

**CANADIAN INTERNATIONAL  
TRADE TRIBUNAL**

**AUDIT REPORT  
OF THE  
FINANCIAL MANAGEMENT FRAMEWORK**

**February 13, 2007**

**Submitted to  
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## **EXECUTIVE SUMMARY**

The audit was carried out to assess the financial management control framework within the Canadian International Trade Tribunal (CITT) and to review financial transactions to ensure compliance with regulatory requirements. The audit focussed on the Operation and Maintenance (O&M) budget during 2005-06 and the current fiscal year. Excluded from the scope of this audit were salaries and benefits. The audit was conducted during the period of November 2006 to January 2007.

CITT is committed to managing its financial resources effectively and several initiatives have taken place in the past couple of years to further strengthen the financial control framework. The O&M budget, which is small (less than \$2 million), has to be carefully managed and staff is aware of this fact. The Executive Committee sets the tone for the organization by taking its financial responsibilities seriously, closely monitoring budgets and collectively re-allocating funds between Branches where the need is greatest. Branch managers have all received financial training. Values and ethics are also promoted as an integral part of everyday practice in CITT. These factors all contribute to ensuring effective stewardship of CITT's financial resources.

The financial control framework can be further improved. This can be accomplished by developing internal policies and written procedures, strengthening the contracting function, and co-locating all staff within the Finance and Planning Section on the same floor.

The Finance and Planning Section staff possesses the necessary expertise to discharge their responsibilities and clients indicated satisfaction with the level and quality of financial services provided. Funds are tightly controlled. The GX financial system offers reliable and accurate information and its application and general controls are effective. A review of a statistically valid sample of 70 financial transactions indicated that transactions are properly supported with documentation, officers exercising authorities are properly delegated to do so, spending and payment authorities are not being exercised by the same individual for a particular payment, and there is no evidence that individuals are benefiting personally from any transaction.

The Finance and Planning Section could improve its efficiency and redirect some of the workload to the Branches. Presently, the workload in the Section is heavy. In part, this is because the Branches, which are accountable for managing their budget, have relied on the Finance and Planning Section to assume this role. By devolving authority to the Branch level and establishing a threshold for committing funds, rather than committing all expenditures regardless of amount, efficiencies can be realized. This will require the Administrative Assistants in each Branch to be financially trained, not only on commitment authority but also on how to access financial reports from the GX financial systems. Streamlining is also possible by changing the process currently in place for acquisition cards.

In conclusion, CITT is effectively managing its financial resources. Our recommendations are designed to further improve CITT's overall financial management control framework.

## **1 INTRODUCTION**

The audit included an assessment of the Canadian International Trade Tribunal's (CITT's) financial management framework and a review of financial transactions to ensure compliance with regulatory requirements. The audit was conducted during the period of November 2006 to January 2007. In examining the financial management framework, emphasis was placed on the principles of Modern Comptrollership which are essential in supporting the effective stewardship of resources. Modern Comptrollership is intended to provide managers with integrated financial and non-financial performance information, a sound approach to risk management, appropriate control systems and a shared set of values and ethics.

It is important that CITT operates in an environment that provides appropriate delegations of authority, mature integrated information systems, appropriate controls and tools to support their managers and functional specialists. Assurance can then be provided that the financial management framework is sound and effective, that proper information is available for decision-making and that financial controls are adequate to maintain prudence and probity.

## **2 BACKGROUND**

CITT is an independent quasi-judicial body that carries out its mandate in an autonomous and impartial manner and reports to Parliament through the Minister of Finance. CITT is the main institution in Canada's trade remedy system with authority to:

- Conduct inquiries into whether dumped or subsidized imports have caused, or are threatening to cause, material injury to a domestic industry;
- Hear appeals of decisions of the Canada Customs and Revenue Agency made under the Customs Act, the Excise Act and the Special Import Measures Act;
- Conduct inquiries and provide advice on such economic, trade and tariff issues as are referred to the Tribunal by the Governor in Council or the Minister of Finance;
- Conduct inquiries into complaints by potential suppliers concerning procurement by the federal government that is covered by the North American Free Trade Agreement, the Agreement on Internal Trade and the World Trade Organization Agreement on Government Procurement;
- Conduct safeguard inquiries into complaints by domestic producers that increased imports are causing, or threatening to cause, serious injury to domestic producers; and,
- Conduct investigations into requests from Canadian producers for tariff relief on imported textile inputs that they use in their production operations.

CITT has a Tribunal currently composed of seven members, including the Chairperson (Deputy Head). The Chairperson and the four Branch Heads form the Executive Committee which is responsible for the financial and administrative policy decisions of CITT. The Director, Management Services Branch manages the agenda of the Executive Committee. The supporting organization consists of 94 FTEs and a current year budget of \$10,507,352, including Operations and Maintenance (O&M) of \$1,930,914 and salaries and employee benefits of \$8,576,438. CITT is comprised of five Branches: the Executive Office, Research, General Counsel, Secretary and Management Services (MSB). MSB includes the Finance and Planning Section, in addition to the Human Resources and Information Technology Sections. The Director, Management Services (MSB) oversees the financial management of the organization as well as the Audit and Evaluation functions and reports directly to the Chair. The GX financial system is used to record Operating and Maintenance (O&M) expenditures. CITT is headquartered in Ottawa.

A breakdown of CITT 2006-07 O&M budget, by Branch, and their financial status as of January 16, 2007 is as follows:

<b>O &amp; M Financial Data 2006-07</b>						
<b>Description</b>	<b>Budget</b>	<b>Expended</b>	<b>Committed</b>	<b>Balance</b>	<b>Forecast</b>	<b>Available</b>
<b>Executive Offices</b>	\$86,734	\$28,236	\$1,643	\$56,855	\$60,235	\$26,499
<b>Research Branch</b>	167,835	82,514	46,195	39,126	115,881	51,954
<b>Legal Services Branch</b>	53,775	31,626	14,980	7,169	52,300	1,475
<b>Secretary Branch</b>	635,448	233,845	252,626	148,977	595,148	40,300
<b>Management Services Branch</b>	987,122	332,385	405,988	248,749	808,829	178,293
<b>Corporate Accounting</b>		10,209	20	(10,229)		
<b>TOTALS</b>	<b>\$1,930,914</b>	<b>\$718,815</b>	<b>\$721,452</b>	<b>\$490,647</b>	<b>\$1,632,393</b>	<b>\$298,521</b>

### **3 AUDIT OBJECTIVES AND SCOPE**

The objectives of this audit were to assess CITT's financial management framework and to review a sample of financial transactions for compliance with the Financial Administration Act, the Government Contracting Regulations and Treasury Board policies.

The scope of the audit included an examination of the adequacy of financial management practices as they relate to key aspects of financial management, including:

- Delegation authorities (delegation instrument);
- Contracting and procurement (contracts, requisitions, invoices);
- Hospitality (requisitions);
- Materiel management;
- Acquisition cards (procedures);
- Other financial and administrative controls;
- Reporting, financial information;
- Reliability of the GX financial systems;
- Travel; and,
- Adequacy of documentation (requisitions, contracts).

The audit focused on compliance with the Central Agencies' policies and procedures for two financial periods - the fiscal year 2005-06 and fiscal year 2006-07, beginning April 1, 2006 to November 17, 2006.



## **4 APPROACH AND METHODOLOGY**

In executing the audit, the audit team:

- Reviewed relevant documentation, including the Organization Chart, the Delegation Document, CITT's Financial Management Guide, Treasury Board's Portfolio Assessment of CITT's Management Accountability Framework, a Business Case-Reference Level Up-Date, CITT's Planning and Reporting Framework, an audit report of CITT's Human Resources Function and the Management Services Branch (MSB) 2007-08 Priorities;
- Collected and analyzed the financial data contained in the GX financial system for the years 2005-06 and 2006-07, up to November 17, 2006;
- Interviewed all members of the Executive Team, including the Chair (Deputy Head);
- Interviewed the Values and Ethics champion for CITT;
- Interviewed the Heads of Finance, Information Technology and Human Resources as well as all the staff within the Finance and Planning Section;
- Conducted benchmarking with a similar sized Federal Government Agency to determine if its internal policies were applicable to CITT;
- Reviewed a statistically valid sample of 70 financial transactions to ensure compliance with the Financial Administration Act, the Government Contracting Regulations and Treasury Board policies; and,
- Assessed the reliability of the GX accounting system by verifying the information technology (IT) application controls and general controls.

## 5 OVERVIEW OF FINANCIAL ACTIVITY

Analysis of the O&M financial data contained in the GX financial system for the 2005-06 fiscal year and the current 2006-07 fiscal year beginning April 1, 2006 to November 17, 2006 is shown in the following tables:

<b>Analysis of Financial Transactions for the Fiscal Year 2005 - 2006</b>				
<b>Range Of Transactions</b>	<b>Number of Transactions</b>	<b>Percentage of Transactions</b>	<b>Dollar Value</b>	<b>Percentage of Dollar Value</b>
<b>Over \$10,000</b>	42	1.9%	\$513,243	28.5%
<b>\$5,000 to \$10,000</b>	56	2.5%	\$234,035	13.0%
<b>\$1,000 to \$5,000</b>	372	16.8%	\$667,764	37.2%
<b>Under \$1,000</b>	1,749	78.8%	\$383,898	21.3%
<b>TOTAL</b>	<b>2,219</b>	<b>100.0%</b>	<b>\$1,798,940</b>	<b>100.0%</b>

<b>Analysis of Financial Transactions for the Period Apr. 1 to Nov. 17, 2006</b>				
<b>Range Of Transactions</b>	<b>Number of Transactions</b>	<b>Percentage of Transactions</b>	<b>Dollar Value</b>	<b>Percentage of Dollar Value</b>
<b>Over \$10,000</b>	3	0.33%	\$33,536	6.99%
<b>\$5,000 to \$10,000</b>	18	2.00%	\$74,853	15.59%
<b>\$1,000 to \$5,000</b>	134	14.85%	\$227,094	47.30%
<b>Under \$1,000</b>	747	82.82%	144,602	30.12%
<b>TOTAL</b>	<b>902</b>	<b>100.0%</b>	<b>\$480,085</b>	<b>100.0%</b>

## **6 AUDIT FINDINGS**

### **6.1 Financial Management Control Framework**

The Finance and Planning Section is currently comprised of six employees: the Chief (FI 04), Financial Advisor (FI 02), Financial Assistant (AS 02), Senior Planning, Performance and Policy Coordinator (AS 05), the Procurement Officer (AS 03) and a Procurement Assistant (CR 04). The Director, Management Services Branch (MSB), is the Chief Financial Officer and the Chief, Finance and Planning is the Senior Full-time Financial Officer. CITT is an active participant of the Small Agency Administrative Network (SAAN) and the Small Agency Financial Administrative Group (SAFAG) whose mandates are to improve administrative and financial practices in small government departments and agencies. CITT is a member of the GX cluster group and meets quarterly, or more frequently if necessary, to address system issues.

In the past year, CITT has integrated its financial systems (i.e., procurement, asset management and salary management), resulting in an increase of its capacity to improve data integrity and timely information. It also developed a Financial Planning and Reporting Framework and revised its budgeting and forecasting processes. The Financial Planning and Reporting Framework was developed to provide a cohesive internal planning process so that external reporting requirements related to the Government's Expenditure Management System could be better met. Currently, there are 48 different external reports that CITT is required to provide to Central Agencies with their frequency varying from daily to annually.

CITT's Executive Committee is comprised of the Chair and the other four Branch Heads. This Committee meets bi-weekly and deals primarily with policy, financial, administrative and human resource matters. Finance is taken seriously within the CITT as budgets are closely monitored and formally reviewed by this Committee on a quarterly basis and, more frequently, as year-end approaches. Shortfalls within the Operations and Maintenance budgets are presently being funded from salary surpluses. The members of the Executive Committee work collectively at re-allocating funds to areas of CITT where it's most needed. In each Branch, management meetings are also held weekly or bi-weekly; as well, annual Branch retreats are held. CITT also held an all-staff retreat in 2005-06.

There is a strong commitment to values and ethics throughout CITT and it is regarded as an important element of good governance. One of its Members is the values and ethics champion and is also called upon to share his knowledge and experience with other government tribunals. Course material has been developed and workshops have been provided to CITT staff on the subject. Management has also demonstrated and communicated the importance of values and ethics through staff retreats, staff meetings, e-mails and the intranet. Each employee has been provided with the Public Services Value and Ethics Code. Also, the Governor-in-Council Members, who are appointed to make decisions with respect to fairness of trade practices and procurement, have been

given comprehensive training sessions on values and ethics. In 2005, Treasury Board (TB) assessed the Management Accountability Framework (MAF) and commended CITT for “its efforts in embedding values and ethics into everyday practice”.

CITT managers demonstrate a clear understanding of managing financial resources. This is likely a function of the limited financial resources for O&M expenditures and the limited discretion managers have in spending these funds. Managers appear to treat these budgets as if they were almost their very own. Management, including executive members, have received training on financial delegated authority and understand their financial responsibilities. The Performance Management Agreements (PMAs) for executive staff include a commitment that deals with financial management responsibilities.

Notwithstanding the aforementioned, there are areas where the Financial Management Control Framework could be further strengthened by:

- *Developing specific policies and procedures for CITT.* CITT has only a few internal policies and procedures (i.e., acquisition cards, financial delegation and internal requisitions) relating to finance and administration. Instead, CITT relies on Treasury Board policies for direction and guidance. Given that there is a lack of experienced back-up personnel, it would be beneficial to have customized policies and procedures in place to ensure that transactions are processed accurately, consistently and in a timely manner, especially when key staff is absent. Policies and procedures would also speed up the learning curve for new employees.
- *Establishing a challenge mechanism for contracting i.e., a Contract Review Board (CRB).* In the past two years, most contracts were sole-sourced without documented justification, some of them being repeat contractors. A CRB would better assure that there is transparency and integrity with the contracting process, compliance with regulations and receipt of value-for-money.
- *Co-locating all staff within the Finance and Planning Section on the same floor.* The Procurement Unit is located on a different floor from other staff in the Finance and Planning Section. Locating the Finance and Planning Section on one floor would allow for closer supervision and better interaction amongst the Section staff. CITT is currently examining its accommodation requirements and this issue could be addressed as part of this study.

## RECOMMENDATIONS

- 1. The financial function within CITT is well managed and controls are generally in place. The following recommendations should strengthen the Management Control Framework and provide better assurance of good management practices by:**
  - a. Developing internal policies and procedures for finance and administration activities where required.**
  - b. Establishing a Contract Review Board to improve the transparency and the integrity of the contracting function, to ensure compliance with contracting regulations and to ensure that value-for-money is received.**
  - c. Co-locating all staff within the Finance and Planning Section on the same floor to allow for closer supervision and better interaction.**

### 6.2 Delegation Document

CITT's delegation document was last updated in July 2006 with no major changes taking place. Responsibility centre managers with delegated authority have all received formal training in exercising spending authority (Section 34 FAA). Payment authority is limited to the Chair, the Director Management Services (Senior Financial Officer); the Chief, Finance, Planning and Administration (Senior Fulltime Financial Officer); and, the Financial Advisor. The Chief, Human Resources, has delegated payment authority for pay related documents. There is adequate division of duties and the review of payment vouchers supports that persons exercising their respective authorities are properly delegated to do so. There were no instances found, in our review of documentation, where payment and spending authority were exercised by the same individual, or where the individual exercising signing authority had benefited personally.

### 6.3 Contracting and Procurement

#### 6.3.1 Contracting – Service Contracts

Most contracting is for less than \$25,000 and in 2005-06 CITT awarded 25 contracts. Nineteen (19) of these contracts were sole-sourced, two were contract amendments and four were conducted using the traditional competitive approach. In 2006-07 (to January 8, 2007), there were 13 contracts, from which 11 were sole-sourced.

There is no formal challenge mechanism for contracting within CITT i.e., a Contract Review Board in place. Essentially, the Head of the Procurement Unit is carrying out the contracting function with minimal supervision.

For sole-source contracts, a checklist is available (i.e. Sole-Source and Limited Tendering Certificate) but seldom used. Within contracting files, there is no recorded evidence of a justification for sole-sourcing of the selected contractor. On occasions, managers will

request that a particular contractor be contracted and, it is noted, that there is a number of repeat contractors.

The volume of contracting in the CITT is not high but is increasing largely because of demands from Central Agencies and the limited internal resources within CITT to meet this workload. It was noted that two contracts in excess of \$10,000 in 2005-06 were not posted on CITT's internet site as required by the Pro-Active Disclosure Policy of TB.

In our review, four contract files were examined, three of which were sole-sourced. The competitive contract was awarded using the traditional approach with a Request for Proposal (RFP) and three bids were received. A team of two evaluators was established (an evaluation team should have three members). Both evaluators rated the same contractor as having the highest technical score. This firm, however, was not awarded the contract. Although price was the basis for final selection, there was no documentation or summary prepared and contained in the contract file to justify the rationale for the selected contractor.

Given the role of CITT as an adjudicator in ensuring the procurement process is fair and not discriminatory, it is important that there be no issues concerning the integrity of the contracting process within CITT. It is important, therefore, that CITT have in place the necessary controls when awarding contracts. The introduction of a challenge mechanism would ensure that there is consistency with contracting regulations, economies are being achieved and contract deliverables are properly defined (see recommendation 1.e. in section 6.1). Contract files need to contain a checklist to ensure that all the pertinent steps in the contracting process have been followed and that the files contain the proper documentation. A post evaluation of contractors following the completion of the assignment would also be beneficial in ensuring deliverables have been met.

## **RECOMMENDATION**

- 2. CITT should develop a contracting checklist to ensure that all pertinent steps in the contracting process have been followed and that the contract files contain all the required documentation, including evidence of sole-sourcing justification.**

### **6.3.2 Procurement**

Most procurement for CITT is carried out by the Procurement Unit. For the past year, the Procurement Officer has been reporting to the Chief, Finance and Planning and is assisted by a Procurement Assistant who is relatively new to the position. The Procurement Officer performs his duties with minimal supervision. Also, the fact that the Chief, Financial Services is located on a different floor only adds to the situation. While the volume of procurement is not high, averaging about 20 transactions per month, there are no documented policies and procedures and, should someone be absent for any length of time, this could pose a problem for CITT. **(Refer to recommendation 1.e. in section 6.1 of this report)**

## **6.4 Hospitality**

In 2006-07, from April 1 to August 31, 2006, a total of 17 hospitality events took place at a value of \$5,565.64. CITT has no specific internal policies on hospitality but, rather, relies on the TB policy. Branch Heads are approving hospitality and, in the case of a Branch Head extending hospitality, the Chair will approve. When events take place, the list of attendees is attached to the claim. The hospitality of the Chair and the two Vice-Chairs is reported on the internet as required by TB's Pro-Active Disclosure Policy. The Office of the Controller General (OCG), in undertaking an audit of travel and hospitality across small departments and agencies, carried out a preliminary survey of CITT. The OCG determined that due to the low risk, the adequacy of controls and limited expenditures, CITT was excluded from the audit scope.

## **6.5 Acquisition Cards**

Acquisition cards are used to procure goods and services, where possible. Ten cards have been issued to various staff with different limits for each card. Cards are issued in the name of the cardholder. The individual assigned a card signs an agreement acknowledging his/her responsibilities and obligations to CITT. The Finance Section maintains a listing of all outstanding cards and their limits.

Acquisition cards are intended to streamline the procurement process by bringing efficiency to the system i.e., by reducing the paperwork and signatures required and by minimizing the number of cheques issued. However, within CITT, the process is cumbersome and involves generating unnecessary paperwork i.e., an Internal Requisition, and obtaining signatures which takes place after the acquisition has been made. Some cardholders are reluctant to use the card because of the associated work involved.

In using the acquisition card, the Internal Requisition form is redundant in that the procurement has already been made and "expenditure initiation" authorization is taking place "after-the-fact". The card itself is the vehicle to expedite the purchase, whereas the authority to initiate any expenditure lies with the RC manager whose budget is being charged. Instructions from the RC manager to procure a good or service is sufficient authority to proceed with the acquisition. The cardholder should retain evidence (usually an e-mail) to support the request.

### **RECOMMENDATION**

- 3. CITT should eliminate the use of the Internal Requisition form when using acquisition cards.**

## **6.6 Other Financial and Administrative Controls**

### **6.6.1 Accounting Controls**

Staff within the Finance Section has the necessary expertise to effectively carry out its responsibilities. The clients (Branch Heads) stated that they are fully satisfied with the

level and quality of services provided by Finance. Duties and responsibilities within the Finance Section have been appropriately defined and segregated.

Documentation supporting financial transactions is comprehensive and provides an adequate audit trail. Financial records are complete and properly safeguarded. The Chart of Accounts reflects the organization structure of CITT and provides the necessary coding elements for effective financial tracking. This Chart is reviewed and updated annually. Every few days, the listing of vouchers sent to PWGSC for payment is reconciled to the GX system which facilitates the month-end reconciliation of the trail balance. Specimen signatures are on hand and kept current to allow for the proper verification of financial transactions.

A Financial Management Guide was developed in July 2006. This Guide largely provides references to the various TB policies and does not contain policies and procedures specific to CITT. Given the relatively small size of CITT and the lack of experienced back-up personnel, it would be beneficial to have customized policies and procedures in place to ensure that, whenever staff is absent, transactions are processed accurately and in a timely manner. In the all-staff retreat held by CITT in 2005-06, staff expressed a need to post policies, procedures and terms of reference on the intranet to allow for better access by employees. **(Refer to recommendation 1.d. in section 6.1 of this report).**

#### **6.6.2 Commitment Control (Section 32 of the FAA)**

Commitment control is designed to ensure that funds are available to discharge any debts incurred under contractual or other arrangements. Within CITT, discretionary funds are easily managed given their small amounts and their allocation to the various responsibility Centers.

The current practice in CITT is to commit each expenditure transaction, some of which is after the expenditure occurs, regardless of the dollar amount. To formally commit each transaction into the GX system is administratively onerous and time-consuming. In 2005-06, 1,749 (78.8%) of the total 2,219 transactions were under \$1,000 and represented 21.3% of the total spent. Their average amount was \$219.50. In 2006-07 up to November 17, 2006, 747 (82.3%) of 902 transactions were under \$1,000 averaging \$193.58 per transaction. These transactions represented 30.1% of the total spent.

Given their small dollar value and the high volume of transactions under \$1,000, a considerable effort is spent in managing the commitment of a very small portion of the budget. Significant paperwork is involved and consumes a considerable part of the Financial Assistant's time. This amplifies a need to change the current practice.

The Chief, Finance and Planning is concerned that, without the existing tight controls in Finance, overspending will occur. It needs to be recognized that Branch management who has the budget, and not the Finance Section, is accountable for ensuring that overspending does not occur. Each Branch is accountable for making sure there is funding available to discharge the expenditure. The Director MSB indicated that, if this



responsibility is to be devolved to the Branches where it rightfully belongs, financial training of the Administrative Assistants will be required. The establishment of an appropriate dollar threshold, whereby only higher dollar value transactions would be formally committed into the GX financial system, would also reduce the workload in Finance. We did not note any instances of overspending of allotments or appropriations. In fact, CITT has incurred small lapses of funds in the past two years indicating a close monitoring of its financial resources. It is expected that CITT will lapse funds this current year due to a decrease in the Tribunal's work caseload.

#### RECOMMENDATION

- 4. CITT should devolve commitment authority to the Branch Administrative Assistants and provide the applicable financial training to the Assistants to allow them to carryout their delegated authority.**

##### *6.6.3 Account Verification*

In our examination of the account verification process, a sample of 70 transactions was selected using accepted statistical sampling methodology and utilizing ACL software. The sample, using a 95% confidence level with an expected error rate of 5%, was taken from financial data contained in the GX financial system for fiscal year 2005-06 and the current fiscal year to November 17, 2006. The transactions were examined against the criteria outlined in Section 7(c) in the attached Appendix A – Audit Criteria of this report. The sample size of 70 transactions was selected from the following ranges:

- 14 transactions over \$10,000;
- 14 transactions from between \$5,000 and \$10,000;
- 14 transactions from between \$1,000 and \$5,000, and
- 28 transactions in the range below \$1,000.

Our findings indicated that each transaction is well supported with adequate documentation. Payments and settlements are verified pursuant to Section 34 of the FAA by officers with the necessary delegated authority. The supporting vouchers contain evidence that the account verification has been undertaken by the Financial Assistant. Due to the relatively small volume of payment vouchers, about 20-30 per week, one hundred percent (100%) of the vouchers are verified by Finance. Payment authority under Section 33 of the FAA is being exercised by the Chief, Finance Planning and Administration or the Financial Advisor, both positions having the necessary financial delegated authority. There is no evidence that spending and payment authorities are being exercised by the same individual for a particular payment and no indication that those exercising delegated authority are benefiting personally from a particular transaction.

The Financial Assistant closely monitors the payment process to ensure that payment authority is exercised promptly and that supplier's invoices are being paid on time, thus respecting the requirements of the Payment on Due Date (PODD) Policy.

## **6.7 Financial Reporting (Internal/External)**

### **6.7.1 Internal**

Branch Heads are provided with quarterly financial reports and/or ad hoc reports on request. Management indicated that it is satisfied with the financial reports provided and any request for additional financial information is responded to on a timely basis. The Chief Finance and Planning stated that the intention is to provide financial reports on a monthly basis.

Various financial reports can be readily accessed from the GX system; however, there is a certain level of expertise required to action these reports. Branches should be able to obtain financial information directly rather than requesting the information through the Finance Section. This will require that Branch Administrative Assistants become familiar with the capabilities of the GX system.

There is a need to improve the financial management of projects. The GX system has the capability of providing financial “project” information; however, the project module is not currently being utilized. The Branch Administrative Assistants are not properly coding related costs to the projects. In the current year, there are 36 projects totaling \$323,025. The Financial Advisor, when requested to provide financial information on a project must compile and assemble the requested information, which takes considerable time.

### **RECOMMENDATIONS**

- 5. The Branch Administrative Assistants should be provided with the necessary training on the use of the GX system to extract information when required.**
- 6. The project module in the GX system should be utilized.**
- 7. The Branch Administrative Assistants should properly code costs relating to the various projects.**

### **6.7.2 External**

CITT recently developed a Financial Planning and Reporting Framework to assist in meeting its external reporting requirements for Central Agencies. A review of CITT’s Financial Statements for fiscal years 2004-05 and 2005-06 indicated that these statements conform to TB Accounting Standards and are professionally presented. TB’s Management Accountability Framework Assessment prepared in May 2006 contained similar comments about CITT’s Financial Statements and indicated that CITT obtained an “A” grade with respect to its Public Account Plates.

## **6.8 Reliability of Financial Systems (GX)**

The audit of the GX accounting application system involved the verification of the information technology (IT) application controls and the IT general controls. These controls were evaluated to ensure that transactions are valid, properly authorized and accurately processed.

### **6.8.1 Application Controls**

The application controls apply to the processing of individual transactions and consisted of programmed procedures (i.e. the specific programs to process or edit a transaction) or non-programmed controls (i.e. manual balancing of IT produced information).

Regarding the existence of controls and their adequacy, evidence was obtained on the following points to determine whether:

- the data processed was genuine, complete, accurate and not provisional;
- the expected output was produced and distributed on time;
- the application programs processed the data as intended and accurately;
- a complete audit trail was available for tracing back a transaction from the final result to the initial input;
- the data and changes to it were authorized by appropriate authority both in the user and computer departments;
- schedules for receipt of input data were maintained and what was the extent of compliance;
- there was a preliminary check on input data to ensure completeness; and
- the GX application provided for the following programmed controls:
  - (a) Check for missing/duplicate transactions;
  - (b) Input validation for data purification (alpha- numeric checks to conform to data types);
  - (c) Check digits;
  - (d) Compatibility checks;
  - (e) Exception condition check; and
  - (f) Total for a batch/lot.

Our findings indicated that the GX application system as a client/server LAN version provides an integrated set of functionalities for the management and operational controls of the financial information. These controls are used to provide assurance (primarily to management) that all transactions are valid, authorized and recorded.

The controls that are in place provide a reasonably guarantee that the data received for processing are genuine, complete, not previously processed, accurate, properly

authorized, are entered accurately and without duplication. Only authorized users can access the database through the GX application.

Controls within GX ensure the integrity of data i.e., using check sums derived from the data. The aim of such controls is to detect external amendments to data due to system failure or use of system amendment facilities such as editors. Within the application, there is a transaction log which contains sufficient information to identify the source of each transaction.

Reconciliations of totals derived from input transactions to changes in data files are performed to ensure the validity, completeness and accuracy of the data and program files used. These reconciliations are carried out two or three times weekly. This provides reasonable assurance that processing has been accurate and complete.

The application controls, both programmed and non-programmed, either within the network system or the financial applications, are also adequate to detect corrupted data in the transmission of batch data.

The GX application has special controls in place when generating a file transfer to the Receiver General for performing payments i.e., validation of supplier identification number prior to processing of payment. Since a programmed control by itself may not be sufficient to ensure the application is preventing errors from occurring during processing, CITT is using non-programmed controls such as a control log book for the total transferred as a header file and a detailed listing of the supplier being paid.

Concern was expressed regarding the efficiency of the application, more specifically, the navigation tool bar and menu items within the application. The consensus is that the menu and tool bar is not intuitive and complicated. It impacts on the user's time in entering data, performing enquiries and producing reports.

#### **RECOMMENDATION**

- 8. CITT, as part of the cluster group of small agencies using GX, should, with the approval of Treasury Board, request the developer of the GX system to examine the possibility of integrating the new features of the Microsoft Office 2007 navigation toolbar and menu into the system. This recommendation may require additional funding and a budgetary allocation for this upgrade.**

#### **6.8.2 General Controls**

CITT has an Information Technology (IT) Section that has the following responsibilities: supervising the acquisition and upgrades of the GX application; providing and maintaining access security to the network and the GX back-end database; and overseeing the implementation of the application with the main developer of the GX system.

The IT infrastructure and expertise was evaluated and appropriate controls were found to be in place. In particular, the following was noted:

- appropriate written authorization is obtained before a system change is initiated, all changes are supported by a standard request form that describes the nature of and reason for the system change, all of the upgrades are tested and approved before they are implemented;
- software and physical measures are in place to prevent and detect unauthorized changes to systems software and applications. Furthermore, upgrades can be performed only by the developers of GX;
- the level of security for sensitive data files and programs is in place and maintained;
- enforced standards have been established to control the use of passwords;
- appropriate physical and logical access controls are in place to secure the IT application's supervisory and utility programs;
- only authorized users have access to the GX application and data, and are assigned to perform specifically designed functions (e.g., inquire, data entry and/or update); and
- important activities and functions to maintain the computer system are performed.

## 6.9 Travel

CITT is not administering a large dollar travel budget. In 2005-06, there were 75 claims totalling \$71,371. In the initial five months of the current fiscal, there were 33 claims for \$26,091. The Office of the Controller General, in conducting a functional audit of travel and hospitality across small departments and agencies during the current fiscal year, excluded CITT from its scope of audit, owing to the adequacy of financial controls, low risk and the immateriality of these expenditures.

Travel is tightly controlled. Each Branch has its own travel budget allocation and its budget is closely monitored. There are few travel advances issued. Most travelers are provided credit cards with a maximum limit of \$3,000. These travel cards, even though issued in the cardholder's name, are returned to Finance following completion of a trip. The Financial Assistant monitors itineraries to ensure claims are filed within ten days of returning from a trip. A full audit of each claim is conducted. As part of the Pro-Active Disclosure policy, travel claims for the Chair and the two Vice-Chairs have been accurately posted on CITT website.

## 6.10 Adequacy of documentation (requisitions, contracts)

From our review of a sample of 70 transactions selected using accepted statistical sampling methodology, it was demonstrated that the supporting documentation is comprehensive and provides an adequate audit trail. On the other hand, a review of contracting files revealed that documentation could be more complete (**Refer to recommendation 2 in section 6.3.1 of this report**).

## **7 SUMMARY OF AUDIT RECOMMENDATIONS**

- 1. The financial function within CITT is well managed and controls are generally in place. The following recommendations should strengthen the Management Control Framework and provide better assurance of good management practices by:
  - a. Developing internal policies and procedures for finance and administration activities where required.**
  - b. Establishing a Contract Review Board to improve the transparency and the integrity of the contracting function, to ensure compliance with contracting regulations and to ensure that value-for-money is received.**
  - c. Co-locating all staff within the Finance and Planning Section on the same floor to allow for closer supervision and better interaction.****
- 2. CITT should develop a contracting checklist to ensure that all pertinent steps in the contracting process have been followed and that the contract files contain all the required documentation, including evidence of sole-sourcing justification.**
- 3. CITT should eliminate the use of the Internal Requisition form when using acquisition cards.**
- 4. CITT should devolve commitment authority to the Branch Administrative Assistants and provide the applicable financial training to the Assistants to allow them to carryout their delegated authority.**
- 5. The Branch Administrative Assistants should be provided with the necessary training on the use of the GX system to extract information when required.**
- 6. The project module in the GX system should be utilized.**
- 7. The Branch Administrative Assistants should properly code costs relating to the various projects.**
- 8. CITT, as part of the cluster group of small agencies using GX, should, with the approval of Treasury Board, request the developer of the GX system to examine the possibility of integrating the new features of the Microsoft Office 2007 navigation toolbar and menu into the system. This recommendation may require additional funding and a budgetary allocation for this upgrade.**

## **Appendix A: Audit Criteria**

Audit Criteria identifies the standards against which an assessment is made, clarifies the audit objectives and form a basis for the work plan and the conduct of the audit. The audit criteria used, in undertaking this audit, are specific to the audit objectives and scope of this project within CITT.

### **FINANCIAL MANAGEMENT CONTROL FRAMEWORK**

#### **Audit Criteria**

- Senior Management supports the operational activities and organizational policies and ensures that the organization is appropriately and effectively guided, managed and controlled.
- The organization has the ability to carry out the necessary financial activities competently (resources, authority, accountability and training).
- Executive management ensures that organizational and procedural controls are in place and are supported by an effective financial information system.
- There is effective monitoring in place to ensure financial activities have been carried out in accordance with established policies and procedures.
- A code of conduct for Finance is in place and employees sign an acknowledgement indicating their awareness and compliance with this code.
- Financial Business Plans ensures that conclusions, recommendations, projections and assumptions are supported by adequate and appropriate information, scrutiny and analysis.
- A strategy exists for Finance HR recruitment, training and development, and skills are commensurate with responsibilities.
- Documented controls and processes are authorized, adequate and current.
- The delegation of authorities and any restrictions are understood and operationally in effect.
- Duties are clearly and distinctly segregated between financial personnel who can authorize, supervise, initiate or execute transactions – as separate from those who record and/or account for transactions for reporting purposes.
- Controls for all accounting, record keeping and financial reporting processes to ensure the completeness of accounting information, accuracy of information reported, timeliness of all amounts reported, the validity of transactions and the proper maintenance of records are in place.
- Processes exist for the safekeeping and protection of organizational assets and those assets entrusted to the organization from external parties and are accurately reflected in the financial reporting process.

- Financial management actively monitors business performance against targets and regularly assesses whether remedial actions are required to mitigate risk and/or improve performance.

Financial systems hardware and software satisfy the financial reporting strategy of CITT.

### **DELEGATION AUTHORITIES (DELEGATION INSTRUMENT)**

#### **Audit Criteria**

- A formal Delegation of Financial Signing Authorities Instrument has been put in place to establish financial authorities and limitations.
- Policies and procedures are established that ensures adequate control over delegated authorities, and that persons with delegated authorities are well informed of their responsibilities in this regard.
- No person is exercising authorities unless they have been formally delegated these authorities and the officer to whom the incumbent reports has formally designated the person.
- The process ensures signatures of persons authorized to exercise authorities can be authenticated before or after the processing of a transaction.
- Authorities are delegated to positions identified by title, not to individuals by name.
- All delegated authorities are reviewed and updated at least annually.
- Spending authority is delegated to managers relative to their budgetary responsibility to ensure they have adequate authority and full responsibility for decisions.
- Payment authority is delegated to positions classified as “financial officer” who can independently verify officers exercising spending authority.
- Controls are established to ensure a specimen signature document is prepared as soon as a new employee is appointed to a position with delegated authorities and that the documents must be available in all locations where signatures will have to be recognized/honored. The document is cancelled when the incumbent gives up the duties of the position, and withdrawn and replaced when a reorganization or policy changes modify any of the information it contains.

### **CONTRACTING AND PROCUREMENT**

#### **Audit Criteria**

- All necessary documentation in support of the contracting and procurement processes is available to officers exercising delegated authorities under Sections 32, 34 and 33 of the FAA.
- Contracts and/or procurement documents (where applicable) are in place and duly signed before any payment is made to the contractor or supplier.



- Payments are made in accordance with the payment schedule specified in the contract or procurement document.
- CITT is in compliance with the policy on the mandatory publication of contracts over \$10,000 on the internet.

## **HOSPITALITY**

### **Audit Criteria**

- CITT uses government owned facilities when appropriate/available.
- Hospitality in private residences or less formal or recreational settings have prior approval of the CITT Chairperson.
- Government's commitment to equity for all Canadians is considered when selecting an establishment for hospitality.
- Functions minimize costs but are consistent with the status/rank of guest, number of guests and circumstances.
- Limits are established in planning all hospitality functions.
- CITT ensures hospitality expenses are recorded under economic object 0482 and that CITT records show the circumstance, form of hospitality, cost, location, number of attendees by category and approvals by appropriate delegated officials.
- Certain restrictions regarding hospitality to government employees are respected.
- Certain functions that are exceptions to the policy have prior approval of the CITT Chairperson.
- CITT is in compliance with the policy on the mandatory publication of hospitality.

## **MATERIEL MANAGEMENT**

### **Audit Criteria**

- Appropriate systems and procedures are in place to ensure that assets are safeguarded and accurate and reliable information on the management of assets is available to decision-makers.
- Materiel assets, designated as attractive goods, are given the level of protection necessary to prevent their unauthorized use.
- The disposal of surplus materiel assets is concluded as effectively as possible, as soon as possible after they become surplus to CITT requirements, and in a manner that obtains highest net value for the Crown.
- CITT has a sound Long Term Capital Planning process that is integrated with the Report on Plans and Priorities and Main Estimates Processing.
- Duties for capital asset management are appropriately segregated.

## **ACQUISITION CARDS**

### **Audit Criteria**

- CITT has designated a Co-ordinator for acquisition cards. This person is responsible for authorizing the issuance of acquisition cards, for a monitoring program designed to ensure reliable control over the use of acquisition cards and overall management of the acquisition cards program.
- CITT has established policies and procedures to ensure economical, efficient and secure use of acquisition cards.
- Payments to the acquisition card company are processed in a timely manner to avoid paying interest and to maximize rebates.
- CITT has specified the types of items that may be purchased, the dollar limits of purchases, limitations on certain types of purchases and the kind of situations in which the acquisition card is to be used.
- Use of acquisition cards is subject to certain restrictions such as only the person whose name appears on the card may use it, its use is restricted for only authorized official government purchases, etc.
- Cardholders are informed of his/her responsibilities and restrictions regarding the use of the acquisition card. Each cardholder has signed a written acknowledgment of responsibilities and obligations before receiving the acquisition card.
- Records of purchases made with acquisition cards are kept for audit trail purposes and to facilitate reconciliation and account verification.
- Persons having proper expenditure initiation and purchasing authority are authorizing purchases made by the cardholder.
- CITT is undertaking periodic reviews of the use of the acquisition cards to determine whether they are being used in accordance with the policy.

## **OTHER FINANCIAL AND ADMINISTRATIVE CONTROLS**

### **a) Accounting Controls**

#### **Audit Criteria**

- Adequate books and records of financial transactions are maintained for audit trails and supporting documentation is comprehensive.
- The Chart of Accounts embeds organizational structures and desired coding elements for financial management tracking.
- Appropriate coding is used for capturing transactions and accounts are examined on a regular basis.
- Sufficient resources and expertise exist for the provision of accounting services.

- Accounting policies and procedures are clearly documented and understood.
- Signing authority specimen signature cards are in place to ensure all transactions are properly approved.
- Transactional documents are complete and properly safeguarded.
- Month end reconciliation and year end procedures are documented, communicated and followed.

#### **b) Commitment Control (Section 32 FAA)**

##### **Audit Criteria**

- Sufficient balances are available in their approved allotment ceilings to discharge any debts incurred under any contractual or other arrangement.
- Policies, systems, and procedures are in place to ensure that commitments are controlled and that records pertaining to them are maintained.
- Delegation of responsibility for the control of commitments is in writing and specifies the extent and limitations of the authority. The written delegation is included in CITT's financial authority delegation instrument.

#### **c) Account Verification**

##### **Audit Criteria**

- All payments and settlements are verified and certified pursuant to Section 34 of the FAA.
- Spending authority (Section 34 of the FAA) is exercised in a timely and efficient manner.
- Financial Officers with payment authority (Section 33 of the FAA) provide assurance of the adequacy of the Section 34 account verification and state that the process is properly and conscientiously followed.
- Payment and spending authorities are not being exercised for a transaction for which the signatory can benefit personally.
- Spending and payment authority are not being exercised by the same individual for a particular payment.
- The account verification process provides for auditable evidence of verification, including identifying the various individuals who performed the verification.
- Suppliers of goods and services are paid on the due date, in accordance with the contract, as specified by a standard payment term, 30 days from receipt of an invoice or acceptance of the goods or service whichever is later.
- The financial system (GX) has the necessary internal controls to ensure that the requirements of the Payment on Due Date (PODD) Policy are respected.

- Internal policies are established and documented outlining the extent of verification required, based on risk considerations.
- If applicable, sampling methodology is consistent with sound sampling theory and practice.

### **REPORTING, FINANCIAL INFORMATION**

#### **Audit Criteria – Internal Reporting**

- Internal and ad hoc financial reports meet the needs of users and are produced in an efficient, timely and accurate manner.
- Internal reporting is actively monitored and improved to reflect changing information needs.
- Documented procedures exist for the preparation of budgets, forecasts and budget allocations.
- Standardized processes and infrastructure are in place to support decision-makers personnel to identify and allocate resource requirements efficiently and effectively.
- Financial obligations are recorded as commitments and forecasts are prepared on a regular basis to review financial obligations and anticipated financial results.
- An effective financial management system is in place to provide reliable and useful financial information for the management of financial resources.
- The Chart of Accounts is appropriately designed, actively monitored and maintained to meet the needs of CITT.

#### **Audit Criteria – External Reporting (Submissions to Receiver General including Public Accounts, TB, Access to Information and other external reports)**

- External reports are consistent with business line structures, and meet user and decision-maker needs with an objective view of CITT resources.
- External reporting requirements are documented.
- External reports are prepared in accordance with CITT and central agency requirements and GAAP for the Public Sector.
- Financial systems are capable of meeting external reporting requirements in a timely, accurate and efficient manner.
- Appropriate capability exists to provide for reliable, accurate and timely responses to ad hoc external reporting requests (Access to Information enquiries, etc.).
- External reporting is actively monitored, evaluated and improved.

### **RELIABILITY OF FINANCIAL SYSTEMS (GX & HRIS)**

#### **Audit Criteria**

- A standardized information technology infrastructure is in place and is regularly assessed to ensure appropriate capacity and functionality to support user's needs.
- Sufficient resources and expertise exists for the provision of sound systems' support and development activities.
- System documentation and training is available and offered to end users.
- Appropriate system security controls have been put in place to protect CITT's GX and HRIS systems and information.
- Data integrity and retention issues have been addressed.
- Financial system management activities are actively monitored, evaluated and improved.

### **ADEQUACY OF DOCUMENTATION**

#### **Audit Criteria**

- CITT has determined the appropriate documentation or information required to support the verification process for each type of payment in order to ensure an adequate audit trail is maintained.
- Documentation includes information relating to contracts, leases, purchase orders/requisitions, staffing requests, program terms and conditions and the like. Other documentation is maintained to provide evidence of the extent of the commitments involved, the agreed prices for the services and supplies, the precise specifications and requirements, and the agreed payment terms.

### **TRAVEL**

#### **Audit Criteria**

- CITT procedures are consistent with TBS policy.
- Monitoring practices and controls are adequate to ensure compliance with travel policies.
- The financial system is used to the fullest extent to meet management's information needs. Reporting to management should be in a comprehensive, consistent and timely manner.
- Risks are identified, assessed and managed.
- Travel expenses are authorized in advance to ensure these expenses are incurred in accordance with the provisions of TBS policies.

- Travel claims have the requisite level of detail for certification of expenses by the Manager under FAA Section 34 and for account verification under FAA 33 by Financial Officers.
- Travel is conducted in an economical and appropriate way to facilitate government business.
- All travel expenses for selected officials, including the Chairperson, is published on the internet in accordance with the policy on the mandatory publication of travel expenses.
- Expenditures incurred for travel are in compliance with the Travel Policy, represent value to the Crown, and represent fairness to the employee.
- All travel is made with Government Travel Services.