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YEAR-END PAYMENTS AND RECEIPTS

Audit Report



Performance Assurance Sector
Correctional Service of Canada

1. Introduction

The review of year-end payments and receipts for fiscal years 1999-2000 and 2000-2001 was conducted during the last two weeks of June 2001 in the Québec and Ontario regions. The review was done at CSC Comptroller's request for the purpose of ensuring that CSC regions were following existing policies and procedures with respect to proper year-end cut-offs.

Treasury Board Policy 5-5 "Policy on payables at year-end" dated October 10, 1994 specifies that: "It is the policy of the Government of Canada to record liabilities to outside organizations and individuals incurred up to and including March 31st in each fiscal year and to charge them to existing appropriations or provide for them through a central provision for valuation". This same policy defines a liability as a "...financial obligation to outside organizations and individuals as a result of transactions and events occurring on or before March 31."

The review included transactions for both fiscal years processed by Leclerc, Montée Saint-François, Joyceville and Collins Bay Institutions as well as transactions recorded by regional offices for both regions.

2. Method and scope

The scope of work of this review was determined by the Audit & Program Accreditation Branch in consultation with CSC Comptroller's Office. This review was limited to sampling transactions from the sites listed above for the two fiscal years. For each fiscal year, the objectives of the review were:

- To ensure that expenditures recorded in March did not include actual April transactions;
- To ensure that PAYE recorded in March did not include actual April expenditures and;
- To ensure that expenditures recorded in April did not include March transactions

For each one of the objectives above, we sampled a number of transactions.

3. Findings and recommendations

The audit team concludes that evidence shows that the process for year-end payments and receipts is in accordance with policies and procedures issued by Treasury Board Secretariat and CSC. We were able to evidence that most samples of PAYEs that we reviewed were indeed documented as being OLD YEAR transactions and were further

paid in the new fiscal year. Furthermore, we could verify that our samples of payments in March or April of each year were for transactions that rightfully belonged to the years into which they were paid.

While doing our review, we were able to identify a certain number of situations where we believe improvements could be made. We will discuss them briefly here. In general, the following observations and recommendations will apply to all sites visited. When something is specific to one site, we will mention it.

3.1 Documentary evidence needs to be strengthened.

3.1.1 System controls

We were looking for the IFMMS system receipt date to determine whether the goods and/or services were received in the old or the new fiscal year. This system date should be reliable since it is assigned automatically by the operating system calendar/clock. For goods/services received and recorded into the system prior to March 31, the process was working well based on our samplings. People were given until April 6 to enter transactions on goods and services received on or before March 31

There is a link in the system between the goods and/or services "receipt" transaction and the "purchase order" transaction. If goods (or services) received have not been purchased in the system by the issuance of a P.O., they cannot be system-received and a receipt number issued. This is a logical link and it helps strengthen controls over purchasing and the payment of goods. However, there was a system situation at year-end that prevented people from doing system receipts transaction for old-year receipts recorded in the first 6 days of April. This resulted in disabling the receipt transaction as a means of controlling transactions received at least prior to April 6, if not prior to March 31. We have been assured by Finance that this problem will be resolved before next year-end.

We also suggest for next fiscal year-end that not only Finance ensures that the system receipt function is fully operational for recording old-year transactions during the grace period of April, but also that people would use it for both goods and services transactions. We should limit people's ability to work around that function.

3.1.2 Paper trail

In order to document the receipt date, managers are either using a date stamp or a piece of correspondence/e-mail issued by a fellow employee. For goods purchased there is normally delivery documentation (delivery slips, shipping memos, etc.) issued by either the carrier or the supplier. These should always be kept and become part of the documentation supporting the payment of invoices. Beside the benefit of establishing the delivery date, this external documentation demonstrates that goods have been delivered and helps support signing section 34.

3.2 Need to strengthen some procedures for year-end.

Our review of the year-end process identified a need to either write some new procedures or to improve upon existing ones. Here are some examples of what we found:

- Goods are normally received by a store or a receiving unit that is different from the unit which ordered the goods. Services rendered are normally acknowledged by the same manager who is managing the contract and responsible for the budget. We would suggest, for services, that there be an independent validation mechanism.
- CSC procedure on materiality required that managers accrue all liabilities with a dollar value in excess of \$5,000.00. For transactions below that level, it was left to each manager (of Finance branch) to decide whether or not transactions would be accrued. As a result, we saw \$4,900.00 transactions not being accrued while \$35.00 transactions from another unit were being recorded as PAYEs.
- There were instances where managers were left to themselves to make interpretations as to whether or not to accrue transactions, that could have been covered generically in a procedure. An example of this is what do we do when we know before year-end that we will have to pay a settlement in the new year but no formal documents or agreements have been signed/issued as at March 31.
- There were several millions dollars worth of PWGSC invoices accrued at year-end for construction in progress. It may be worthwhile to review how we assess work in progress at year-end and how we document the files.

We believe that it would be beneficial to do a post-mortem of year-end procedures and processes and use lessons learned to bring improvements where needed. This review should involve people in the regions and address above items as well as any other problem that arose at year-end and after.

3.3 Good Management Practices

We have seen transactions that, although they were processed in all legality, were perhaps not following the basic rules of good management; purchases made late in the year, sometimes in large quantities, difficult timeframes between the date of purchase and the date of delivery, etc.

Another comment concerns the time it takes within the Service in general, to turn an invoice around and pay it. means should be found to shorten time to receive, approve and forward an invoice to Finance. This year, the short grace period allowed to enter invoices resulted in many more transactions than in previous years having to be set-up as PAYEs. This has created a heavy burden on Finance, which had to handle these invoices twice rather than only once for payment

3.4 Vendor files for paid invoices are kept by the budget managers in Ontario.

In the Ontario region, the budget managers keep accounts payable vendor files in their units. When asked why, Finance people referred to increased accountability by the budget manager to justify the move. Although there is no legal or other requirement for the files to be kept in Finance,, we can see some problems with this procedure.

It is hard to consult the whole file on one vendor when the invoices are not centralized. In the course of our audit on some occasions, it took a long time before we could access information. For example, in Collins Bay, we had to walk from Frontenac Institution where the Finance clustered Office is located to Collins Bay Institution where the managers were located.

We suggest that we review this process to see if it is still appropriate. Ontario region is the only one where suppliers files are disseminated to this extent.

4. Acknowledgements

Audit & Program Accreditation Branch wishes to acknowledge the excellent welcome and collaboration they received from people visited in the Institutions and in the regions. They were found to be professional, collaborative and pleasant to work with. Their help and dedication to their work has greatly reduced the complexity of this review.