

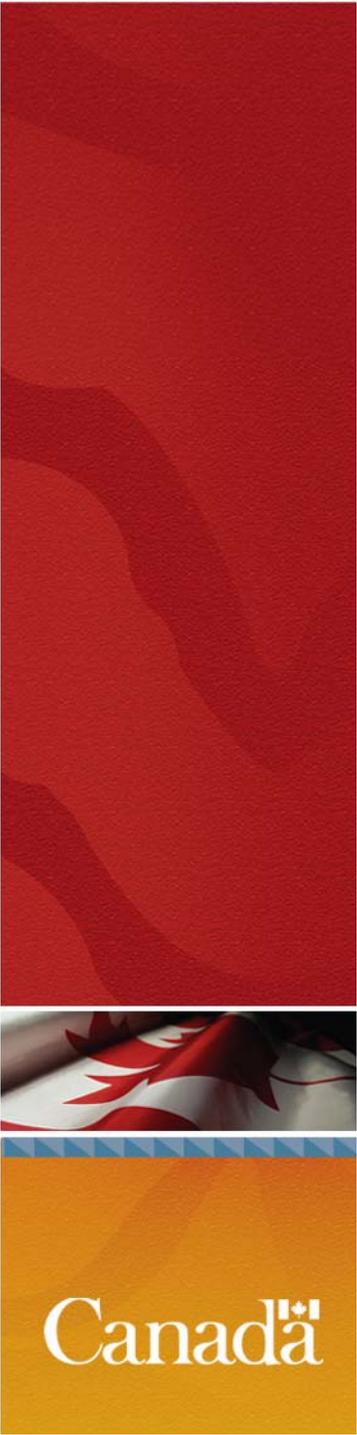


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CFO Sector Management Practices Review

Final Report November 2009

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Canada



Background and Objectives

Background

- Since 2007, The Audit and Evaluation Sector (AES) has been reviewing the management practices in Regions and Sectors as part of its three year Risk-based Audit Plans.
- To date, all Regions have been reviewed and the balance of Sectors will be completed in 2009-2010.

Objectives

- The objectives of the management practices review are to:
 - Assist Regional and Sector management in assessing whether their management practices and controls are designed to achieve objectives in an efficient and effective manner;
 - Inform senior management of areas of strength and areas for improvement with respect to the Department's management practices and controls; and
 - Inform the AES risk-based audit planning exercise to ensure future audits are directed to the areas and horizontal control systems that present the highest levels of risk.



Scope

- The scope of a typical management practices review includes the management practices as they relate solely to the achievement of a Sector or Region's objectives.
- The CFO Sector, in carrying out its mandate, has both management (Sector) and functional (departmental) responsibilities.
- As a result, the scope of this management practices review was expanded to assess the management practices associated with the Sector's functional support activities provided to the Department.
- The following management practices were assessed during the course of our review:
 - General Management;
 - Strategic and Operational Planning (Management);
 - Risk Management (Management);
 - Coordination of Programs and Activities (Management and Functional);
 - Communication (Functional);
 - Performance Measurement and Reporting (Management);
 - Management Control Framework (Functional);
 - Human Resources Management (Management);
 - Active Monitoring (Management and Functional);
 - Financial Management (Management and Functional); and
 - Accounting (Management and Functional).



Methodology

- On-site work was conducted between March and June 2009 in HQ.
- Interviews were conducted with 18 Sector representatives including the Chief Financial Officer, directors, managers and staff.
- A random sample was selected (judgmental sample in areas of higher risk) of 19 human resource transactions (including staffing, classification, training expenditures relative to existing learning plans, overtime and leave) and 15 contracting transactions (including 5 acquisition card transactions) to assess compliance.



Context

- The Chief Financial Officer (CFO) Sector is responsible for providing strategic advice, oversight and support to the Deputy Minister and Senior Executive Team to ensure integrity and sound financial control and management in the planning, operations, and performance reporting of the Department as well as for IM/IT.
- The CFO Sector is accountable to the Deputy Minister for ensuring that the required frameworks are in place and are promoting compliance with the Department's delegated authorities and controls. This is especially important for INAC; a department that is highly decentralized and is governed by a strong set of management practices that support a high degree of autonomy.
- The Sector plays a significant role in contributing to the Department's overall strategic management including: associated advice, risk management, value for money for business design and outcomes. These activities assist the Sector in advising the Minister and Deputy Minister with respect to overall delegation of authorities and any actions required to correct inappropriate use of authorities.
 - The CFO is also responsible for ensuring and attesting to the financial integrity of central agency submissions.
 - The CFO Sector provides information management and technology services, structures and controls, and contracting, procurement and assets management policies, procedures, and services.
- Activities within CFO Sector are administered through 4 branches:
 - Corporate Accounting and Materiel Management (CAMM);
 - Continuous Business Process Improvements (CBPI);
 - Information Management Branch (IMB); and
 - Planning and Resource Management (PRM).
- 2008/09 total expenditures represented \$ 72,670,890.28 million including:
 - \$ 40,996,989.90 million in operations and maintenance;
 - \$ 31,673,900.38 million in salaries.
- Total HQ employee population at March 31, 2009 was 454; representing 9.3% of INAC's population.



General Management Observations and Findings – Management

Strengths:

- CFO Sector is in the process of updating its strategic priorities to achieve alignment with the updated departmental strategic (corporate) plan and preliminary list of risks. A recent CFO Sector strategic planning session outlined a number of priorities that required further action.
- The CFO Sector has a formal approach in place, through a Quarterly Report, to report its business and operational objectives, results and achievements against its key fiscal year priorities.
- Monthly Financial Status Reporting (FSR), introduced to place an emphasis on resource planning considerations across the Sector, has improved resource planning communication and confidence in the information being reported.
- CFO Sector will be formalizing its risk management activities upon finalization of the Department-wide Corporate Risk Profile; however, the following risk management activities have already been implemented:
 - Reporting on operational risks via the CFO Sector Quarterly reports; and
 - Consideration of risks in Internal Control Over Financial Reporting (ICOFR) control documentation.
 - Risk and control documentation for IT general controls.
- Measures are taken when violations to policies occur (e.g. removal of delegation of authorities)
- The CFO Sector engages external parties to conduct evaluations of existing processes, procedures and policies. The recommendations from these evaluations are then incorporated into CFO Sector programs, activities, and practices.



General Management

Observations and Findings – Management (cont'd)

Strengths:

- The CFO Sector has put in place mechanisms to assess and monitor its operational performance:
 - Communication of performance measures is achieved through performance agreements.
 - The CFO Sector uses the Quarterly Report to monitor and report on operational performance.
 - Workshops and strategic retreats focus on the identification and achievement of strategic objectives.
- The Quarterly Reports:
 - Drive strategy development, performance measures and reporting, providing context on statistics, targets, and outcomes linked to the Management Accountability Framework (MAF) elements and dashboard reporting.
 - Are linked to Deputy Minister performance indicators and service / performance agreements.
 - Help identify / approximate the MAF element rating, which can help drive changes (indicators, performance agreements) in the interim and year-end monitoring period.
- Options are being developed across the Sector for performance measures and reporting based on milestones, variances (quantitative) and client surveys (qualitative).
- Internal targets in relation to the MAF assessment have been developed and are in place. Targets are developed by each MAF lead (senior level) in conjunction with the CFO Sector and used to set the strategic priorities for the Department.
- The IM/IT Quarterly Reports include systems-based indicators, such as asset lifecycle management and service standards.
- A 3 year plan of existing transfer payment linkages is currently under development.



General Management Observations and Findings – Functional

Strengths:

- The CFO Sector utilizes a number of mechanisms to communicate financial, IM/IT and contracting policy and procedural changes / updates throughout the Department.
- CFO Communiqués communicate changes and updates to policies and procedures where financial management and resource management processes have not been formally documented or mapped.
- Memorandum(s) Of Understanding (MOUs) are created to establish roles, responsibilities and procedures.
- The CFO Sector intranet website (contains financial management policies and procedures).
- Annual meetings with regional senior management teams to discuss strategy planning and to identify gaps.
- Bi-weekly conference calls between CBPI and the regional offices to provide advisory support on policies and business plans; information on strategies.
- Training for all RCM managers in the Department to support financial management roles and responsibilities and to coordinate financial practices across the Department.
- Various processes and management models under development or being improved for procurement; Financial Management Administration; and Chief Information Officer.



General Management Observations and Findings – Management

Areas for Improvement:

- Although the Quarterly Report approach meets current performance reporting needs, it is aligned solely to the CFO Sector's operational and business plans, and it will not be sufficient once the Department has updated its strategic planning process.
- Communication of key Financial Management Committee (FMC) action items and initiatives relevant to the CFO Sector is not always timely, resulting in inefficient CFO Sector initiative planning.
 - Minutes should be distributed to the DGs and Directors within the CFO Sector within one week of the FMC.
- Current risk management practices in place are not based on a common approach (identification, measurement, communication and mitigation of risk).
- There are no internally developed indicators for the CFO Sector; rather the performance measurement process is driven by the MAF with action plans identified to respond to MAF elements.



General Management Observations and Findings – Functional *Areas for Improvement:*

- Communication is an area for improvement.
- No formal CFO Sector-wide communication strategy.
- Inconsistencies related to the general awareness and level of communication around the implementation of some new departmental systems (e.g. GLMS) and applications (e.g. Peoplesoft / Nikisa 8.9 upgrade). (Resistance by users who do not clearly understand the values / benefits).
- Practices can be improved to achieve consistency with respect to understanding financial systems and understanding the procedures for processing financial transactions (i.e. F901 and financial signing authority).



General Management Issues and Recommendations

Issue #1 – Strategic Planning and Risk Management:

- Strategic planning, risk management processes and related sector objectives and risks are not consistently understood within the CFO sector. The application of inconsistent approaches within the Department and within the Sector have exacerbated the issue.

Recommendations:

- The CFO Sector leads should promote the development of one consistent approach to risk management and strategic planning and help ensure objectives and related risks are consistently communicated to management and staff throughout the CFO Sector.
- The CFO Sector leads should work with departmental leads to build a common approach, communicating and sharing risk management and strategic planning initiatives/information on a regular basis so that communication is improved and resources are adequately leveraged.



General Management Issues and Recommendations (cont'd)

Issue #2 – Performance Measurement:

- A formal performance measurement strategy and approach has not been developed within the CFO Sector.

Recommendations:

- Once the CFO Sector has completed its strategic planning and risk assessment process, it should develop an integrated performance measurement and reporting strategy and framework to effectively link organizational plans and objectives to expected results.
- The performance measurement and reporting strategy and framework should be aligned and integrated with identified departmental strategic outcomes to facilitate the timely preparation of the Program Activity Architecture (PAA), Report on Plans and Priorities (RPP), Departmental Performance Report (DPR) and other accountability reporting.
- The performance measurement and reporting strategy and framework should establish an appropriate balance between internal and external reporting of results.



General Management Issues and Recommendations (cont'd)

Issue #3 – Communication:

- Absence of a formal communication strategy that meets user requirements within the CFO Sector and across the Department, to promote effective, efficient and timely communication.

Recommendations:

- A CFO Sector communications working group should be established, with IM/IT and Communications representatives, to identify the current communication mechanisms, gaps, and needs.
- A Sector-wide communication strategy should be developed which leverages strategies and procedures already in place.



Management Control Framework Observations and Findings – Functional

Strengths:

- The observed state of the internal control (documentation) over financial reporting was assessed by an independent party, at a relatively high level of maturity (Level 3 maturity – Standardized), indicating control activities are designed, in place, and adequately documented.
- Control documentation, including process flowcharts, narratives and risk-based control matrices, has been developed for selected financial transaction and financial reporting processes within the CFO Sector.
- CFO Sector is in the process of initiating and implementing elements of a CFO Sector-level management control framework for internal controls, based on:
 - Implementation of a remediation plan to help ensure key documents supporting entity level controls are developed and completed;
 - Identification of control gaps;
 - Testing of operating effectiveness; and
 - Implementation of a monitoring strategy.
- A Departmental IM/IT governance structure has been developed.



Management Control Framework Observations and Findings – Functional (cont'd)

Areas for Improvement:

- The CFO Sector readiness assessment resulted in the identification of a number of weaknesses in the current processes and practices to support a controls-based financial statement audit.
- Entity level controls are weak (assessed as medium to high risk) and improvements in the control environment may be hampered by:
 - Complex and sensitive departmental mandate;
 - The geographic dispersion of personnel, partners and stakeholders;
 - Complexities around the HQ and regional governance structure; and
 - Considerable staff shortages and turnover.
- Documentation to support entity level controls and enhanced compliance with procedures and directives that support entity level controls (such as HR policies, employee handbook, Corporate Risk Profile, Financial Management Manual).



Management Control Framework Issues and Recommendations

Issue #4 – Internal Controls:

- CFO Sector has not clearly identified and communicated the current state of INAC internal controls related to financial reporting department-wide and has not established and communicated a clear plan to remediate gaps and achieve internal control expectations of the *Policy on Internal Control*.

Recommendations:

- A defined plan to achieve the requirements under the TBS *Policy on Internal Control* and the controls-based financial statement audit should be established and communicated to senior management within the CFO Sector and across the Department.
- The plan should include the process, required resources and timing of the control test of design, operating effectiveness, and monitoring and maintenance of the control framework.
- The planned approach should include entity-level controls, financial controls and IT general and application controls.



Human Resources Management Background

- The total number of employees in the CFO Sector at March 31, 2009 was 454 (included indeterminate and term employees over three months).
- The Sector reports that it includes 17.8 % Aboriginal/Inuit staff; lower than the overall INAC Aboriginal/Inuit complement of 29.1 %.
- The Sector's long-term goal for Aboriginal/Inuit staffing is to achieve 50 %; in line with the Department's goals.
- 16.3 % of the CFO Sector staff are eligible for retirement within the next 5 years compared to 21.2 % nationally, although many more will be eligible within 7-8 years.



Human Resources Management Observations and Findings

Strengths:

- An integrated HR Plan for the CFO Sector is in place, which highlights the retirement eligibility statistics over the next three years, and is well aligned to the Sector's priorities.
- The CFO Sector has developed a strategic staffing strategy that recognizes the current staffing challenges and identifies the Sector's staffing actions by fiscal year, organization, occupational group, and position funding.
- The following succession management activities and objectives have been identified and are in the process of being developed. The target date for completion is April 2011:
 - Development of succession plans for key positions in the CFO Sector; and
 - The CFO Sector HR Plan's recruiting strategy will focus on the recruitment of high caliber employees via available government programs.
- The CFO Sector is utilizing formal Learning Plans to identify training needs and to support the achievement of its succession planning objectives.
- The Learning Plans are part of the Employee Performance Appraisal Process and are reviewed and approved by the appropriate person.
- Our review of 10 sampled personnel files identified that all files contained a training plan.
- Our review of 19 staffing actions identified that:
 - Director approval was provided on all files;
 - All files had appropriately communicated information and results;
 - All files had a letter of offer;
 - All files identified adequate information within PeopleSoft;
 - All *acting position* files met the HR acting appointment requirements and had justification for the appointment and any extensions;
 - All *overtime requests* were signed by the appropriate person;
 - All *leave requests* were authorized prior to the actual leave;



Human Resources Management Observations and Findings (cont'd)

Areas for Improvement:

- Departures from key senior management and staff positions are currently outpacing succession planning initiatives.
 - There is concern about the depth of potential candidates for succession at all levels (EX, DG, manager, and staff) given the skills and experience challenges within the CFO Sector and the federal government as a whole.
 - While learning plans are developed for all staff, active monitoring is not consistent across the CFO Sector to ensure employees are obtaining identified training.
- The HR Plan does identify positions that are critical to the successful achievement of the Sector's business objectives
- Some reasons for the turnover identified include:
 - Lack of innovation of practice at the departmental level;
 - Informality of processes and procedures;
 - Negative MAF, Internal Audit, OAG, and TBS assessments;
 - Lack of accountability and/or authority at Manager and Director levels; and
 - High demand for FIs and PGs across government



Human Resources Management Observations and Findings (cont'd)

Areas for Improvement:

- Of the 10 sampled personnel files, the following findings were identified:
 - One file was not approved by an authorized individual;
 - One file did not have evidence of course approval and employee attendance;
 - Six files did not have evidence of S34 approval; and
 - Four of the files did not have evidence of monitoring and follow-up of items outlined in the learning plan
- Our review of 19 staffing actions identified that:
 - 10 files did not clearly indicate the staffing authority;
 - 12 files did not have approvals by the requesting manager with delegated authority;
 - Four files did not have sufficient evidence of a fair and transparent evaluation process;
 - 10 files did not link the action to the HR plan;
 - Although most files had a statement of merit on file, none had evidence of authorized work descriptions;
 - None of the files included justification for the area of selection;
 - Eight files did not have sufficient support for the appointment decision;
 - Seven files did not have approved checklists;
 - Two of the files did not document support for the choice of *non advertised* position process or rationale for the appointment; and
 - One overtime request was approved after the overtime was worked.



Human Resource Management Issues and Recommendations

Issue #5 – HR Management:

- The CFO Sector has experienced high turnover in key senior management positions and the Sector has experienced challenges in recruiting and retaining qualified individuals.

Recommendations:

- The CFO Sector should, within the next 2-3 months:
 - Elevate the succession management objective as a medium to high priority item
 - Identify and create succession plans for the critical positions within the Sector and discuss with the individuals holding these positions the possibility of retirement / departure within the next three years
- The results of these activities should be documented and incorporated in the Sector's revised HR Plan, Pillar-based action plans, succession management plans, and the CFO 3 Year Staffing Strategy.



Human Resources Management Issues and Recommendations (cont'd)

Issue #6 – HR Management:

- Overall, the file review of the staffing actions identified weaknesses and inconsistencies in file documentation. Sufficient documentation, including evidence of approvals, needs to be included to support the staffing decisions made and to provide evidence of a fair and transparent process.

Recommendations:

- Management should undertake a periodic review of the process and controls surrounding the approval of staffing actions so that all staffing actions include necessary documentation, including justifications and approvals.



Active Monitoring Observations and Findings – Functional

Strengths:

- The Corporate Accounting and Reporting group annually visits two regional offices to review a sample of transactions prior to data entry to the financial system.
- The DG of Corporate Accounting and Materiel Management chairs the Contracting and Procurement Board - comprised of senior managers from the Materiel and Assets Management Directorate (HQ) and Regional Corporate Services Directorates - a key element in addressing the lack of monitoring that has existed in the area of procurement.
- The Board was established in November, 2008 and meets quarterly to:
 - Provide oversight (monitoring) on contracting and procurement activities within INAC and to ensure that appropriate policies, legislations, and regulations relating to contracting and procurement are respected and adhered to;
 - Address and provide direction on contracting and procurement issues that have department-wide implications; and
- A Management Control Framework has been developed to support Regional and departmental procurement and contracting activities.



Active Monitoring Observations and Findings – Management

Areas for Improvement:

- Concerns have been identified with respect to monitoring practices across the Sector:
 - The approach to process reviews across the CFO Sector is exception based and occurs informally via management meetings.
- There are concerns with respect to the monitoring of compliance with laws, policies, and authorities.
 - There is currently limited sanctioning for non-compliance despite the existence of financial management policies and procedures.



Active Monitoring Observations and Findings – Functional

Areas for Improvement:

- The Materiel Management and Assets Division has not been conducting regular audits of contracting activities; however, a Monitoring group has been established to monitor processes and compliance.
- There is an inconsistent approach within the CFO Sector to follow-up on monitoring results to determine whether recommendations are being implemented on a timely basis.
- CFO Sector representatives have raised the following concerns with respect to the effectiveness of the Sector's monitoring practices including:
 - Financial: financial performance varies significantly across the regions. There is a need for improvement on error rates, variance analysis, financial statement line items, and data integrity;
 - Procurement: There is inconsistent knowledge of RCMs' procurement requirements and tools; and
 - Information Management: Departmental information/reports for decision-making are timely and but may be inaccurate due to inconsistent data collection practices and systems that are not interoperable.
- The capacity and capability of CFO functional area specialists to provide strong oversight and conduct monitoring activities varies across regions.



Active Monitoring Issues and Recommendations

Issue #7 – Monitoring:

- The CFO Sector does not have a formalized risk-based approach for regular monitoring and does not have a process in place to monitor the implementation of recommendations arising from internal and external reviews and audits.

Recommendations:

- The CFO Sector should review the current monitoring strategy and related processes to identify key deficiencies / gaps and risk areas. Once completed, the CFO Sector should develop and implement a risk-based monitoring plan that would be applied across all regional offices and HQ.

Issue #8 – Compliance Monitoring:

- There is no formal mechanism to assess and monitor if financial management policies and procedures are being properly and consistently applied throughout the Department.

Recommendations:

- The CFO Sector should develop and implement a formalized monitoring plan to assess compliance with financial management policies and to identify whether training and other mechanisms are having the desired impact and whether remediation is required.



Active Monitoring Issues and Recommendations – Functional

Issue #9 – Monitoring

- Contracting and purchasing decisions are not properly supported by an adequate level of review, approval and monitoring activities, making it difficult for the Sector to provide evidence of adherence to contracting policies and procedures.

Recommendations:

- The CFO Sector should conduct and document sufficient reviews, approvals, and monitoring procedures of acquisition cards and contract transactions to support contracting and purchasing decisions.



Financial Management Observations and Findings – Management

Strengths:

- Recently implemented initiatives have helped to improve the rigor of financial management practices within the CFO Sector:
 - Full operation of the Financial Management Committee (FMC), including recording decisions;
 - Inclusion of resource planning in Financial Situation Reports has been more robust;
 - Implementing the FMA model has strengthened financial management capacity, helping ensure strong financial management, oversight, monitoring and reporting;
 - Improvement with respect to financial management resulting from better / increased communication, interaction (branch meetings to discuss budgets) and reporting.
- DG level roundtable O&M meeting as the primary discussion mechanism to prepare, identify and allocate resources to CFO Sector budget priority areas.
- CFO Sector budget allocations based on historical resource allocations evolving to funding allocated based on priorities and where resources are needed most.
- Consensual budget decisions based on reasonableness, comparison to previous year and trend lines, as well as resource allocation benchmarks.
- All 10 of the CFO Sector travel and hospitality transactions tested were authorized by the appropriate individual.



Financial Management Observations and Findings – Functional

Strengths:

- Formal Financial Management policies and procedures have been established and communicated.
 - Accounting and financial management policies and procedures have been outlined and are currently being updated.
 - The following procedures are in place: 1) Delegation of financial signing authority; 2) Pre / post audit verification; 3) S.33 and S.34 delegation in the regions for transactions and invoices; and 4) Account verification policy.
 - Pre and post audit processes have been established to help ensure standardization in the regional offices; other standardized procedures are currently being identified, defined, and developed.
- There is also a budget re-profiling process whereby an assessment is undertaken to identify which claims can be successfully settled / negotiated and/or recovered.
- Where needed, there is communication to TBS via the Annual Reference Level Update (ARLU) preparation to provide an indication of where additional resources are needed.



Financial Management Observations and Findings – Management

Areas for Improvement:

- Ability to manage budgets varies throughout the Sector.
- There is inconsistent knowledge of the methods and rationale for allocating budget resources.
- While the CFO Sector intranet site contains the applicable financial management policies; users find it difficult to locate documents and policies.
- 6 of 10 sampled travel and hospitality transactions did not have clear justification for the transaction. None of the transactions sampled linked this justification to a related business strategy.



Financial Management Observations and Findings – Management (cont'd)

Areas for Improvement:

- Review of 10 contract files within CFO Sector indicated that:
 - 4 files did not have appropriate evidence that the technical evaluation was completed before the “price” envelope was opened;
 - 1 file did not have the contractor’s signature on the contract;
 - 2 files had a start date that was before the contract signature; and
 - 5 files were not well organized.
- Review of 5 acquisition card files within the CFO Sector identified that:
 - 1 file did not have appropriate S34 approval; and
 - 2 files included purchases that exceeded the \$5,000 limit.



Financial Management Observations and Findings – Functional

Areas for Improvement:

- Although a formal and approved Chart of Delegated Authorities exists, there appears to be inconsistent understanding and application of financial authorities, as well as inconsistent levels of understanding and awareness related to procurement authorities and requirements.
- There is a common perception that documented financial direction and guidance, especially within HQ, is either incomplete, not centrally located or easily accessible, or is outdated.
- There is no departmental lead for the provision of financial management training across the Department.



Financial Management Issues and Recommendations – Management

Issue #10 – Budget Allocation:

- There is an inconsistent understanding of the internal CFO Sector budget allocation process, particularly as it relates to resource allocation decisions.

Recommendations:

- Senior CFO Sector managers should continue to improve the transparency, efficiency and effectiveness of the budgeting process.
- Results of meetings should be communicated in a timely and clear manner to appropriate staff to facilitate staff understanding and clarification of the resource allocation process as well as CFO Sector priorities.
- The CFO Sector should consider undertaking a formal review of the budget allocation process and the criteria used for resource allocation.



Financial Management Issues and Recommendations – Functional

Issue #11 – Financial Management Compliance

- There appears to be insufficient resources allocated to ensure departmental compliance with financial management laws, policies and authorities. This has created challenges within the CFO Sector and within the Department as there are broader Department-wide implications related to the monitoring of compliance.

Recommendations:

- The overall monitoring strategy (and the resources allocated to it) should be refined to help ensure they are consistent with CFO Sector strategies and related INAC-wide risks.

Issue #12 – Financial Management Communication:

- The mechanisms in place within the CFO Sector to store, access and communicate financial management policies and procedures do not effectively and efficiently meet key user requirements.

Recommendations:

- The CFO Sector should review the mechanisms used to communicate financial management policies and procedures in order to meet key user requirements.



Financial Management

Issues and Recommendations – Functional (cont'd)

Issue #13 – Financial Training:

- Financial management training is currently performed on an ad hoc basis and is neither coordinated nor integrated with other training provided across the Department. This has led to inconsistencies across the Department in the level of understanding of financial systems and policies, including the procedures for processing financial transactions such as invoices and travel claims.

Recommendation:

- The CFO Sector should assume a leadership role to coordinate the planning and design of a departmental financial management training program including:
 - The planning and design of the training mandate should be given high priority and initiated in a timely manner to manage weaknesses within the CFO Sector.
 - Addressing inconsistencies in the type and frequency of financial management training, insufficient monitoring of training results, insufficient financial skills in the Corporate Accounting and Reporting group, high regional office trial balance error rates; and
 - Inconsistencies observed with respect to monitoring compliance with departmental financial management rules, policies and authorities.



Accounting

Observations and Findings – Management

Strengths:

- Review activities have contributed to better financial management practices within the CFO Sector:
 - The process to define financial reporting requirements to help meet user needs was derived from the Integrated Financial Solution (data mart) that was implemented in 2007. The IFS has been helpful for planning forecasts (plan / actual).
 - A dashboard status reporting process - a budget forecasting tool to identify monthly financial positions - was launched in June 2008. While currently a manual process, an automated dashboard has been rolled out to a few pilot users.
 - Each Director / RCM reviews monthly salary, expenditures, and soft commitments. These are further reviewed by each DG within the CFO Sector prior to their submission to the CFO.
 - Financial Management Analysts (FMAs) are embedded within the CFO and other INAC Sectors to help ensure strong financial management guidance and capacity, oversight and monitoring of reporting controls.
 - Each CFO Sector financial management analyst (FMA) reviews and reconciles the RCM financial statement reporting. (No manual changes or data manipulation are undertaken during the review).
 - Verification checklists have been created to support the review of the RCM reports and serve as guidelines for what information to look for during the review.
 - On a monthly basis, a review and certification of Financial Status Reports (FSR) occurs.



Accounting Observations and Findings – Functional

Strengths:

- Formal procedures have recently been implemented and resources allocated to address issues noted by the OAG with respect to the accurate and timely entry of all transactions by HQ (Sector) and regional staff (trial balances).
- The embedding of Financial Management Analysts within each INAC Sector and the introduction of monthly FSR process has resulted in improved communication of and confidence in the financial information.
- E-Pay has been developed to improve data integrity and eliminate duplication.
- The Information Technology Service Management (ITSM) asset lifecycle management plan is updated every year, to record, monitor and track asset lifecycles, helping to plan requests for volume discounts (RVD).
- The renewal of INAC asset management procedures was set as a priority in late 2007 / 2008; progress has been made on updating asset management policies with many planned for approval & release by June 2009 (now testing).
- A data mart Integrated Financial Solution (IFS) was implemented two years ago and has been helpful for planning and forecasting.
 - Verification checklists have been created and are being used to support the review of the RCM reports, as guidelines for the review by Corporate Accounting and Reporting group.



Accounting Observations and Findings – Functional

Areas for Improvement:

- Current error rate within trial balance submissions is high.
- Post-verification issues include:
 - The movement towards decentralizing invoice processing from HQ to regions led to a high error rate caused by miscoding and entry errors
 - Some regional post-verification error rates are significantly higher than the acceptable threshold of 5%.
 - This issue is compounded by the lack of review prior to submission; due to lack of qualified staff.
 - Some miscoded items, for example, office supplies being input as postage, are never identified.
 - Managers do not always complete their “own” due diligence requirements, delegate required reviews to clerical (CR-4) resources.



Accounting

Observations and Findings – Functional (cont'd)

Areas for Improvement:

- While an Excel tool is being used to detect trial balance errors; the staff capacity and capability issues create quality challenges within Corporate Accounting.
- Concerns with respect to the manner in which assets are managed and tracked need to be addressed:
 - Asset monitoring procedures are not implemented consistently at the HQ and regional office level.
 - There is no apparent recognition of the shared accountability HQ/regions once departmental funds have been expended.
 - One physical count was off by ~ \$12M and communication of variance did not occur between HQ and the regional office.



Accounting Issues and Recommendations

Issue #14 – Accounting:

- Many of the previous weaknesses noted are likely caused by the absence of a consistent approach for the entering and related monitoring of transactions at source and a lack of capacity in the Corporate Accounting and Reporting group. This has led to significant variances, inaccuracies and incomplete information.

Recommendations:

- The CFO Sector should undertake a review of the transaction entry procedures and processes at HQ and in selected regional offices, where the error rates are above the prescribed threshold.
- The CFO Sector should implement relevant OAG management letter recommendations related to error rates to remediate concerns including error rates.
- As part of continuing monitoring practices, the CFO Sector should reinforce required transaction entry and verification procedures and request manager review of information reported prior to submission.