

FINANCIAL SERVICES AUDIT

**MANAGEMENT OF
ACCOUNTABLE ADVANCES**

MARCH 2003

Audit Division (SIV)

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Executive Summary

This report presents the findings of the audit of the Departmental practices associated with the Management of Accountable Advances (A/A). The objective of the audit was to determine the extent to which A/A are managed in accordance with sound comptrollership practices and in compliance with legislative and regulatory requirements.

The Department appropriately and consistently records advances in accordance with prescribed accounting standards. Advances remain recorded as assets until such time as they are settled and the expense recognition criteria have been met. Adequate policy and procedural direction exist in support of the effective management of advances.

The Department has established an effective recovery process. Collection action on past-due advances is initiated in a timely manner which is reflected by the relatively small number of advances noted as being past-due at the time of the audit. We do have concerns that monitoring practices of HQ and Missions fund centre Managers are not as effective as they could be to ensure that employees settle advances on time. Over one-third of sampled items were settled past-due. Their settlement can be attributed in part to the Manager's, Accounts Receivable (SMFR) recovery action. HQ and Mission fund centre Managers are placing unnecessary reliance on SMFR's recovery action to ensure that employees settle advances on time.

The Department's A/A balance as at March 31, 2002 was \$20M. Temporary Security Deposits Crown Leases represents the single largest component at \$6.5M, allocated between 296 properties with due-dates ranging from 2002 to 2025. Headquarters requested that each Mission (as applicable) confirm their respective Temporary Security Deposits. Mission responses resulted in a confirmation of only 44% or \$2.8M of the balance. As such, we are concerned with the accuracy of the balance reported in the Integrated Management System (IMS).

Departmental managers are approving travel advances well in excess of the amount required to cover actual travel costs. The audit sample of 30 travel advances indicated that 58% of the advances examined exceeded actual costs by an average of 200%. This is cause for concern to the Audit Team given that the Department issued approximately \$17M in travel advances in the year ended March 31, 2002.

LES medical advances are being issued for non-medical reasons. This is in contravention to the Locally Engaged Staff Terms and Conditions Regulations and creates additional administrative cost for the Department.

Separate statistical samples were drawn from the travel, relocation and medical advances recorded in IMS during the 2001/02 fiscal year. The sample items were examined to determine whether evidence existed that key internal controls were operating effectively. The error rates range from 0% to 58% with most of them exceeding 15%. Accordingly, our sample results provide Management with little assurance that key internal controls operated effectively during the 2001/02 fiscal year. (Note - the error rates are based strictly on a review of the documentation supplied in response to our request. The request was clear and concise and, as such, it was not deemed necessary to follow up with Mission and HQ fund centres to determine if they inadvertently excluded the supporting documentation in their responses).

The Office of the Auditor General (OAG) issued a management letter describing the results of its review of the Department's general computer and automated business processing controls. The OAG's conclusions on the controls, combined with our assurance statement on the manual controls, provide a comprehensive assessment of the adequacy of the management control framework established for the management of A/A.

1.0 Audit Scope, Objectives, Approach and Timing

1.1 Audit Scope

1.1.1 The audit focussed on the Departmental practices and controls related to the management of A/A. More specifically, the audit assessed the management control framework (MCF) for the three phases of accountable advances (initiation, settlement and monitoring) to ensure that advances are properly approved and recorded in the Department's financial records.

1.2 Audit Objectives

1.2.1 The overall audit objective was to determine the extent to which A/A are managed in accordance with sound comptrollership practices and comply with legislative and regulatory requirements. In particular, the audit focussed on determining whether:

- effective management of A/A is supported by adequate policy and procedural direction;
- the Department appropriately and consistently records A/A in accordance with prescribed accounting standards; and,
- A/A remain recorded as assets until such time as they are settled and the expense recognition criteria have been met.

1.3 Audit Approach and Timing

1.3.1 The audit was conducted in accordance with the Treasury Board Policy on Internal Audit and the Institute of Internal Auditors Standards for the Professional Practice of Internal Auditing.

1.3.2 The audit examined the major business processes and key controls associated with the management of A/A at both DFAIT Headquarters and Missions. The examination phase of this audit was conducted during the period of April 2002 to July 2002 and focussed on account balances and transactions recorded primarily during the period of April 1, 2001 to March 31, 2002.

1.3.3 The audit approach consisted of a comprehensive review of all A/A GL accounts. The review consisted of determining the purpose and use of the GL account, analysing the account data and documenting an overview of the account management practices. In addition, we developed an understanding of both program management and SMF's monitoring roles and responsibilities.

1.3.4 The following table identifies the A/A GL accounts that were included in our audit based on their inherent risks and materiality.

GL #	Account Description	Note
14400	Temp-medical advance - CDA	1
14410	Temp-medical advance - LES	1
14545	Relocation	1
14565	Travel	1
14460	Temp-security deposit advances - crown leases	2
14470	Temporary - School debenture deposits	2
14430	Petty cash & cash float standing advance - mission only	3
14440	Temporary standing advance - emergency cash parcel	3
14640	Travel and operating standing advance missions only	3
14009	Loan receivable from PPT	4

Notes:

1. Full coverage - review the initiation, settlement, monitoring and reporting of these advances.
2. Limited scope - review the design and effectiveness of the “management, monitoring and reporting” controls (i.e. mission requested to certify account balance) applied by SMFF.
3. Limited scope - confirm that the year-end certification required by TB policy is carried out by SMFR.
4. Limited scope - determine the reasonableness of the 2002-2003 opening balance.

1.3.5 For each GL, an audit program was developed to test compliance with policies and procedures governing the advance. In the case of GL’s 14400, 14410, 14545 and 14565 a statistical sample of debit postings made to these accounts in the 2001/02 fiscal year was selected for testing purposes. In summary:

- 180 transactions were selected from over 11,000 transactions in GL 14400, 14410, 14545 and 14565; and,
- Attributes assessed included financial coding, authority under Section 34 and 33 of the Financial Administration Act (FAA), supporting documentation, appropriateness of amount given and timeliness of the monitoring and recovery process.

2.0 Background

2.1 Roles and Responsibilities

2.1.1 Responsibility for the management of A/A is shared amongst various DFAIT organizational units depending on the phase of the advance: issuing advance - program area, SERV, or HPM; settlement - program area, HPM or SMFT; and, monitoring and recovery - program area, SMFR, HQ and Missions. Roles and responsibilities are described in section 9 of the DFAIT Accounting Manual.

2.2 Accountable Advances Account Data

2.2.1 The following table depicts A/A balances and the number of open items as at March 31, 2002 for those GL accounts selected for examination.

GL # (Note 1)	Description	Account Bal. @ March 31/02	# Open Items
14400	Temporary medical advance - CDA	\$ 858,564	146
14410	Temporary medical advance - LES	\$ 91,340	304
14545	Relocation	\$ 36,462	89
14565	Travel	\$ 359,257	1,307
14460	Temporary security deposit advances - Crown leases	\$ 6,520,031	678
14470	Temporary - school debenture deposits	\$ 452,396	79
14430	Petty cash & cash float standing advance - Missions only	\$ 233,991	414
14640	Travel and operating standing advance Missions only	\$ 526,940	206
14440	Temporary standing advance - emergency cash parcel	\$ 1,062,375	38
14009	Loan receivable from Passport Office (See Note 2)	\$ 8,296,554	1
Total of A/A GL Account Balances Examined		\$ 18,437,910	A
Total of all A/A GL Account Balances		\$ 19,437,910	B
% of A/A GL Account balances Examined		95%	A/B

Notes:

- (1) The GL A/A accounts selected for examination form part of the Financial Reporting Accounts (FRA) used to report A/A information in the Department's financial statements.
- (2) In the year 2000-01, DFAIT loaned the Passport Office \$7,800,000. The loan was approved through supplementary estimates. The loan is interest bearing.

3.0 Summary Observations and Recommendations

3.1. Monitoring, Recovery and Reporting

3.1.1 SMFR, on behalf of HQ and Missions, monitors all accountable advances to ensure that past-due advances are identified for recovery action. Our audit found that SMFR is very effective in identifying past-due advances and initiating timely recovery action. We noted no cases where past-due advances were not identified for recovery action. We do have concerns, however, that monitoring practices of HQ and Mission fund centres are not as effective as they could be to ensure that employees settle advances on time. Managers can use the Accountable Advance Report as a monitoring tool, however, for the most part, they rely almost exclusively on SMFR to monitor and take recovery action on past-due advances. Over one third (34%) of sampled items were settled past-due. Their settlement can be attributed in part to SMFR's recovery action. In 2000-01, SMFR sent out 1,296 1st and 2nd billing notices.

Recommendation for SMF

3.1.2 SMF should advise Mission and HQ fund centre Managers of their responsibility to monitor advances in a timely manner, rather than relying on SMFR to undertake this activity.

SMF Response

3.1.2 Agreed. SMF has recently implemented an on going monitoring activity to remind Program Managers of their responsibility to ensure employee's timely settlement of advances.

3.1.3 IMS does not have an aging function for A/A. HQ Financial Services (SMFH) recognizes that an aging function would improve the monitoring and reporting practices and has submitted a change request to the Change Management Board requesting the additional IMS functionality. As at the close of the audit, the change request had not been acted on.

3.1.4 SMFR does not formally report on the status of A/A GL account balances to SMFH. We were advised by SMFH that SMFR reports on an exception basis only. Other than fulfilling Public Accounts reporting requirements, no reports on the status of A/A (balances by type, past-due advances, recovery performance, etc.) are prepared for Management review and action.

3.1.5 In summary, IMS's A/A reporting functionality with respect to aging and performance reporting does not meet the needs and requirements of its users thereby weakening financial accountability.

Recommendation for SMS

- 3.1.6 SMS, in consultation with stakeholders, should address IMS A/A aging functionality requirements.**

SMS Response

- 3.1.6 Agree. This item will be prioritized and added to the SMSF workplan to be completed by March 31/04.**

Recommendation for SMFR

- 3.1.7 SMFR should produce an A/A status report by type, debtor and total on a monthly basis summarizing recovery performance (e.g. average recovery period, collection actions taken). The report should be sent to the appropriate Departmental Managers and the appropriate level of SMD Management for review and action.**

SMFR Response

- 3.1.7 Agreed. The combination of improved reports from the IMS system with spreadsheet information will fill this requirement. The work has already commenced.**

3.1.8 Foreign Operations and International Banking (SMFF) requested Missions to provide written confirmation that each asset, liability and suspense account recorded to its fund centre was valid. Missions were asked to report the balance of each account to their SMFF Mission Manager accompanied with a statement by the Head of Mission attesting to the accuracy of the balance. This confirmation process is an acceptable approach to provide a level of Mission management assertion concerning the validity of asset and liability account balances. Unfortunately, not all Missions have provided the mandatory confirmation. For instance, confirmation results are mixed with a high (Americas - 96%) and a low (Africa - 21%). Only 44% of the Temporary Security Deposits Crown leases and 8% of Temporary School Debenture balances have been confirmed as valid. Reminder messages have been sent to Missions who have not yet provided the confirmation and SMFF plans to launch a more rigorous follow-up initiative. The lack of active monitoring by Missions unduly increases the administrative workload of SMFF.

Recommendation for SMF

- 3.1.9 SMF should ensure that the Asset and Liability confirmation exercise initiated by SMFF achieves the desired outcome.**

SMF Response

3.1.9 Agreed. SMF will review the outcome of the confirmation exercise.

3.1.10 The Department has established a general ledger control account for each of the various types of advances. The Accountable Advance Report (A/AR), accessible through the IMS funds management module, provides for the recording and maintaining of separate accounts receivable for each accountable advance summarized by employee. While the A/AR provides for a total of advances owing by each employee by type of advance, it does not provide a total of all advances owing by all employees and, as such, cannot be used to reconcile to the various A/A GL accounts. Because IMS does not have this functionality, a reconciliation of accountable advances (comparing the total amount owing by all employees per the A/AR to the sum of all A/A GL control accounts) can not be carried out that will readily detect errors.

Recommendation for SMS

3.1.11 SMS, in consultation with SMF, should determine what IMS program solutions are required to enhance the A/AR functionality to facilitate a reconciliation of the accountable advances data maintained by employee to the sum of the applicable GL control account balances.

SMS Response

3.1.11 Agree. This item will be prioritized and added to the SMSF workplan. It will be completed by March 31/04.

3.2 Testing Results

3.2.1 Separate statistical samples were drawn from the travel, relocation and medical advances recorded in IMS during the 2001/02 fiscal year. The samples items were examined to determine whether evidence existed that key internal controls were operating effectively. The following table summarizes the sample error rates associated with the attributes examined. The error rates range from 0% to 58% with most of them exceeding 15%. Accordingly, our sample results provide Management with little assurance that key internal controls operated effectively during the 2001/02 fiscal year.

ACCOUNTABLE ADVANCES SUMMARY OF SAMPLE ERROR RATES EXPRESSED AS A PERCENTAGE OF ATTRIBUTES TESTED						
Attributes	Medical Advances		Relocation Advances		Travel Advances	
	CBS %	LES %	HQ %	Missions %	HQ %	Missions %
Accuracy of financial coding	0/35=0	0/12=0	0/23=0	1/19=5	1/12=8	1/13=8
Appropriately certified under FAA Sec. 34 (Note 2)	7/34=21	0/5=0	1/22=5	8/19=42	1/36=3	5/33=15
Appropriately certified under FAA Sec. 33 (Note 2)	7/39=18	0/6=0	5/20=25	4/20=20	3/17=18	6/21=29
Adequacy of supporting documentation	15/40=38	3/12=25	4/42=10	20/38=53	0/12=0	0/13=0
Reasonableness of the amount of the advance (Note 3)	n/a	n/a	n/a	n/a	7/12=58	5/13=39
Timeliness of the monitoring and recovery process	6/18=33	1/6=17	4/11=36	3/8=38	7/12=58	5/13=39

Notes

1. All attributes may not be applicable to each sample item. Also, the attribute categories may represent a grouping of several attributes used for testing purposes. This explains why the denominator may vary in the HQ & Mission error rates reflected in the above tables.
2. Error rate represents three types of errors identified:
 - signature could not be validated against an active specimen signature card **(Note 4)**;
 - individuals who signed did not have the appropriate delegated authority **(Note 4)**; and,
 - advance approval signature incomplete (initials only)
3. Travel advances was the only type of advance where its reasonableness was examined.
4. It could not be determined, through documentation provided to SIV, if the individual was in an acting position with the requisite approval authority.
5. The error rates are based strictly on a review of the documentation supplied in response to our request. The request was clear and precise and, as such, it was not deemed necessary to follow-up with Mission/HQ fund centres to determine if they inadvertently excluded the supporting documentation in their response.

3.2.2 Our audit sample of 30 travel advances (15 HQ & 15 Missions) revealed that a significant portion of the advance exceeded the value of the expenditures that would reasonably be expected to be incurred. Our testing of travel advances issued at Headquarters revealed that in 58% of the sample items examined, the amount of the advance exceeded actual costs by an average of 200%. Mission sampled travel advances disclosed that 39% of advances issued exceeded actual costs by an average of 185%. One possible cause could be that managers are approving travel advances without a trip itinerary being a prerequisite, thereby providing them with insufficient information to challenge the amount of the advance requested. Less than 10% of travel advances sampled had trip itinerary documentation available for examination.

3.2.3 The Department can not demonstrate that it is applying due diligence when issuing travel advances that exceed what can be viewed as reasonable given the actual costs incurred. This practice imposes an unnecessary demand on daily cash requirements.

Recommendation for SMF

3.2.4 SMF should advise both Headquarters and Missions of the requirement for travellers to complete the necessary trip itinerary.

SMF Response

3.2.4 SMF has recently implemented an on going monitoring activity to remind Program Managers of their responsibility to ensure all travellers complete the necessary trip itinerary and arrangements are consistent with the provision of the Treasury Board Travel Directive. In addition, an on-line tutorial on the travel directive is available on the website and Program Manager information sessions were held in September 2002.

3.2.5 We noted in our sample instances where entitlement and/or authorization could not be determined based on the documentation provided to SIV for examination. For example:

- approval signatures could not be validated against specimen signature cards (initials only);
- advances approved by individuals without delegated authority;
- relocation entitlements documentation not on file; and,
- posting confirmation forms not on file.

3.2.6 For those cases that we identified advances approved by individuals without delegated authority, the individual may have been acting in a position with signing authority. We were not, however, provided with documentation (acting appointment documentation and related specimen signature card) to that effect.

3.2.7 During the audit we sought a ruling from Treasury Board (TB) with respect to the acceptance of initials for Section 33 & 34 of the FAA. TB's position is that a signature is required and it must correspond exactly to the one appearing on the specimen signature card.

Recommendations for SMF

3.2.8 SMF should advise Headquarters and Mission program managers that:

- the signature reflected on the specimen signature card is the one required when certifying under Section 33 & 34;
- the requirement to forward applicable documentation and specimen signature cards in support of acting appointments; and,
- the importance of retaining all relevant documentation in support of authorizing and issuing advances.

SMF Responses

3.2.8 Chapter 28 - Signing Authorities, which is available on the SMD website, highlights these requirements. A delegation review is currently underway and, once approved, a broadcast message highlighting the changes and a reference to Chapter 28 will be sent. Will be completed by June 30/03.

3.2.9 Our review of LES medical advances issued under Section 4.2.14 of the Locally Engaged Staffs' Terms and Condition Regulations indicate that:

- Some of the advances issued were for non-medical purposes given the series of bi-monthly payroll deductions applied to the advance balance and the absence of the required estimate of medical costs;
- Missing advance forms suggests that the employees could not demonstrate eligibility for reimbursement by the relevant medical or hospital plan for the expenses relating to the advance; and,
- It is questionable that advances that take over six (6) months to be repaid meet the Regulation's criteria which stipulates that extensions should only be granted under "exceptional circumstances".

3.2.10 The Department does not have the authority to issue medical advances to the LES to cover "non-medical" type expenditures. Such instances create additional administrative costs as the Department must recover these inappropriately authorized advances. Further, this improper application of the Regulations may be misleading LES and may create a false expectation as they come to believe and rely on these advances in managing their personal affairs.

Recommendation for HRL

3.2.11 HRL should advise Missions that advances issued under section 4.2.14 of the LES Regulations and Guidelines are intended only for medical expense purposes. In particular:

- **the employee must be able to clearly demonstrate eligibility for reimbursement for personal or dependents' health care expenses through an established plan prior to being issued an advance; and,**
- **the rationale for all decisions made to extend the period of repayment beyond the receipt by the employee of the eligible expenses or 6 months time frame stipulated in the Regulations, whichever is the earlier, should be documented and retained in the Mission program files.**

HRL Response

3.2.11 HRL agree to issue clarifications to all missions on this issue and will do so as soon as possible.

3.2.12 Our review of FSD 42 (LES medical/dental advances) indicated that when the advance request is in excess of \$500, the required cost estimate did not support 90% of the advance (as stipulated by paragraph 42.01(c) in the FSD) in approximately one third of the advances tested.

Recommendation for HPM

3.2.13 HPM should advise Missions of the requirement to comply with the conditions and intent of FSD 42 as they relate to the estimate of the medical costs to be incurred.

HPM Response

3.2.13 A message to all HOMs and MCOs to that effect will be sent promptly.

3.2.14 SMFF recently assessed the continued need for all cash floats and emergency cash parcels. This is a positive initiative in terms of cash management and SMFF should consider expanding it beyond cash floats and emergency cash parcels. Our testing of standing advances held by Mission staff revealed a low turn-over frequency (once or less during year) and raises the question of the continuous requirement and/or size of these advances. Accordingly, standing advances may be held by individuals who have not demonstrated, through the use of these funds, that there is a continuous need to have these funds available. This results in a reduction of available operating monies as well as incurring costs to administer these advances.

Recommendation for SMFF

- 3.2.15 SMFF should request that Missions assess and justify their continued need for standing advances (operating, travel and petty cash).**

SMFF Response

- 3.2.15 Agreed. The justification of standing advances is now an important component of SMF's ongoing monitoring activity.**

3.2.16 During our audit of Mission petty cash funds, we noted instances where the petty cash was replenished and the IMS accounting entry made to record the transaction did not provide sufficient detail as to the true nature of the expenditures. The entry was a debit to petty cash expenses and a credit to "Vendor - accounts payable". Given the vast number of expenditure GLs available to record expenses, one would expect that the "Petty Cash" expense classification would be used only under exceptional circumstances. During the year (2001-02), this account (GL 43230) was credited with \$70,990. These credit transactions reflect missions recognizing the proper expense coding for petty cash expenditures and correcting previous debits to this account. However, at the close of 2001-02, GL 43230 had a closing balance of \$361,042. While the amount involved may not be viewed as material, the practice of clearing GL 43230 by charging the correct expense account should be encouraged given the large variety of expense coding available to properly allocate petty cash expenditures.

Recommendation for SMF

- 3.2.17 SMF should consider eliminating GL 43230 from its chart of accounts as a means of ensuring that petty cash expenditures are charged to the appropriate GL expense accounts. In the event that this option is not adopted, then headquarters and missions should be advised that GL 43230 should only be used in exceptional circumstances (i.e. expense classification not available in the existing chart of GL expense accounts).**

SMF Response

- 3.2.17 SMF does not agree with the elimination of this GL, however, it does agree that the GL is used too frequently. As such, it is currently reviewing all charges to this account and will advise missions of the correct charging procedures.**