



FINANCIAL SERVICES AUDIT

**OPERATION OF
THE CASHIER'S OFFICE**

MARCH 2003

Audit Division (SIV)

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Executive Summary

This document presents the results of the assurance audit of the Cashier's Office (SMFM). The objectives of the audit were twofold. First, to assess the adequacy of the manual controls exercised by SMFM over receipts and the issuing of advances. Secondly, to determine the extent to which the Department has cost-effective, secure and convenient methods in place for paying official government travel expenditures.

Overall, SMFM's business processes contain several controls, albeit labour intensive, designed to safeguard monies received and travellers cheques issued. Our tests of selected key controls indicated that they were operating effectively during the period of review. For example, SMFM was, overall, clearing the Cashier's Suspense and Funds-In-Transit General Ledger Accounts in a timely manner. This control is essential as it impacts the integrity of the information contained in Departmental financial reports. SMFM was also depositing post-dated cheques in a timely manner and verifying the authenticity of the "authorized by" signature appearing on the Travel Authority and Advance Request form. We did note, however, some gaps in the control framework that need to be addressed in order to mitigate the associated risk exposure.

Funds received by the mail room are not always sent directly to SMFM as required by Departmental policy. Rather, they are routed to various program offices for administration purposes. These program offices, at times, retain the funds for five or more weeks prior to forwarding the monies to SMFM for deposit. These funds represented at least \$15M out of the \$185M deposited by SMFM during the first nine months of 2001/02. There are no controls in place within SMFM to ensure that it receives these funds for deposit into the Consolidated Revenue Fund. We, therefore, can not give assurance that all receipts are promptly deposited and accounted for in the Department's financial records. As a result, the accuracy of internal financial reports and the year-end financial statements could be distorted.

Reconciling IMS deposit and payment details with the bank statement issued by PWGSC is a fundamental internal control. SMFM changed the frequency of preparing bank reconciliations from an annual to a monthly basis. This is a positive initiative. Our review of a sample of bank reconciliations indicated that they were effectively performed. No one, however, reviews the bank reconciliations prepared by SMFM. There is a need for the Cashier's Office supervisor (SMFP) to review and approve the bank reconciliations prepared by SMFM given their complexity and the materiality of the annual deposits (approximately \$250M). This would provide greater assurance that this key control is being appropriately exercised thereby contributing to the adequate safeguard of one of the Department's attractive assets.

Our tests indicated that there were, as of February 2002, \$252,000 in NSF cheques or collection items (i.e. uncleared bank drafts) recorded in IMS. The make-up of this amount consisted of \$85,000 in NSF cheques from employees, \$63,000 in NSF cheques from external third parties and \$104,000 in uncleared bank drafts relating to immigration fees. SMD Management does not receive a report on the volume, value and source of NSF cheques and collection items for review and analysis. We believe there is value in producing a management report in this area as it would be consistent with the principles of the Treasury Board policy on active monitoring and provide the basis to mitigate any potential risk exposure.

The Department issued over 6,000 advance requests during the 2001/02 fiscal-year amounting to more than \$10M. This level of service consumed approximately three FTEs in SMFH and resulted in the posting of at least 20,000 entries into IMS. Travellers cheque advances ranged from \$150 to \$23,950 during 2001/02. Of the \$7M in advances issued during the first nine months of 2001/02, \$2M (or about 30%) were refunded. In our view, the Department's practice of issuing travel advances by the Cashier's Office may not be reasonable nor cost-effective given the amount of resources consumed to administer this practice, the number and value of travel refunds (amount of advance exceeded requirement), the existence of over 850 travel cards and the offering of travellers cheques services by the financial/banking community. Accordingly, there is a need for SMD to conduct a review to determine whether the current use of the various mechanisms to pay for approved government travel expenditures achieves the optimum balance between cost, convenience and security.

The OAG issued a management letter describing the results of its review of DFAIT's general computer and automated business processing controls. The OAG's conclusions on these controls, combined with our assurance statement on the manual controls will provide a comprehensive assessment of the adequacy of the control framework for the management of the Cashier's Office.

In summary, SMFM's management control framework has sound manual controls in place to safeguard monies received and travellers cheques issued. There are, however, gaps in the control framework that need to be addressed in order to mitigate the associated risk exposure.

1.0 Audit Scope, Objectives, Approach and Timing

1.1 Audit Scope

1.1.1 The scope of audit was limited to the practices and controls **within** the Cashier's Office (SMFM) related to the handling of receipts and the processing of travel advances. It excluded the following areas associated with receipts prior to their submission to SMFM:

- Activities within the SRG mail room where the majority of third party payments are initially received at HQ;
- Processes and controls for handling receipts by the Administration and Technology Services Division (EPC) of the Export and Import Controls Bureau (EPD) and the Team Canada Division (TCT). These two units collectively receive the majority of third party payments once they have been processed by the SRG mail room;
- Processes and controls within fund centres that administer refunds of travel advances or may receive authorizations for credit card payments for seminars, conferences or any other service; and,
- General computer and automated business processing controls associated with IMS as they were subject to review by the Office of the Auditor General.

1.2 Audit Objectives

1.2.1 Our overall audit objective was to determine if the controls over receipts and the distribution of travellers cheques are adequate. In particular, to determine the extent to which:

- Controls within SMFM over receipts (cash, credit cards, cheques and electronic transfers) and advances were appropriate; and,
- The Department has cost-effective, secure and convenient methods in place for paying official government travel expenses.

1.3 Audit Approach and Timing

1.3.1 The internal 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 within SMFM. The examination was conducted primarily during the period October 2001 to January 2002 and focussed on transactions processed by SMFM during the 2001/02 fiscal-year.

1.3.3 The audit work included reviewing documentation and conducting interviews with staff to develop an understanding of the activities performed and controls in place related to the various funds received and deposited into the bank. Flowcharts were prepared depicting work flows, preventative and detective controls in place and monitoring activities conducted by the Cashier's Office supervisor.

1.3.4 Walkthroughs of key business processes were conducted to confirm our understanding of the management control framework. Tests of compliance were also conducted of randomly selected transactions in order to assess the extent to which expected controls were consistently applied. Bank reconciliations were reviewed in detail to ensure completeness and accuracy.

2.0 Background

2.1 Organizational Structure and Resources

2.1.1 SMFM reports to the Deputy Director, HQ Financial Services through the Supervisor, Travel Accounts/Payment Services (SMFP). SMFM resources include four Cashier's Office Advisors and a Supervisor.

2.1.2 Less than half of the four Advisor's available time is spent on deposit activities. While two staff focus on processing receipts for deposit from missions and HQ sources, they also serve clients with travel advance requests and refunds, daily parking payments and other miscellaneous inquiries.

2.1.3 The majority of staff effort is devoted towards travel advances. Activities include receiving and processing advance requests, administering travellers cheque payments and inventories, processing direct deposit payments, posting advances in IMS, receiving travel claims and refunds, updating IMS to reflect receipt of travel claims and processing refunds for eventual deposit and posting to IMS.

2.1.4 The Supervisor manages day-to-day activities, prepares documents for IMS postings of OGD electronic fund transfers (EFTs), posts to IMS the credit card payments from two Mission pilot projects for Immigration and Passport fees, monitors the Cashier's Suspense and Mission Funds-in-Transit GL accounts, prepares bank reconciliations and manages the travellers cheque main inventory.

2.2 Business Volumes - Deposit Sources

2.2.1 The primary function of SMFM is to receive and deposit funds submitted to the Department and to record the entries in IMS. For the first nine months of 2001/2002, total deposits to the Canadian bank account at HQ approximated \$185 million and is expected to reach about \$250 million by year-end. Table I describes the

major sources of receipts included in the \$185M. Over 3,000 IMS postings were involved to-date.

Table I

Headquarter's Deposits @ December 31, 2001 Analysis of Major Sources of Receipts	
Source of Receipt	Approximate Value
Bank transfers from missions (excess revenue receipts)	\$51M
Export Development Canada fund transfers	\$37M
Funds-in-Transit from Missions (currencies not acceptable at local banks)	\$36M
Funds from Canadian Tourism Commission for use at missions or HQ	\$16M
Export Permit revenue receipts	\$15M
Miscellaneous and suspense accounts	\$11M
Funds for use by NGOs, distressed Canadians, provincial government offices, sponsorship activities and claims against Iraq	\$8M
Net-voted revenue - co-location arrangements	\$4M
Repayment of posting loans	\$3M
PEMD revenue and receivables	\$2M
Refunds of travel advances	\$2M
Total Amount of Deposits @ December 31, 2001	\$185M

Note: Although the Cashier's Office does not physically handle the first two groups of funds, it is accountable for reconciling these deposits to the PWGSC bank statement.

2.3 Business Volumes - Travel Advances

2.3.1 The second major service provided by SMFM relates to travel advances. During the first nine months of the 2001/02 fiscal-year:

- More than 4,200 travel advance requests were processed with a year-end forecast to exceed 6,000;
- Over \$7M in travellers cheques were issued;
- Over \$2M in unused travel advances were returned; and,
- The average value of the AMEX travellers cheque inventory was about \$4M.

2.3.2 Travel advances require at least 20,000 postings annually to IMS. Advance requests require a minimum of three IMS postings - the advance, the final settlement and the 1% service fee charged to the requesting Fund Centre. If a portion of the advance is to be refunded, a fourth posting is required.

3.0 Summary Observations and Recommendations

3.1 Control over Headquarters Receipts

3.1.1 The funds associated with the majority (i.e. 60%) of the SRG mail room's sequentially numbered cash blotters are not sent directly to the Cashier's Office for deposit as required by Departmental policy. Moreover, cheques are also mailed at times directly to program office staff thereby bypassing the SRG mail room cash blotter process.

3.1.2 Other tests revealed that numerous receipts were held in TCT and EPC for up to five weeks, with some even longer. We also noted that the Cashier's Office does not use the SRG mail room's sequentially numbered cash blotters to ensure that it receives all monies which have been sent to EPC or TCT. Consequently, we can not give assurance that all monies received by the SRG mail room and forwarded to EPC and TCT (or monies received directly by other program offices which bypass the SRG mail room's cash blotter process), are promptly deposited and accounted for in the Department's financial records, as required by the Departmental policy on Receipt and Deposit of Money as well as the Treasury Board Regulations. This could distort the accuracy of internal financial reports and the year-end financial statements.

Recommendation for SMS

3.1.3 SMS, in consultation with SMF, should assess the continued appropriateness of having TCT, EPC or any other program receipt forwarded directly from the SRG mail room to the respective Program Office (as opposed to the Cashier's Office). In the event that this practice is considered acceptable, the Departmental Policy on Receipt and Deposit of Money should be revised accordingly. Otherwise, steps should be taken to ensure compliance with the Policy's existing requirements after having given appropriate consideration to the resource implications in both the Cashier's Office and the applicable Program Offices.

SMS Response

3.1.3 SMS in consultation with SMF will determine if the current policy requires revision. If it is determined that the policy requires revision, this will be completed by June 30, 2003.

Recommendation for SMF

3.1.4 In the event a decision is made under 3.1.3 to continue having receipts sent directly from the SRG mail room to Program Offices, SMF should:

- **Utilize the cash blotters' sequential numbers to monitor their receipt and to ensure that all monies are in fact received in the Cashier's Office and deposited on a timely basis;**
- **Establish a standard cash blotter system for all programs that receive monies directly from clients; and,**
- **Monitor, for reasonableness, the elapsed time between the date monies are received in the SRG mail room and the date of deposit at the bank.**

SMF Response

3.1.4 A standard cash blotter system will be established for all programs. This will include a monitoring of the timing of receipts.

3.2 Control over Mission Receipts

3.2.1 Overall, the Cashier's Office deposits the majority of the Funds-In-Transit (FIT) receipts and clears the FIT GL account on a timely basis. Our tests indicated that only 17 (\$13K) of the 2,500 (\$26M) credit postings, made to the FIT GL account during the first six months of the 2001/02 fiscal year, remained uncleared in IMS.

3.2.2 For prior fiscal years, however, there were 70 debit postings totalling \$60K and 9 credit postings totalling \$49.5K that had not been cleared. Some of these postings have not been cleared for up to three fiscal years. The difference between the uncleared debit and credit postings (\$10.5K) could potentially represent FIT that were lost or stolen. SMF and mission MCOs are not advised of the postings to the FIT GL account that remain uncleared.

Recommendation for SMF

3.2.3 SMF should ensure that SMFM reviews the uncleared postings to the FIT GL Account on a monthly basis. To ensure that Departmental financial records are updated in a timely manner, the results of the review should be documented and forwarded to SMFH, and applicable MCOs, for resolution with a copy provided to SMFF for information purposes.

SMF Response

3.2.3 Agreed. SMFM reviews all uncleared postings to the FIT GL Account on a monthly basis and forwards the results to all concerned parties for resolution.

3.3 Physical Safeguards

3.3.1 Physical access controls to the Cashier's Office are adequate. Security measures relating to the handling of receipts from the SRG mail room to the Cashier's Office, and from the Cashier's Office to the bank for deposit, are also adequate. However, the majority (i.e. 60%) of the SRG mail room's sequentially numbered cash blotters are not sent directly to the Cashier's Office for deposit as required by Departmental policy. Receipts can be held for up to 5 weeks or more in some Program Offices.

3.3.2 The Departmental policy for the Receipt and Deposit of Money does not address security over monies received in Program Offices, nor are detailed procedures available for the various holders of receipts.

Recommendation for SMS

3.3.3 If SMS decides to revise the policy for the Receipt and Deposit of Money (see recommendation 3.1.3) to allow designated Program Offices to receive cash, it should, in consultation with SMF, prepare written procedures for the safeguarding of such funds.

SMS Response

3.3.3 Subject to decision taken as stated in 3.1.3, the policy will be revised if required.

3.4 Bank Reconciliations

3.4.1 Bank reconciliations are conducted regularly, however, the process is labour intensive. Currently, there is no IMS automated bank reconciliation program available for deposits made by the Cashier's Office unlike Mission deposits where the functionality exists. Therefore, monthly bank reconciliations are manually completed.

3.4.2 Since December 2001, each debit/credit card (DC/CC) payment is individually posted to IMS. The new process speeds up posting and tracing these transactions to IMS. It still requires, however, the maintenance of a manual information register to record all receipts and demands a labour intensive bank reconciliation

process as SMFM must identify which of the daily DC/CC payments, posted in IMS, total to the daily deposit appearing on the bank statement.

3.4.3 SMFP does not review and sign the monthly reconciliation report prepared by the Cashier's Office supervisor. The practice was not considered when monthly reconciliations began in April 2001.

Recommendation for SMF

3.4.4 **SMF should determine whether the SAP software contains automated bank reconciliation functionality which could be applied to Headquarters deposits. In the affirmative, a cost/benefit analysis of implementing the software capability should be undertaken.**

3.4.5 **SMF should consider implementing a Point-of-Sale (POS) system to reduce the current workload requirements for processing and accounting for debit/credit card payments and deposits.**

3.4.6 **SMF should ensure that SMFP reviews and signs the monthly bank reconciliation report prepared by SMFM.**

SMF Response

3.4.4 **The SAP automated bank reconciliation functionality focuses on outstanding cheques and may be well-suited to the banking arrangements in place at Missions but it has its limitations in the HQ context. Although there is some automation of the reconciliation process, HQ routinely has many different types of banking transactions for which full automation is not considered feasible.**

3.4.5 **The Credit Card/Debit Card process is being piloted at two Missions and is essentially targeted at two types of revenues - Immigration and Consular. The Cashier's Office handles a multitude of revenues and in greater volumes. Options are currently being considered but the optimum solution is an automated interface between IMS and the Credit Card system.**

3.4.6 **Agreed and instituted as of the February 2002 monthly bank reconciliation.**

3.5 NSF Cheques

3.5.1 Overall, the Cashier's Office processes, on a timely basis, NSF cheques and Collection Items (uncleared bank drafts) received from the bank. As of February 2002, \$252,000 in NSF cheques or Collection Items were recorded in IMS.

3.5.2 No status reports are prepared for SMD on volumes and values of NSF cheques or uncleared Collection Items, although the data is available in IMS and manual registers. In particular:

- employee NSF payments against accountable advances totalled \$85,000;
- third party NSF payments at HQ totalled \$63,000; and,
- immigration fees of \$104,000, sent by missions to HQ in the form of bank drafts, etc. were not initially cleared by the bank.

Recommendation for SMF

3.5.3 SMF should ensure that reports on the volume, value and source of NSF cheques and Collection Items are prepared for management review and analysis.

SMF Response

3.5.3 Agreed and instituted as of May 2002, along with information regarding stale-dated cheques.

3.6 Post-Dated Cheques

3.6.1 Post-dated cheques are managed on a timely, though labour intensive, basis. Post-dated cheques relate primarily to the PEMD and Distressed Canadians programs. Each post-dated cheque is filed by due date along with copies of supporting documentation. A manual register is maintained to note information by individual cheque and to record when it has been deposited. There is, however, no easy means of determining how many cheques are filed nor how many are deposited during a year.

3.6.2 The status of post-dated cheques could change over time due to PEMD Agreement amendments, company failures or other circumstances. Each change increases the Cashier Office's workload as it results in an update of the manual register.

Recommendation for SMF

3.6.3 SMF, in consultation with TCE and JPP, should reconsider the practice of accepting client post-dated cheques taking into account

the associated workload on the Cashier's Office, the risk of clients missing payment due dates and the possible impact(s) this could have on the delivery of Departmental programs that generate post-dated cheques.

SMF Response

3.6.3 Acceptance of post-dated cheques will be discouraged. Divisions will be encouraged to seek reimbursements in the form of pre-authorized credit card charges or direct bank debits. Where this is not feasible, cheques will be administered in accordance with the standard cash blotter system.

3.7 Travel Advances

3.7.1 The Department issued over 6,000 advance requests during the 2001/02 fiscal year. This level of service consumed approximately three FTEs in SMFM which were devoted to providing travel advance and recovery services, including the input of approximately 20,000 entries into IMS. SMFM's controls over the issuing of advances are appropriate.

3.7.2 Travellers cheque advances in 2001/02 ranged from \$150 to \$23,950 with the former being a one day trip and the latter being a three month temporary duty assignment. Of the \$7M in advances issued up to December 2001, \$2M was refunded representing approximately 30 percent of the value of the total advances issued.

3.7.3 There has been no formal review by SMFH of the reasonableness of the volume and value of advances issued, although some SMF resources question the utility of providing this service. In addition, while the Department has over 850 travel card holders, no monitoring takes place of the use being made of these travel cards.

3.7.4 As a result of the above, the Department's practice of issuing travel advances by the Cashier's Office, at the current volume and value levels, may not be reasonable and cost-effective given the:

- number and value of travel refunds (amount of advance given exceeded requirement);
- amount of resources consumed to administer this practice;
- existence of over 850 travel cards; and,
- the availability of similar services in the financial community.

Recommendation for SMS

- 3.7.5 SMS should undertake a review, in light of the TB Travel Policy and the Government's Travel Modernization project, to determine whether the current use of the various mechanisms to pay for approved government travel expenditures achieves the optimum balance between cost, convenience and security.**
- 3.7.6 SMS should, in light of the results of 3.7.5, develop a Departmental policy for Executive Committee approval which reflects best practices for providing travel advances, travellers cheques, direct deposits and travel cards.**

SMS Response

- 3.7.5 SMS will review the different mechanisms to pay for travel expenditures once the details of the new Government Travel contract becomes available and provide recommendations by March 2003. (This date is subject to delay if the release of information on the government contract is delayed).**
- 3.7.6 Agree. SMS will develop a policy on payment mechanisms by March 2003 for Executive Committee approval. (This date is subject to delay if the release of information on the government contract is delayed).**

3.8 1% Service Fee

3.8.1 SMF charges Fund Centres a 1% service fee for issuing travellers cheques. There is no Executive Committee authority for this practice. In addition, TB policy does not permit intra-departmental charges between budgetary appropriations for common services. This has occurred in the past when, in some instances, the service fee was charged to either Fund N005 or N053 (Capital Vote) with the corresponding credit to Fund N001 (O&M Vote).

3.8.2 The revenue generated by the 1% service fee, which exceeds \$100,000 annually, is credited to SMF's fund centre. It results in over 6,000 service fee postings in IMS to about 250 Fund Centres requiring approximately 1/4 of an SMFM FTE. Of these postings, 2,000 were for less than \$10.00 with another 1,000 less than \$5.00.

Recommendation for SMF

- 3.8.3 SMF should discontinue charging the 1% service fee given the restrictions of the TB policy on Interdepartmental Charging and**

Transfers between Appropriations and the labour intensive process associated with posting thousands of entries to IMS.

SMF Response

3.8.3 The purpose of the service fee is to pass on to clients the direct costs of the .35% service fees charged to the Department by AMEX, for which no reference level funding has been provided to SMF. The process of administering Travellers Cheques is admittedly labour-intensive and SMF is actively engaged in trying to replace their use with Individual Travel Cards (ITCs) and direct deposits, methods more consistent with Modern Comptrollership principles and the Government Travel Modernization Project.