



Internal Controls – A Departmental Perspective

FMI Presentation – November 2009



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Session Objective

- To offer insights as to how one small organization, the Canada School of Public Service prepared itself for readiness of auditable Financial Statements and the implementation of the Policy on Internal Controls, including
 - Approach followed
 - Challenges faced
 - Tools developed
 - Lessons learned



Context

- The journey began in 2004 --- a landmark year for the Canada School
 - Merger of 3 discrete organizations into one (via *Public Service Modernization Act*)
 - Mandate to fundamentally reposition learning in Public Service
 - Increased dependency on revenue streams
 - Non-existence of “corporate services” function and modest financial support capability



Context (2)

- The Canada School required significant cultural change and organizational development at a time when a major shift in emphasis on financial control and accountability was emerging
- CSPA differs from other departments
 - A Departmental Corporation with a Board of Governors
 - Ability to carry revenues forward
 - Aims to be a model organization and GoC leader
 - Pioneers shared services initiatives
- As a GoC leader, it needs to “walk the walk” before it can “talk the talk”



The Evolution of CSPS

- The Canada School's business model changed fundamentally in FY 2005-06
 - To assigning clear accountability to deputies
 - From a market model of selling courses in demand to designing and delivering courses which serve the business needs of government
 - From competing with suppliers to providing a clearinghouse of solutions and best practices
 - From a fragmented approach to learning to a comprehensive, blended system of learning

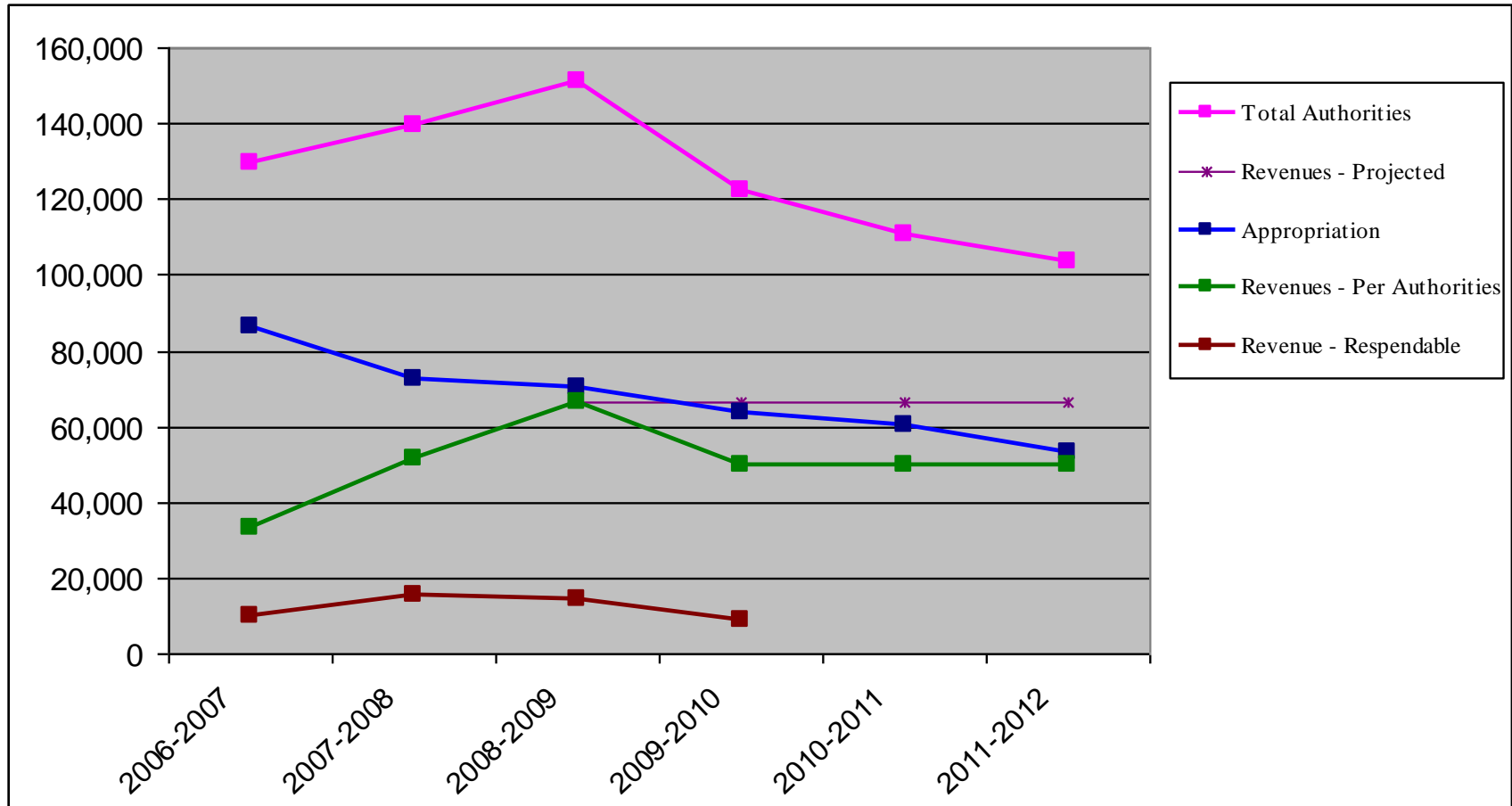


The Evolution of CSPS (2)

- In the 5 ½ years of transition since PSMA, the Canada School has emerged as the GoC's primordial partner in learning
 - Doubling in revenue growth (see next slide) and an increase in staff complement from approx 600 to 940
- The strengthening of CSPS's financial function has mirrored the maturity development of the Canada School itself since inception in 2004



The Evolution of CSPS (3) : Financials





The Evolution of CSPS (4)

- But that was not all that CSPS had on its plate:
 - It participated in expenditure reviews leading to funding reductions and greater reliance on cost recovery
 - It expanded its reach and embraced new tools, such as learning events, computer-assisted learning, and increased accessibility
 - It played a seminal role in the horizontal Strategic Review of HR Management (summer 2008)

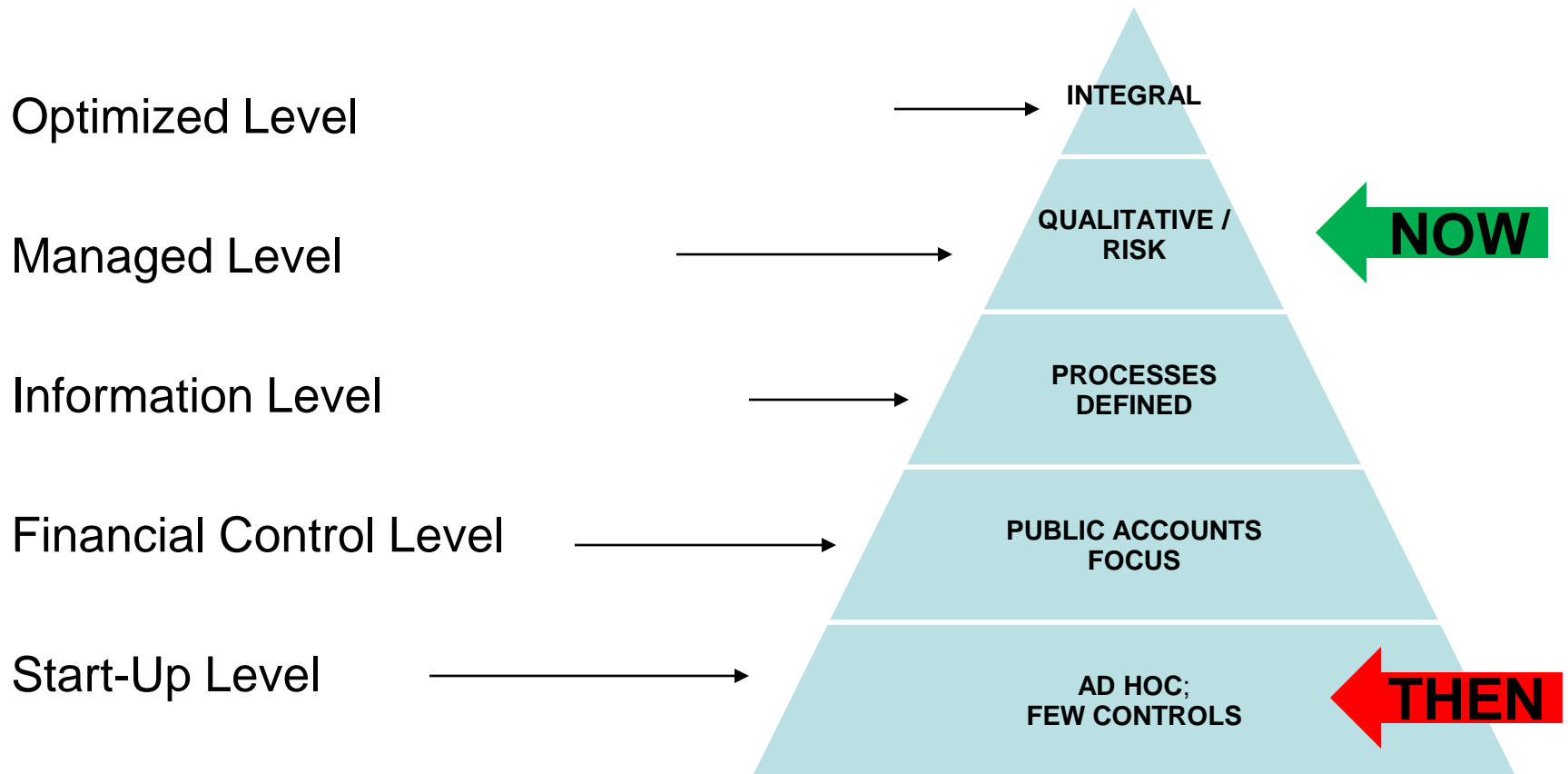


The CSPS Finance Story in Brief

- Represents the evolution of a financial regime along the capability maturity continuum from “nowhere” to a “strong” MAF rating in round VI
- Finance leadership adopted a deliberate and incremental approach
 - Using a capability maturity model approach
 - Applying relevant frameworks (such as MAF) to set priorities and shape outcomes
 - Focusing on getting the financial house in order and ensuring fundamentals were in place
 - “Buying rather than making” where possible (via shared services agreements)



AG's Management Capability Levels

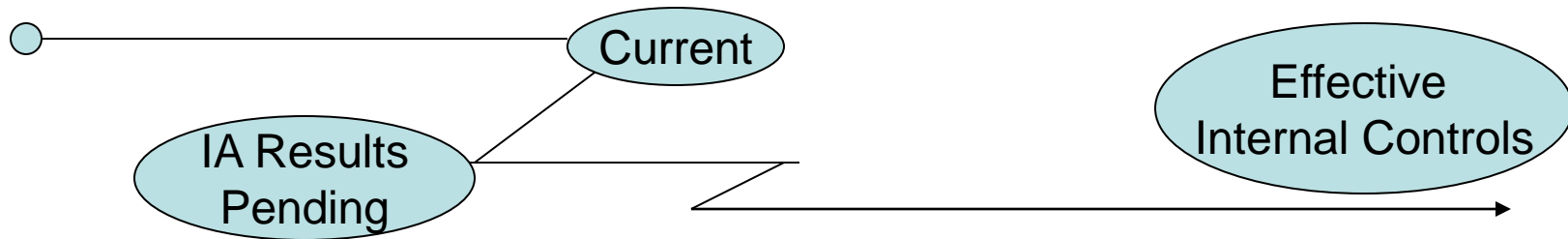




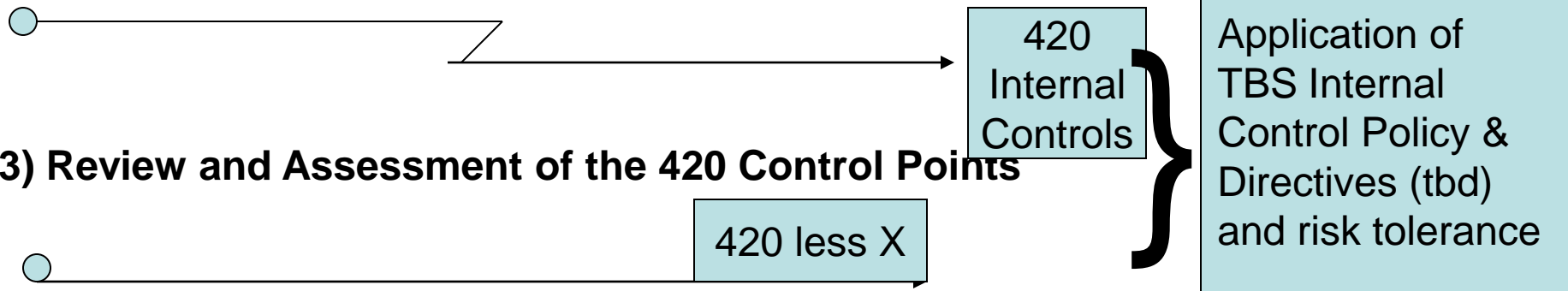
Canada School of Public Service Internal Control Framework

1) Internal Controls Maturity Model

1) Evolution of Internal Controls



2) State of Readiness for Controls Reliant Audits

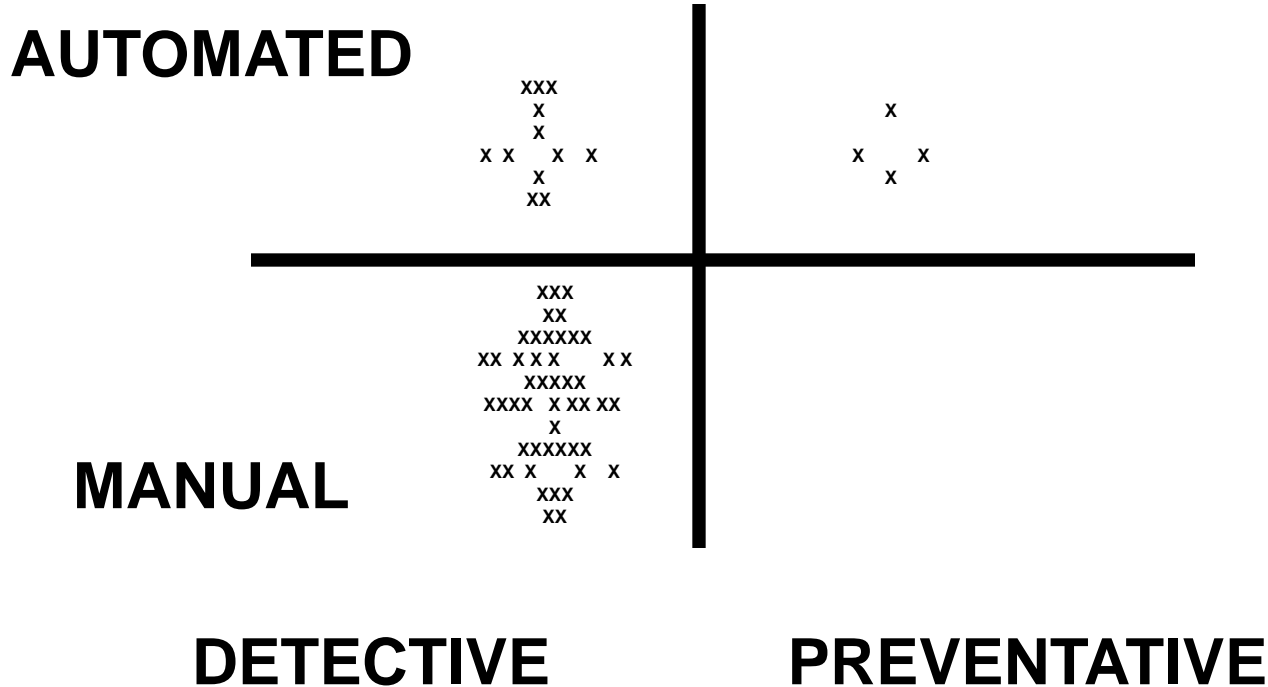


3) Review and Assessment of the 420 Control Points



CSPS Internal Control Framework (2)

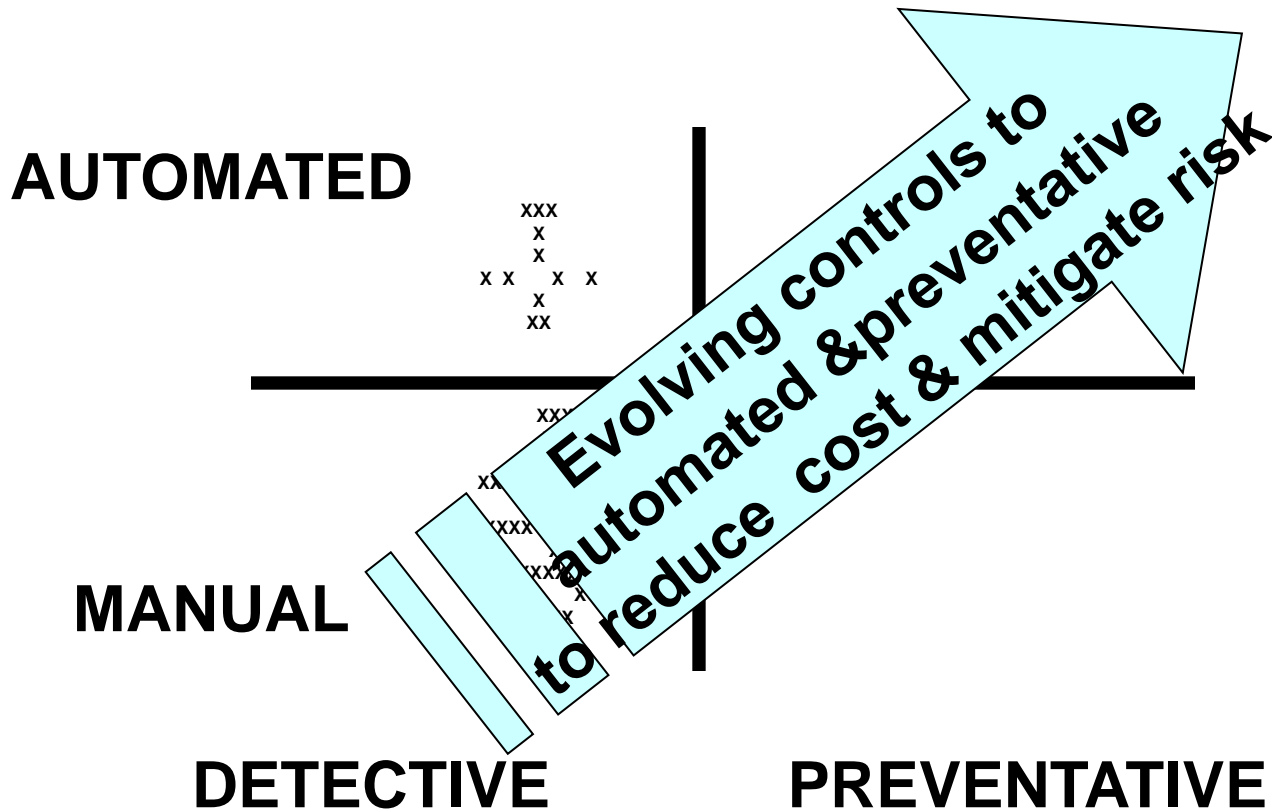
2) Current Control Environment





CSPS Internal Control Framework (3)

3) Target Control Environment



Internal Controls – Organizational Journey

4. Iterative Enhancements

3. Establishing a Baseline

2. Leadership

1. Setting the Vision





CSPS 4-Part Journey to Internal Controls

1. Setting the Vision

- A. Problem identification
- B. A call to action

2. Leadership

- A. Organizing for success
- B. Leveraging TBS, OGD and industry guidance

3. Establishing a Baseline

- A. Staff engagement in solutions
- B. Functional decomposition
- C. Third party reviews
- D. Remediation action plans

4. Iterative Enhancement

- A. Updating and reassessment
- B. Iteration and continuous improvement





Step 1: Setting the Vision

A. Problem Identification:

- At the time of the Canada School's birth, basic financial processes and controls to support the departmental infrastructure were lacking
- The Canada School recognized that if it were to achieve its vision as GoC leader in learning, it needed to develop a capable and enabling infrastructure to support program operations generally and revenue generation specifically



Environnemental Scan

Alligators in the Swamp





Step 1: Setting the Vision (2)

B. A Call to Action

- Senior Management engagement
 - Success would have been quite limited without the fervent support of the President and CEO of the Canada School of Public Service Ruth Dantzer and CFO Jamie Tibbetts
- Leveraging of governance mechanisms
 - CSPS Management Committee
 - Board of Governors
 - Departmental Audit Committee
- Implementation of CFO model in 2008-09



Step 2: Leadership

A. Organizing for Success

- Recruitment of change agents
 - Seasoned finance managers brought in and mandated to lead the change
- Separated the change drivers from the practitioners by dividing Finance into 3 sectors
 - Comptrollership and quality assurance
 - Financial policy and accounting
 - Resource management and analysis



Step 2: Leadership (2)

B. Leveraging Available Guidance from TBS, OGDs and industry

- Plugged early into the TBS policy development process to keep abreast of emerging requirements vis-à-vis the eventual Policy on Internal Controls
- Shared insights / best practices with OGDs
- Applied position papers developed by industry experts
- Pursued expectations set out in Area of Management 17 (Finance) in consecutive MAF processes



Step 3: Establishing a Baseline

A. Staff Engagement in Solutions

- “Alligators in the Swamp” exercise
 - Resulted in identification of 9 discrete areas of focus, together with champions and follow-up plans
 - e.g.; year-end activities, travel, contract management, SAP decentralization, costing
- Whiteboard sessions on key business process with process owners/key staff at all levels
- Motto “Supportive / Control” Environment





Step 3: Establishing a Baseline (2)

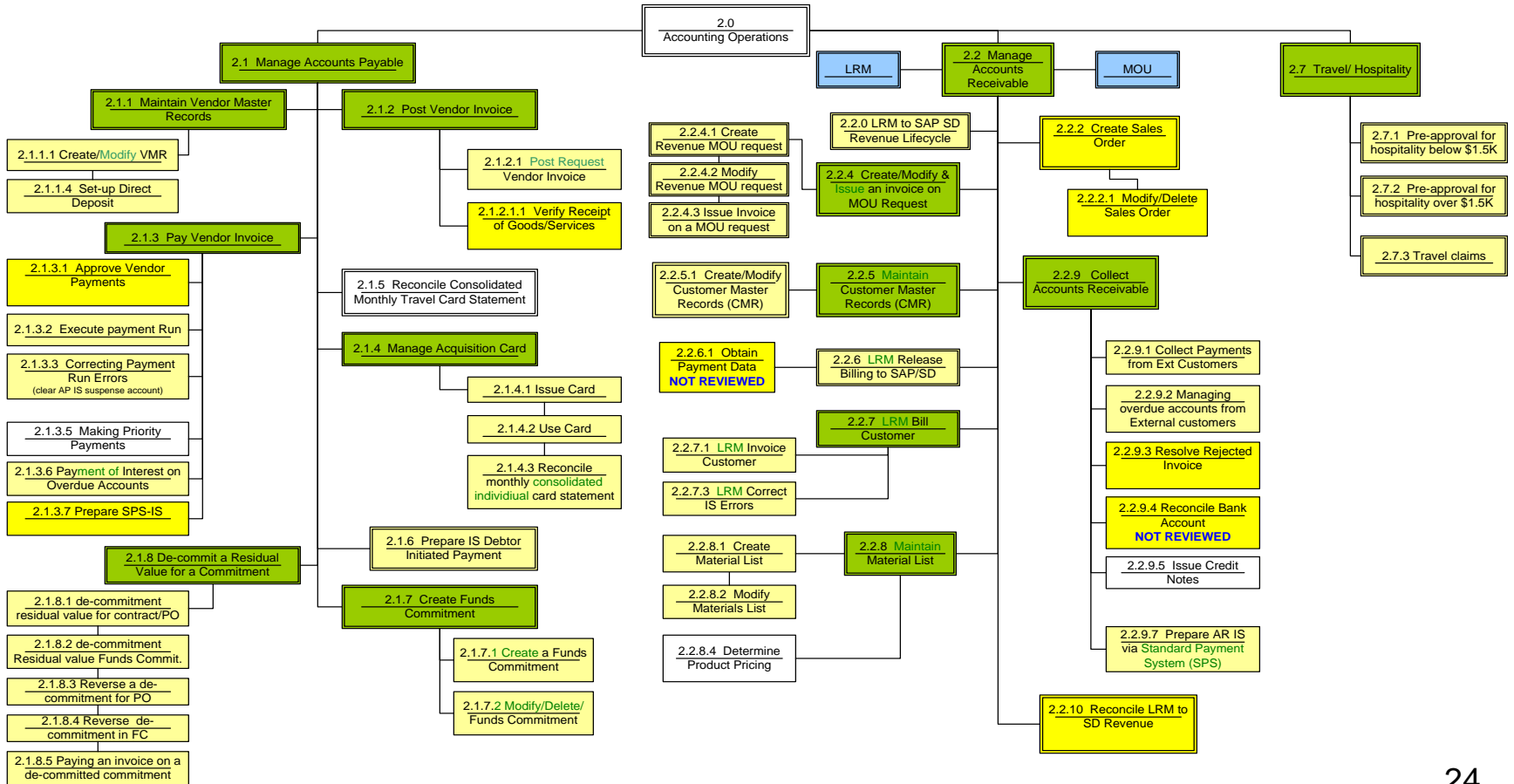
B. Functional Decomposition

- Internal process to document, flow-chart and map all financial business processes
 - Signed off by OPIs and posted in both official languages on CSPS intranet
 - Celebrated as a huge accomplishment
 - Presented by CFO to senior management
 - Prerequisite for readiness vis-à-vis auditable financial statements

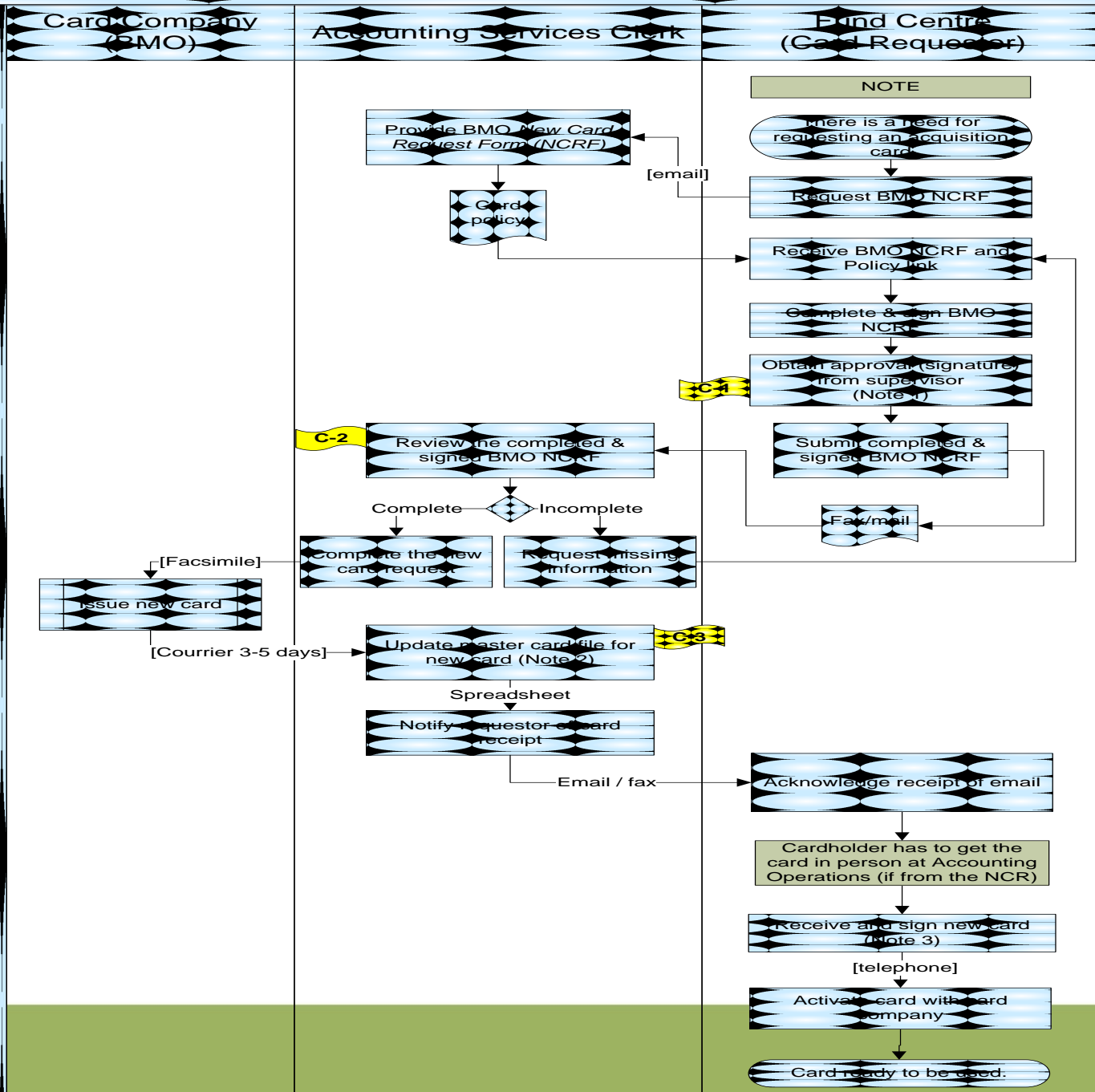


Functional Decomposition Diagram

Accounting Operations Level 1



AO 2.1.4.1 Leave Acquisition Card



- NOTE :**
- Please take note that there might be additional elements and descriptions to this Business Process that are not included. These steps are out of scope for Corporate Services. The link to these additional elements can be found at the end of this Business Process.
- Note 1**
- The employee's manager also has the authority to change the pre-determined spending limits on the application
- Note 2:**
- The Master Card File is updated recording the following information:
- Cardholder Name;
 - Fund Centre;
 - Fund;
 - Functional Area; and
 - Card number;
- Note 3:**
- Card holders are given blanket authority up to \$5K per purchase when the request form is approved.

2.3.5.1 Prepare Financial Statements



Corporate Accounting

Note 1:
A copy of the signed unaudited F/S is also provided to Policy, Governance and Communications for publication to the DPR (Department Performance Report)

M and/or SFA provide additional information and/or update the F/S (Note 2)

Note 2:
Adjustments relating to the updated F/S where applicable are posted to the GL in the following year.
Adjustments that may be processed by central agencies to public accounts after the close of CFMRS are also reflected in the financial statements and are posted to the CSPS GL in the following year.

SFA makes arrangements to have the F/S posted to the CSPS Website

Financial Policy and Accounting Services

CFO signs off on the unaudited F/S and notes

DCFO and CFO brief the President and the President signs off on the unaudited F/S and notes, and the Certificate of Mgmt Responsibility

Errors, recommendations and draft opinions provided to the CFO and DCFO

The (updated) audited F/S are examined by CFO and DCFO

CFO, DCFO and Auditors brief the President on the audited F/S and audit work

CFO and Auditors present the audited F/S to Audit Committee

The Audit Committee recommends the sign-off of the audited F/S

CFO and President sign-off on the audited F/S and Certificate of Mgmt Responsibility

Auditors sign-off on their audit report

CFO and Auditors present the audited F/S to the board of Governors

F/S are issued as final to the OAG, RG and *OAG

Controller General, Receiver General, Auditor General and External Auditors

* OAG – Office of the Auditor General ?

Copies of the signed unaudited F/S are sent to the OCG, RG and *OAG for information (Note 1)

A copy of the signed unaudited F/S is provided to the external auditors for audit

F/S are audited

Auditors note errors and/or make recommendations

Auditors provide a draft audit opinion

The (updated) audited F/S are examined by the Auditor and confirmed as OK

CFO, DCFO and Auditors brief the President on the audited F/S and audit work

CFO and Auditors present the audited F/S to Audit Committee

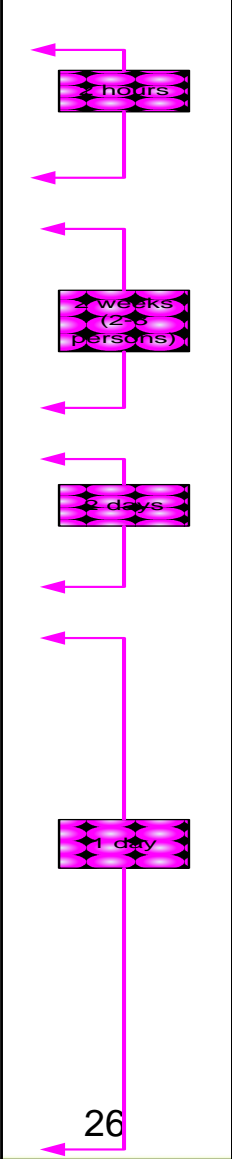
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Step 3: Establishing a Baseline (3)

C. Third Party Reviews

- Engaged creditable external accounting firm to:
 - Assess compliance against TB accounting standards
 - Assess current controls
 - Unqualified Audit from External audit firm on balances of Statement of Financial Position (FY 2008/09)
- But:
 - Applied own methodology
 - Virtually started from scratch
 - Absence of “master list” of controls
 - Laborious / difficult / expensive process



Step 3: Establishing a Baseline (4)

D. Remediation Action Plans

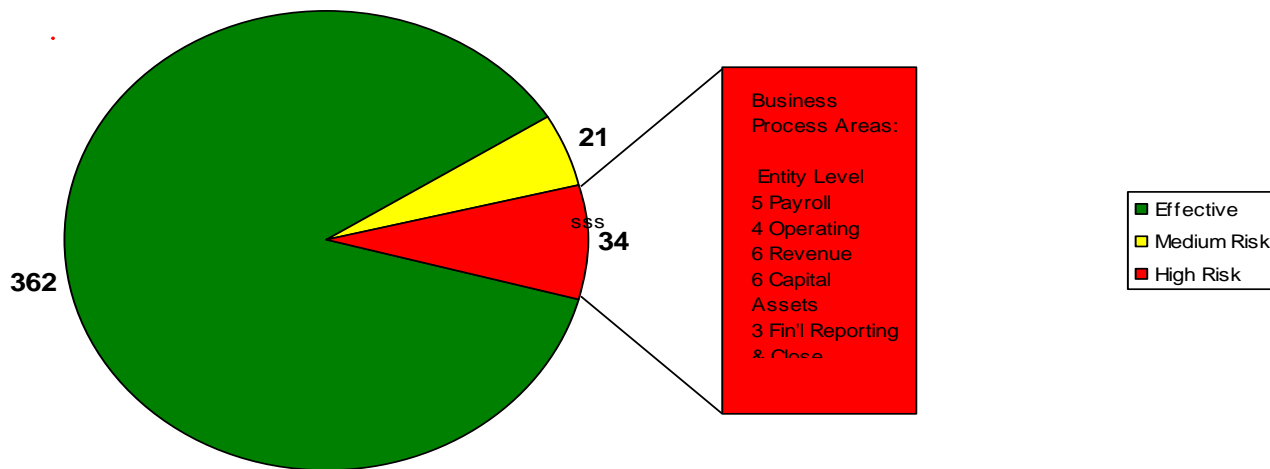
- Third party assessment of 55 remediation plans during March 2008
 - 44 either effective or plan in progress
 - 11 required additional attention

- Representations of CSPS baseline to:
 - Management Committee
 - Departmental Audit Committee
 - Board of Governors



Results of Third Party Review of Controls

Findings
Fall 2007



Approximately 420 controls were assessed, of which 362 (86%) were found to be effective. The balance of 55 were identified as medium/high risk needing remediation.



Step 4: Iterative Enhancement

A. Updating and Reassessment

- Updating of business process schemas to reflect approved remediation strategies
- Third party reassessment of controls
 - As of May 2009, additional 32 o/s areas addressed
 - 26 still pending (4 are outside the scope of the School & 3 have dependencies on new Integrated Learning Management System)
- CSPS Internal Audit of Effectiveness of Internal Controls (Jan 2009). Preliminary draft Audit report reviewed September 2009



CSPS Internal Controls at a Glance

| Categories | High risk and incomplete | | High risk and partly complete | | Medium risk and incomplete | | Plan developed or in progress | | Complete | | Out of CSPS Control - remain status quo | | Total |
|---|--------------------------|----------|-------------------------------|----------|----------------------------|----------|-------------------------------|----------|-----------|-----------|---|----------|-----------|
| | Dec 2008 | May 2009 | Dec 2008 | May 2009 | Dec 2008 | May 2009 | Dec 2008 | May 2009 | Dec 2008 | May 2009 | Dec 2008 | May 2009 | |
| Revenue (8 LOR) | 2 | 1 | 4 | 5 | | | | | 2 | 2 | | | 8 |
| Operating expenditures (7 LOR) | | | 2 | 2 | | | 1 | | 3 | 4 | 1 | 1 | 7 |
| Payroll (8 LOR) | | | 1 | | 1 | 1 | 1 | | 3 | 5 | 2 | 2 | 8 |
| Capital Assets (7 LOR) | 1 | 1 | 1 | | | | | | 5 | 6 | | | 7 |
| Financial Closing reporting (5 LOR) | | | 2 | | | | | | 2 | 4 | 1 | 1 | 5 |
| Entity level Control (6 LOR) | | | | | 2 | 2 | | | 4 | 4 | | | 6 |
| Total Excluding General Computer Control | 3 | 2 | 10 | 7 | 3 | 3 | 2 | | 19 | 25 | 4 | 4 | 41 |
| General Computer Control (note 1) | 1 | 1 | | | 2 | 2 | 10 | 4 | 1 | 7 | | | 14 |
| Total Recommendations from Deloitte | 4 | 3 | 10 | 7 | 5 | 5 | 12 | 4 | 20 | 32 | 4 | 4 | 55 |

Note 1: The General Computer Controls status on December 15, 2008 was taken from the March 2008 Deloitte findings.



Step 4: Iterative Enhancements (2)

B. Continuous Improvement

- Conducted internal workshops with the Financial Officer and Accounting Operations communities with emphasis on awareness/knowledge of internal controls.
- Launched external audit of Opening Balances of Statement of Financial Position for 2009-10. DAC recommendation
- Developed internal controls matrix by job function
- Incorporation of internal controls into the appropriate desk procedures and goals/objectives of key employees



Sample Internal Controls by Job Function

| Key Control Activities | A/P Clerk | A/P Manager | Travel Clerk | Travel Manager |
|--|-----------|-------------|--------------|----------------|
| 1.5 For direct purchases: An A/P Advisor verifies FAA Section 32 signature against the Fin'l Signing Authority and creates the funds commitment in SAP, evidenced by a manual signature on the supporting documents | X | | | |
| 3.1 For external purchases (e.g. with procurement; direct purchases): Verification of Section 34 approval and the FCM signature against the Fin'l Signing Authority is performed by the A/P Advisor (e.g. accuracy of coding, payment is made from original invoice, etc.). The approval is evidenced by the initials of the A/P Advisor on the invoice. | X | | | |
| 3.6 For Departmental Travel Cards: For airfare centrally billed to the School from AMEX, suspense accounts are monitored monthly and outstanding invoices are followed up by the Travel Advisor and cleared from the suspense account, evidenced by initials on the invoice (including verification of Section 34 approval & the Fund Centre Manager signature against the Fin'l Signing Authority). | | | X | |
| 4.1 For External Vendor Invoices: A Financial Officer reviews external vendor transactions in a payment proposal to actual invoices before payment is released to PWGSC. The Financial Officer's review is evidenced by initials on the invoice. | | X | | |
| 4.2 For Employee-related Invoices (hospitality, travel, departmental travel cards, acquisition cards): The Head of Travel independently reviews employee-related items in a payment proposal to actual invoices before they are released in SAP to the Financial Officer who performs the payment settlement with the Electronic Authorization and Authentication (EAA) key. The Head of Travel's review is evidenced by initials on the invoice. | | | | X |

Extract from Matrix by Job Function



Step 4: Iterative Enhancements (3)

- Internal audit of revenue management and General Computer Controls on CSPS risk based internal audit plan
- Detail work remaining to be done in some areas
 - Salary – Compensation services
 - Revenue management – Implementation of Integrated Learning Management System (ILMS)



Lessons Learned

1. Life in a small department = +/-

- More access to senior management
- Smaller critical mass
- Deputy engagement is key

2. Words to live by:

- Document, Document, Document!!!
- Clear, well understood documentation of processes, controls, roles and responsibilities – essential component



Lessons Learned (2)

3. Your DAC is your friend

- Valuable advice received from external members

4. Plan your migration of internal controls to leverage automation, pursue prevention, incorporate efficiencies where appropriate

- Reduces cost and mitigates risk
- CSPS changed its SAP service provider to take advantage of more robust capabilities
- Focus on key controls and control objectives



Lessons Learned (3)

5. Don't reinvent the wheel

- Leverage work being done at centre as well as other government departments.
- Expensive for small departments/agencies
- CSPS willing to share documentation materials

6. Gap between documents and desktops

- Staff improvise, negotiate and innovate
- Instantaneous document obsolescence
- Need for desk procedures and for ongoing communication with practitioners



Lessons Learned (4)

7. Need to change culture – Cannot legislate behaviour.
 - Must use behaviour approach. Culture change
 - Share information and message broadly within organization
 - Department needs to embrace the values of Engagement and Transparency
8. The work is never done – Continuous Journey
 - Ever-changing people, systems, policies, procedures
 - Need to keep evergreen
 - Need for focus, patience and stamina



The End

Questions?

Comments?

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October 2009