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# Progress Report on the Implementation of the Management Action Plan of the Audit of Accounts Receivable Phase I

June 2017

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## **Progress Report on the Implementation of the Management Action Plan of the Audit of Accounts Receivable Phase I**

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## I. Background

### I.1 Context

The Audit of Accounts Receivable Phase I – Governance, Establishment, Monitoring and Reporting was conducted in 2015. The audit report was tabled at the Departmental Audit Committee (DAC) in May 2016 and subsequently published in August 2016. Management has developed a Management Action Plan (MAP) to address the recommendations included in the audit report. The full implementation of this MAP is expected to be completed by April 1, 2019.

At the DAC meeting held on May 31, 2016, the Chair of the DAC requested that a status on the progress of the implementation of the MAP for the Audit of Accounts Receivable Phase I be provided.

### I.2 Objective

The objective of this engagement is to assess progress made vis-à-vis planned actions identified in the MAP approved by the Deputy Minister.

### I.3 Scope

The scope of this engagement includes a review of the activities undertaken towards the MAP implementation. The adequacy of the actions undertaken has not been assessed in the context of this engagement.

### I.4 Methodology

Interviews have been conducted with representatives from the Chief Financial Officer Branch (CFOB) and the Transformation and Integrated Service Management Branch (TISMB) to get feedback and confirmation on the progress made towards the completion of the MAP. In addition, documentation has been reviewed such as deck presentations and records of decision from the Accounts Receivable Modernization Steering Committee (ARMSC) meetings.

## 2. Findings

### 2.1 CFOB is on track to meet the targeted completion date for the recommendation pertaining to the establishment of overpayments

#### **Recommendation from the 2015 Audit of Accounts Receivable Phase I**

1. CFOB, in collaboration with Assistant Deputy Ministers (ADM) of programs generating overpayments, should develop appropriate requirements to address issues pertaining to overpayments supporting documentation practices, timeliness in establishing overpayments and communication with clients.

#### **Management Response**

*CFOB agrees with the recommendation. As part of the Accounts Receivable Modernization initiative, a governance-lead by an ADM committee will be established with all necessary stakeholders. CFOB will work with program areas to develop guidelines with key minimal requirements for overpayment establishment. The first ADM committee is to take place in June 2016. Actions are expected to be completed by April 2019.*

CFOB is leading all activities for this MAP action item. It was expected that through the Accounts Receivable Modernization initiative, CFOB would start discussions with all programs to review the Accounts Receivable cycle from beginning to end with the goal of developing consistent practices throughout the Department for establishing an overpayment in the financial system.

The first meeting of the ARMSC took place on June 21, 2016. The record of decision confirmed that the Terms of Reference for the Committee were adopted. The Canada Pension Plan (CPP) and Old Age Security (OAS) data clean-up strategy has also been presented by TISMB at that meeting.

Starting November 2016, Accounts Receivable Information Sessions were held in the National Capital, Ontario, Quebec and Atlantic regions. These sessions aimed to provide an overview and increase awareness of the life cycle of Accounts Receivable; provide an opportunity to consult business lines to develop consistent practices in establishing overpayments throughout the Department; and support Canada Revenue Agency (CRA) with collection activities. CFOB informed Internal Audit that these sessions were a success and positive feedback was received.

Starting April 2017, CFOB plans to work with business lines in developing guidelines to ensure consistent practices across the Department.

CFOB Management indicated that they are confident that the required actions will be completed on time.

2.2 CFOB and TISMB are on track to meet the targeted completion date for the recommendation pertaining to data integrity between the Departmental Accounts Receivable System and program systems

**Recommendation from the 2015 Audit of Accounts Receivable Phase I**

2. CFOB, in collaboration with ADM of programs generating overpayments, should establish a mechanism to enhance data integrity between Departmental Accounts Receivable System (DARS) and program systems.

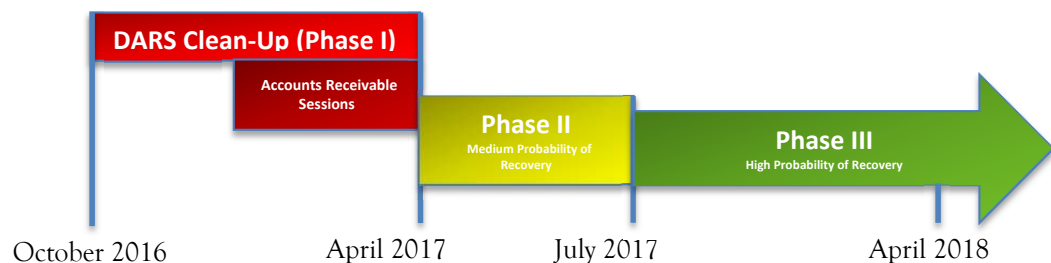
**Management Response**

CFOB agrees with the recommendation. For those systems that are fully automated with a two-way interface (i.e. Employment Insurance, Canadian Student Loans, Wage Earner Protection Program, Common System on Grants and Contributions - client module) between the program system and DARS, no further work is required. This represents approximately 90% of the Accounts Receivable currently in DARS. With system controls and built in edit checks within the interface, any transactions that do not meet the file specifications are reported on a daily report screen for manual correction. Thus, the level of risk is low and there is no value added in doing any additional verification.

For those systems in which a two-way interface does not exist (i.e. Corporate Payment Management System) which represents 10% of the Accounts Receivable currently in DARS, a working group has been established to analyse the issues and to take corrective action. Considerable effort over the years has been made in resolving most system variances identified. For the remainder, periodical meetings with the Directors General of TISMB and CFOB are underway to provide regular updates and to ensure that progress is being made. Continued monitoring is done to ensure data integrity until such time as a two-way interface has been created. Actions are expected to be completed by April 2019.

During the ARMSC meeting held on October 7, 2016, CFOB presented the DARS data clean-up strategy which was endorsed by the Committee and subsequently approved by the National Write-Off and Remission Review Committee on October 20, 2016. The strategy is led and will be implemented by CFOB with the exception of CPP and OAS data, which is led and implemented by TISMB in coordination with CFOB. The strategy is defined in three phases with the objective to remove accounts with a low to no probability of recovery in order to allocate resources on accounts that have a higher probability of recovery (see Figure 1 below).

FIGURE 1



- Phase I will recommend writing-off accounts meeting certain criteria such as deceased status older than two years, accounts greater than seven years with no activity and accounts with a balance less than \$100 and older than two years. The completion of Phase I would reduce DARS value by \$68M (1.8% of total DARS value) and reduce the number of accounts by 48,462 (5.3% of all accounts).
- Phase II will review accounts by status code to find common issues that could be remediated in volume. The number of accounts to review is 99,678 (11% of all accounts). The value of these accounts is \$301.7M (7.9% of total DARS value).
- Phase III will focus on the accounts younger than two years with high probability of recovery. This represents 152,390 accounts (16.8% of all accounts). The value of these accounts is \$983.7M (25.6% of total DARS value).

The completion of the three phases of the DARS clean-up strategy would impact 33% of the accounts currently in DARS.

For the part carried out by CFOB, Internal Audit has been informed that all actions should be completed on time. For CPP and OAS, an action plan update was presented on January 31, 2017 to the ADM of Benefits Delivery Services within TISMB and the Chief Financial Officer. TISMB is planning to complete the following activities on CPP and OAS accounts by September 2017:

- Clean up accounts that have low to no probability of recovery;
- Transfer cleaned up data to DARS;
- Develop a communication strategy prior to sending out the Monthly Statement of Accounts (MSA) to clients;
- Send out the MSAs to clients.

Internal Audit was informed that work is currently underway and assistance has been obtained from Innovation, Information and Technology Branch to automate the clean-up as much as possible.

To date, no concerns have been reported and TISMB expects to be in a position to meet the established deadline of September 2017.



2.3 CFOB standardized and documented the key controls for all processes except the high risk credit refunds which should be completed by August 1, 2017

**Recommendation from the 2015 Audit of Accounts Receivable Phase I**

3. CFOB should standardize processes and document key controls pertaining to cash handling, bank reconciliations, credit refunds, and suspense accounts.

**Management Response**

*CFOB is in agreement with the recommendation. One of the priorities of CFOB, and in particular National Accounts Receivable (NAR), since consolidating the receivables function to three sites has been to standardize its business processes. In fiscal year 2015–16, additional resources were hired to review 2-3 processes within NAR with the goal of standardizing the processes across the regional sites. This work will continue into fiscal year 2016–17. Actions are expected to be completed by March 2017.*

Supporting documents provided to Internal Audit confirmed that the standardization and the documentation for cash handling, bank reconciliations, low risk credit refunds and suspense accounts were completed by CFOB. CFOB anticipates the remaining high risk credit refund process to be completed by August 1, 2017. CFOB informed Internal Audit that they have worked collaboratively with the regional sites to develop standardized processes and that training has taken place and the processes have been implemented.

3. Conclusion

Based on the interviews and review of supporting documentation, CFOB and TISMB have undertaken actions addressing all recommendations from the Audit of Accounts Receivable Phase I. Both CFOB and TISMB are currently on track to meet the targeted deadlines for all planned actions except for one process. A five-month delay is anticipated for the full implementation of the recommendation aimed at standardizing processes and documenting key controls for the high risk credit refunds.

## Appendix A: Management Action Plan

### Audit of Accounts Receivable Phase I – Governance, Establishment, Monitoring and Reporting

CFOB, over the last few years, has advanced and moved forward on many aspects concerning the Employment and Social Development Canada (ESDC) Accounts Receivable recorded in the Public Accounts. As an example, following an internal review of the departmental write-off and remission process in 2011, the National Write-off and Remission Review Committee was established. This committee is comprised of Directors General from all programs and is responsible for ensuring that effective management controls and practices are in place in relation to all departmental write-off and remission activities.

In addition, the umbrella Memorandum of Understanding (MOU) on collection services with the CRA was finalized and approved November 27, 2015. The new MOU replaces the 4 supporting MOUs that existed and clearly outlines the roles and responsibilities of ESDC and CRA along with the legal and administrative framework under which CRA is authorized to collect ESDC's debt.

Furthermore, since the centralization of Accounts Receivable functions in three sites in 2013, the NAR team has been reviewing, adapting and implementing various business processes with the goal of standardizing across all sites. Most program systems have automated interfaces with DARS and manual workarounds exist for the remainder until we replace DARS with a new Information Technology (IT) solution. A departmental project was approved in December 2015 to modernize our accounts receivable, including the implementation of a new IT solution with a two-way interface with all systems. This will enhance the quality and integrity of our Accounts Receivable information and enable program branches to work jointly with the CFOB in the success of this project. In the interim, management judges the residual risk of inaccuracy to be very low.

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Internal Audit Recommendation(s)	Management Response To be included in the Audit Report	Action(s) to be undertaken	Estimated Completion Date	Responsibility
<p>CFOB, in collaboration with ADM of programs generating overpayments, should develop appropriate requirements to address issues pertaining to overpayments supporting documentation practices, timeliness in establishing overpayments and communication with clients.</p>	<p>CFOB agrees with the recommendation. As part of the Accounts Receivable Modernization initiative, a governance-lead by an ADM committee will be established with all necessary stakeholders. CFOB will work with program areas to develop guidelines with key minimal requirements for overpayment establishment. The first ADM committee is to take place in June 2016.</p>	<p>Through the Accounts Receivable Modernization initiative, CFOB will start discussions with all programs to review the Accounts Receivable cycle from beginning to end with the goal of developing consistent practices throughout the Department for establishing an overpayment in the financial system.</p>	<p>April 1, 2019</p>	<p>OPI :CFOB - ICAAD OSI: Learning TISMB Labour Program Operations Branch Integrity Services Branch</p>
<p>CFOB, in collaboration with ADM of programs generating overpayments, should establish a mechanism to enhance data integrity between DARS and program systems.</p>	<p>For those systems that are fully automated with a two-way interface (i.e. Employment Insurance, Canadian Student Loans, Wage Earner Protection Program, Common System on Grants and Contributions-client module) between the program system and DARS, no further work is required. This represents approximately 90%</p>	<p>N/A</p>		

Internal Audit Recommendation(s)	Management Response To be included in the Audit Report	Action(s) to be undertaken	Estimated Completion Date	Responsibility
	<p>of the accounts receivable currently in DARS. With system controls and built in edit checks within the interface, any transactions that do not meet the file specifications are reported on a daily report screen for manual correction. Thus, the level of risk is low and there is no value added in doing any additional verification.</p> <p>For those systems in which a two-way interface does not exist (i.e. Corporate Payment Management System) which represents 10% of the accounts receivable currently in DARS, a working group has been established to analyse the issues and to take corrective action. Considerable effort over the years has been made in resolving most system variances identified. For the remainder, periodical meetings with the Directors General of TISMB and CFOB are underway to</p>	<p>A working group consisting of employees from TISMB and CFOB meet on a regular basis to review the issues and to make recommendations on next steps. The goal is to start issuing monthly statements to clients on all CPP and OAS overpayments.</p>	<p>TBD</p> <p>Still under discussion until a full action plan is approved by ADM of Benefits Delivery Services and CFO.</p> <p>Two-way interface with all systems: April 1, 2019</p>	<p>TISMB and CFOB – ICAAD</p> <p>CFOB - ICAAD</p>

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Internal Audit Recommendation(s)	Management Response To be included in the Audit Report	Action(s) to be undertaken	Estimated Completion Date	Responsibility
	provide regular updates and to ensure that progress is being made. Continued monitoring is done to ensure data integrity until such time as a two-way interface has been created.			
CFOB should standardize processes and document key controls pertaining to cash handling, bank reconciliations, credit refunds, and suspense accounts.	CFOB is in agreement with the recommendations put forward. One of the priorities of CFOB, and in particular NAR, since consolidating the receivable function to 3 sites has been to standardize its business processes. In fiscal year 2015-16, additional resources were hired to review 2-3 processes within NAR with the goal of standardizing the processes across the regional sites. This work will continue into fiscal year 2016-17.	NAR is currently reviewing its business processes with the intention of standardizing and optimizing the business processes across all regional sites.	March 31, 2017	CFOB - ICAAD

## Appendix B: Glossary

ADM	Assistant Deputy Minister
ARMSC	Accounts Receivable Modernization Steering Committee
CFOB	Chief Financial Officer Branch
CPP	Canada Pension Plan
CRA	Canada Revenue Agency
DAC	Departmental Audit Committee
DARS	Departmental Accounts Receivable System
ESDC	Employment and Social Development Canada
IT	Information Technology
MAP	Management Action Plan
MOU	Memorandum of Understanding
MSA	Monthly Statement of Accounts
NAR	National Accounts Receivable
OAS	Old Age Security
TISMB	Transformation and Integrated Service Management Branch