking, undertaken by the Winnipeg Production Centre on January 11, 2000. Within these series, there were a total of 65 plates recorded in the HQs log, 18 of which were considered active (i.e., Quail/Stobbe), that the Signature Plate Custodians were unable to account for during the audit.

Subsequent to our audit, the Signature Plate Custodians indicated 60 of these plates were found in the possession of the Responsible Site. Although responsibility for the control of signature plates was transferred from the Responsible Site to the Production Centre in July 1997, these 60 plates were never transferred. Knowledge of the existence of these 60 plates was unknown to the Signature Plate Custodians at their January 11, 2000 stocktaking and at the time of the audit.

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It is recommended that the Assistant Deputy Minister, GTIS ensures that:

- 1 *The Regional Director, GTIS, Western Region, in collaboration with the Regional Manager, Winnipeg Production Centre, ensure accurate and complete signature plate logs and records are maintained as per the Banking and Cash Management Standards Manual.*

3.1.2 Cheque Inventory and Stock Control

Cheque production processing and cheque inventory and stock controls are overall adequate.

However, the Banking and Cash Management Standards Manual requires the Officer in Charge of the Production Centre to designate 2 independent employees of the cheque form control and print process to complete the physical count and verification of records. This independent, quarterly, stock-taking is to ensure that there is no shortage of cheque forms. The Centre has not been undertaking quarterly stocktaking reports on a regular basis as per the Banking and Cash Management Standards Manual, Section 2, s/s7C-D. The last quarterly stocktaking was performed in February 1999. Consequently, there is some risk that cheque shortages are not identified and reported to Headquarters promptly and there is insufficient independent assurance that the regional inventory is being effectively managed. This issue was also reported last year in the Audit of the Delivery of Payment Issue Products (1998-709) at the Dartmouth Production Centre.

HQs Payment Standards Division monitors the Monthly Cheque Inventory Status Reports but does not request reports of the independent quarterly stocktaking from the regions. This issue was also reported last year in the Audit of the Delivery of Payment Issue Products (1998-709) at the Dartmouth Production Centre.

It is recommended that the Assistant Deputy Minister, GTIS ensures that:

- 2 *the following improvement be undertaken to improve cheque form inventory controls: the Regional Director, GTIS, Western Region in collaboration with the Regional Manager, Winnipeg Production Centre ensure regular independent quarterly stocktaking of cheque form inventory are undertaken as per the Banking and Cash Management Standards Manual, Section 2, Sub-section 7-C.2; and that a copy of the results be sent to HQ Payment Standards Division.*

3.1.3 Management Practices and Controls

The monthly production schedules prepared by the Scheduler do not include all significant production planning information. Improvements are needed to capture planned

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production end dates per product and their forecasted volumes. Presently the work is scheduled by start date and time per product, with no end date for each product. By including end dates and product volumes, the Production Centre could benchmark the required time for each product, which could be compared to actual production and therefore identify opportunities for improved production efficiencies. This data would assist in improving service standards and permit measurement of productivity. This data could also be useful to HQ and to the regions with their efforts in developing viable performance indicators for each Production Centre.

3.1.4 Production Processing

There are no significant issues reported and overall controls were considered adequate.

3.1.5 Control and Destruction of Inserts

The Banking and Cash Management Standards Manual chapter on *client inserts* does not address the control and destruction processes by the regional Cheque Custodian. Presently the control and destruction of client inserts is performed on an adhoc basis. The process in place requires the Regional Cheque Custodian to contact the appropriate HQ product officer responsible for client inserts, in order for the Custodian to be advised of direction for their disposition. This can lead to an inefficient practice of obsolete inserts taking up unnecessary space.

It is recommended that the Assistant Deputy Minister, GOS ensures that :

- 3 *The Director, Payment Products and Services Directorate, in consultation with the Manager, Payment Standards Division develop a national approach for the control and destruction of client inserts*

3.2 Responsible Site

The Winnipeg Responsible Site is overall well managed and adhering to an adequate system of controls in the areas of: payment processing; issuing duplicate, replacement, urgent (legacy) and priority (SPS) cheques; and reporting to the Cheque Redemption Control Directorate (CRCD) and the Central Accounting System (CAS).

Employees reported that morale is very good in the Winnipeg Responsible Site and the auditors noted that although the Site is scheduled to close by April 2001, the professionalism, dedication to providing excellent service to clients, and "esprit de corps" was actively demonstrated. Employees attributed their positive morale to the strong support they receive from the Manager of the Responsible Site and senior regional management.

3.2.1 Signature Card Maintenance

The audit found an adequate system of controls to ensure signature cards are appropriately maintained and compliant with relevant government regulations and internal PWGSC procedures.

3.2.2 Duplicate and Replacement Cheques

There is an adequate system in place to process and control replacement and duplicate cheques in compliance with government regulations.

3.2.3 Urgent (Legacy) and Priority (SPS) Cheque Production

The controls associated with the process of issuing urgent (Legacy System) and priority (SPS) cheques are both adequate and consistently applied.

3.2.4 Returned Cheques Processing

There are adequate controls of returned cheques for both SPS and the legacy systems.

3.2.5 Reporting of Information to CRCD and CAS

The system of controls in place is adequate to ensure the accurate and timely reporting of cheque issue information to the Cheque Redemption Control Directorate, Matane and to the Central Accounting System (CAS), including: information pertaining to new cheque issue, manual urgent cheque issue, SPS priority cheques issue, returned cheques, cancelled and duplicate cheques.