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## MINISTRY OF ECONOMIC DEVELOPMENT AND TRADE

### 4.06—Financial Control Review

(Follow-up to VFM Section 3.06, 1999 Annual Report)

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#### BACKGROUND

The review we conducted for the 1999 Annual Report was of the financial controls of the Ministry of Economic Development and Trade (the Ministry), which was amalgamated with the Ministry of Tourism during the period of our review work. The Ministry's key objectives were to expand the province's economy, increase foreign and domestic investment, maintain the province's share of the world tourism market, and increase Ontario's share of the global export market.

During the four years leading up to our 1999 review, the Ministry experienced a number of major structural changes, including the aforementioned amalgamation with, and later separation from, the Ministry of Tourism and the devolution or wind-up of a number of agencies. There were also significant changes in program delivery and substantial budget cuts and staff downsizing. In addition, the Ministry became the provider of administrative services for the Ministry of Intergovernmental Affairs, and a number of financial functions were to be transferred to a new central agency, the Shared Services Bureau. This transfer was completed in June 2000.

During the 1998/99 fiscal year, the Ministry spent \$161 million to administer economic development, trade, and tourism programs. These expenditures consisted of \$40 million for staff salaries and benefits, \$76 million for other direct operating expenditures such as supplies, services, and equipment, and \$45 million for transfer payments and other disbursements.

We reviewed the Ministry's financial controls, systems, and procedures to determine whether they were adequate to ensure that expenditures were properly authorized, processed, and recorded.

Prior to our 1999 review, the Ministry had attempted to deal with the impact of the many structural changes on financial controls and had taken steps to act on many of the issues noted. However, we concluded that, overall, financial controls were not sufficient to ensure that expenditures were properly authorized, processed, and recorded. Controls over the \$15 million spent annually through the Ministry's accountable-advance account were weak as the account was not reconciled on a timely basis, and in some cases the delay between making payments and recording them on the financial system was six months or more. There was also a lack of segregation of duties in the Finance Branch, as 21 of the 28 employees could both enter transaction information into the financial system and approve payments. In addition, in over 60% of the purchases we reviewed, we found control weaknesses such as a lack of required purchase orders, contracts, and tendering. Controls over payroll were generally adequate.

Accordingly, we recommended that the Ministry correct these control problems, and the Ministry responded that corrective action would be taken to:

- perform reconciliations and record all transactions on a timely basis;
- ensure an adequate segregation of duties over the processing of financial transactions; and

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- require that all payments be supported by evidence of compliance with mandatory competitive acquisition and approval policies.

## CURRENT STATUS OF RECOMMENDATIONS

Based on information received from the Ministry of Economic Development and Trade, significant corrective action has been taken on all of the recommendations we made in our 1999 report. The current status of each of our recommendations is outlined below.

### ***ACCOUNTABLE-ADVANCE ACCOUNT***

#### **Payment Processing**

##### **Recommendation**

*To help reduce the risk that errors or irregularities could occur and go undetected, the Ministry should:*

- *establish, where necessary, and enforce maximum dollar amounts for manual cheques;*
- *record all manual cheques and electronic fund transfers in the financial system at the time the transactions are processed; and*
- *record deposits on a timely basis.*

##### **Current Status**

The Ministry informed us that, in August 1999, it updated its procedures and established a maximum dollar limit of \$100,000 for manual cheques. Furthermore, the Shared Services Bureau at the Management Board Secretariat was to monitor staff performance to ensure the prompt and accurate recording of transactions in the financial system and compliance with established procedures.

The Ministry informed us that, to ensure that deposits are recorded on a timely basis, its current procedure required that deposits be entered by the Shared Services Bureau into the head office's accountable-advance account and financial system within 24 to 48 hours of collection.

#### **Cheque Signing Controls**

##### **Recommendation**

*To ensure that no one individual is in a position to perpetrate and conceal errors or irregularities in the normal course of their duties, the Ministry should ensure that:*

- *the keys to the cheque-signing machine are in the possession of two different individuals;*
- *the machine is dual locked when not in use; and*
- *the signature plate, both keys, and all blank cheques are kept in secure locations.*

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## Current Status

The Ministry indicated that a new cheque-signing machine with enhanced security features, including electronic signatures, was installed. The Shared Services Bureau trained staff on the appropriate use of the new machine and documented new controls and procedures that were distributed to staff. These controls restrict staff processing the manual cheques from entering payments into the financial system. The two staff members who are responsible for printing cheques each have a separate password enabling them to access the cheque-signing machine. The key to the cheque-signing machine is secured, and access is limited to the manager and co-ordinator of Financial Operations. Blank cheques are stored in a cabinet in a locked room, and only the senior customer-service representative and the administrative assistant have access to the cheques.

In addition, the Ministry informed us that the Shared Services Bureau was monitoring staff to ensure that they complied with required procedures.

## Advance-account Agreements and Reconciliations

### Recommendation

*To ensure that the accountable-advance account is properly managed and controlled, the Ministry should:*

- *conclude a written agreement with the Ministry of Finance stipulating the permissible uses for the account and periodic reporting requirements; and*
- *ensure that monthly bank reconciliations are completed and reviewed on a timely basis.*

### Current Status

The Ministry informed us that it contacted the Ministry of Finance to ensure that advance-account agreements would be signed for each of the three ministries that receive financial services from its Finance Branch—namely, the Ministry of Economic Development and Trade, the Ministry of Intergovernmental Affairs, and the Ministry of Tourism. However, the Ministry of Finance responded that it would not enter into any advance-account agreements with the three respective ministries because a new accountable-advance operating policy was being developed. This new policy is to set out mandatory requirements to be followed by ministries and is to eliminate the need for separate agreements with individual ministries. At the time of our follow-up in July 2001, the new policy had yet to be finalized by the Ministry of Finance.

The accountable-advance account bank-reconciliation process has been redesigned, and additional resources have been assigned to complete the reconciliation on a timely basis. The monthly bank reconciliations are now being done by the Shared Services Bureau and, at the time of our follow-up, were being completed and reviewed on a timely basis.

## **PAYROLL EXPENDITURES**

### Recommendation

*To ensure that the payroll is accurate, the Ministry should:*

- *check input documents to output reports and ensure that this check is done by someone other than the person who enters payroll change information;*

- *compare the pay-list to the expected pay and follow up on any significant differences prior to approving the payroll for processing; and*
- *promptly investigate and resolve any discrepancies between the pay and benefits accounts and Ministry of Finance records.*

### **Current Status**

The Ministry informed us that the Shared Services Bureau has put in place procedures that include a pre-control check of the payroll against the pay-list that is verified by the pay representative responsible for the pre-control. In addition, the Shared Services Bureau's payroll manager and group leader each perform separate spot checks each pay period to ensure payments are correct. The reconciliation function was redesigned, and additional staff were allocated to ensure a proper segregation of duties and improved internal controls.

The Ministry indicated that discrepancies between the pay and benefits accounts and Ministry of Finance records are investigated and resolved monthly through the Central Accounts reconciliation process. We noted that reconciliations were being done on a timely basis.

## ***OTHER EXPENDITURES***

### **Procurement Practices**

#### **Recommendation**

*To ensure that payments are processed accurately and that the risks of errors and irregularities are minimized, the Ministry should:*

- *thoroughly check the accuracy of invoices, verify that goods and services have been received, and obtain all discounts; and*
- *require that all payments be supported by evidence of compliance with the Ministry's mandatory competitive acquisition and approval policies.*

#### **Current Status**

The Ministry informed us that it held meetings with senior management and program-level staff to review the Ministry's procurement policies in light of the weaknesses noted in the 1999 review. The Ministry indicated that it was streamlining and updating the procurement function as part of the process of transferring this function to the Shared Services Bureau. At the time of our follow-up in July 2001, the Ministry had completed a service-level agreement with the Bureau and was awaiting its final signing and implementation.

The Ministry informed us that the service-level agreement with the Shared Services Bureau required the Bureau to monitor policy compliance and refer significant cases of non-compliance to the Ministry for action. In addition, the Ministry has reinforced the requirement that program area managers must review supporting documentation prior to approving invoices for payment. The Ministry also informed us that training sessions for program staff on procurement were implemented during the 2000/01 fiscal year.

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## Computer Processing Controls

### Recommendation

*In order to provide adequate computer processing controls over the payment of expenditures, the Ministry should:*

- *limit the number of staff who have the authority to enter transaction information and approve payments, and ensure that no one individual has the authority to do both;*
- *keep a systems log of the individuals who approve each transaction;*
- *require management approval to process invoices that cannot be matched to purchase orders; and*
- *ensure an adequate segregation of duties between the purchasing and payment processing functions.*

### Current Status

The Ministry indicated that the Shared Services Bureau has restricted access to the financial system such that the same staff member cannot both initiate payments and perform the reconciliation process. Individuals who approved transactions for payment were to be noted on the system log and compared to an authorized list of staff designated for this function.

## Reconciliations with Ministry of Finance Records

### Recommendation

*To ensure that all transactions recorded in the Ministry's financial system are accurate and complete, the Ministry should:*

- *perform monthly reconciliations of its financial system to Ministry of Finance records; and*
- *follow up on and resolve any differences on a timely basis.*

### Current Status

At the time of our follow-up in July 2001, we noted that the Ministry's financial transactions were being reconciled with Ministry of Finance records and that discrepancies were being resolved on a timely basis. The Shared Services Bureau was carrying out this work for the Ministry.

## GENERAL FINANCIAL CONTROLS

### Staffing

#### Recommendation

*In order to ensure that key financial control activities are performed on a timely basis by well trained and knowledgeable staff, the Ministry should review the staffing of the Finance Branch.*

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## **Current Status**

Since the 1999 review, the Ministry implemented a new organizational structure that is intended to strengthen the procurement and reconciliation functions. The Ministry informed us that, as part of the reorganization, 17 of the 32 financial-processing and procurement staff members were transferred to the Shared Services Bureau in June of 2000. We were informed that, to ensure that financial activities are properly controlled, both the Ministry and the Bureau were updating policies, streamlining procedures, and training staff in their new roles on an ongoing basis.