

## Finance, Audit, Property and Risk Management Committee Report to the Board of Health

### Board Policy - Internal Financial Controls

November 21, 2019

#### SUMMARY

The Accountability Agreement from the Ministry of Health outlines the Internal Financial Controls that the Board of Health must have in place “to support the integrity of the Board of Health’s financial statements, the safe guarding of assets, and assist in the prevention and/or detection of significant errors including fraud.”

The Board of Health Policy on internal Financial Controls has been reviewed and revised to ensure the required Financial Controls are met and are consistent with the recently revised Health Unit Procurement Policy.

**RECOMMENDATION:** The Finance, Audit, Property and Risk Management Committee recommend to the Board of Health that:

- Board of Health Policy V- 175 Internal Financial Controls be approved as revised.

#### BACKGROUND

The Ministry of Health Accountability Agreement with the Board of Health outlines required Financial Controls in Schedule D:

“Financial controls support the integrity of the Board of Health’s financial statements, support the safeguarding of assets, and assist with the prevention and/or detection of significant errors including fraud. Effective financial controls provide reasonable assurance that financial transactions will include the following attributes:

- **Completeness** – all financial records are captured and included in the Board of Health’s financial reports;
- **Accuracy** – the correct amounts are posted in the correct accounts;
- **Authorization** – the correct levels of authority (i.e., delegation of authority) are in place to approve payments and corrections including data entry and computer access;

- **Validity** – invoices received and paid are for work performed or products received and the transactions properly recorded;
- **Existence** – assets and liabilities and adequate documentation exists to support the item;
- **Error Handling** – errors are identified and corrected by appropriate individuals;
- **Segregation of Duties** – certain functions are kept separate to support the integrity of transactions and the financial statements; and,
- **Presentation and Disclosure** – timely preparation of financial reports in line with the approved accounting method (e.g., Generally Accepted Accounting Principles (GAAP)).”

Schedule D (attached) includes the details of the Financial Controls required by the Ministry of Health.

#### **COMMENTS**

Board of Health Policy V- 175 Internal Financial Controls has been updated with the sections of the recently revised Health Unit Procurement Policy that relate to Financial Controls. This ensures consistency between the Board and Health Unit policies with adherence to the requirements in the Accountability Agreement.

The Auditor commented in the Management Letter for the 2018 Audit that it was important to segregate the preparation of the payroll with its approval. This is included in Section 9.5 of the Board Policy on Internal Financial Controls. It will be enforced by restricting the Payroll Officer’s ability to submit the payroll for processing by the bank in the new payroll system, Dayforce, currently being implemented.

## SCHEDULE "D"

### BOARD OF HEALTH FINANCIAL CONTROLS

Financial controls support the integrity of the Board of Health's financial statements, support the safeguarding of assets, and assist with the prevention and/or detection of significant errors including fraud. Effective financial controls provide reasonable assurance that financial transactions will include the following attributes:

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- **Accuracy** – the correct amounts are posted in the correct accounts;
- **Authorization** – the correct levels of authority (i.e., delegation of authority) are in place to approve payments and corrections including data entry and computer access;
- **Validity** – invoices received and paid are for work performed or products received and the transactions properly recorded;
- **Existence** – assets and liabilities and adequate documentation exists to support the item;
- **Error Handling** – errors are identified and corrected by appropriate individuals;
- **Segregation of Duties** – certain functions are kept separate to support the integrity of transactions and the financial statements; and,
- **Presentation and Disclosure** – timely preparation of financial reports in line with the approved accounting method (e.g., Generally Accepted Accounting Principles (GAAP)).

The Board of Health is required to adhere to the principles of financial controls, as detailed above. The Board of Health is required to have financial controls in place to meet the following objectives:

**1. Controls are in place to ensure that financial information is accurately and completely collected, recorded, and reported.**

Examples of potential controls to support this objective include, but are not limited to:

- Documented policies and procedures to provide a sense of the organization's direction and address its objectives.
- Define approval limits to authorize appropriate individuals to perform appropriate activities.
- Segregation of duties (e.g., ensure the same person is not responsible for ordering, recording, and paying for purchases).
- An authorized chart of accounts.
- All accounts reconciled on a regular and timely basis.
- Access to accounts is appropriately restricted.
- Regular comparison of budgeted versus actual dollar spending and variance analysis.
- Exception reports and the timeliness to clear transactions.
- Electronic system controls, such as access authorization, valid date range test, dollar value limits, and batch totals, are in place to ensure data integrity.

- Use of a capital asset ledger.
- Delegate appropriate staff with authority to approve journal entries and credits.
- Trial balances including all asset accounts that are prepared and reviewed by supervisors on a monthly basis.

**2. Controls are in place to ensure that revenue receipts are collected and recorded on a timely basis.**

Examples of potential controls to support this objective include, but are not limited to:

- Independent review of an aging accounts receivable report to ensure timely clearance of accounts receivable balances.
- Separate accounts receivable function from the cash receipts function.
- Accounts receivable sub-ledger is reconciled to the general ledger control account on a regular and timely basis.
- Original source documents are maintained and secured to support all receipts and expenditures.

**3. Controls are in place to ensure that goods and services procurement, payroll and employee expenses are processed correctly and in accordance with applicable policies and directives.**

Examples of potential controls to support this objective include, but are not limited to:

- Policies are implemented to govern procurement of goods and services and expense reimbursement for employees and board members.
- Use appropriate procurement method to acquire goods and services in accordance with applicable policies and directives.
- Segregation of duties is used to apply the three (3) way matching process (i.e., matching 1) purchase orders, with 2) packing slips, and with 3) invoices).
- Separate roles for setting up a vendor, approving payment, and receiving goods.
- Separate roles for approving purchases and approving payment for purchases.
- Processes in place to take advantage of offered discounts.
- Monitoring of breaking down large dollar purchases into smaller invoices in an attempt to bypass approval limits.
- Accounts payable sub-ledger is reconciled to the general ledger control account on a regular and timely basis.
- Employee and Board member expenses are approved by appropriate individuals for reimbursement and are supported by itemized receipts.
- Original source documents are maintained and secured to support all receipts and expenditures.
- Regular monitoring to ensure compliance with applicable directives.
- Establish controls to prevent and detect duplicate payments.
- Policies are in place to govern the issue and use of credit cards, such as corporate, purchasing or travel cards, to employees and board members.
- All credit card expenses are supported by original receipts, reviewed and approved by appropriate individuals in a timely manner.
- Separate payroll preparation, disbursement and distribution functions.

**4. Controls are in place in the fund disbursement process to prevent and detect errors, omissions or fraud.**

Examples of potential controls include, but are not limited to:

- Policy in place to define dollar limit for paying cash versus cheque.
- Cheques are sequentially numbered and access is restricted to those with authorization to issue payments.
- All cancelled or void cheques are accounted for along with explanation for cancellation.
- Process is in place for accruing liabilities.
- Stale-dated cheques are followed up on and cleared on a timely basis.
- Bank statements and cancelled cheques are reviewed on a regular and timely basis by a person other than the person processing the cheques / payments.
- Bank reconciliations occur monthly for all accounts and are independently reviewed by someone other than the person authorized to sign cheques.

LEEDS, GRENVILLE AND LANARK DISTRICT HEALTH UNIT	
<b>BOARD OF HEALTH MANUAL</b>	
Title/Subject: Internal Financial Controls	
Policy Number: V-175-0	Original Date: April 8, 1998
Approved by: Board of Health	Revision Date: November 21, 2019
Signature: Original Signed	Reviewed Date: November 21, 2019
Reference: III-35	

Purpose: To ensure requirements in Schedule D - Board of Health Financial Controls of the Ministry of Health Accountability Agreement with the Board of Health are met.

“Financial controls support the integrity of the Board of Health’s financial statements, support the safeguarding of assets, and assist with the prevention and/or detection of significant errors including fraud. Effective financial controls provide reasonable assurance that financial transactions will include the following attributes:

- **Completeness** – all financial records are captured and included in the Board of Health’s financial reports;
- **Accuracy** – the correct amounts are posted in the correct accounts;
- **Authorization** – the correct levels of authority (i.e., delegation of authority) are in place to approve payments and corrections including data entry and computer access;
- **Validity** – invoices received and paid are for work performed or products received and the transactions properly recorded;
- **Existence** – assets and liabilities and adequate documentation exists to support the item;
- **Error Handling** – errors are identified and corrected by appropriate individuals;
- **Segregation of Duties** – certain functions are kept separate to support the integrity of transactions and the financial statements; and,
- **Presentation and Disclosure** – timely preparation of financial reports in line with the approved accounting method (e.g., Generally Accepted Accounting Principles (GAAP)).”

1. Financial Information Controls in Place:

- 1.1. Documented policies and procedures to provide a sense of the organizations direction to address its objectives.
- 1.2 Defined approval limits to authorize appropriate individuals to perform appropriate activities.
- 1.3. A chart of accounts shall be maintained in order to record financial data by categories that will facilitate financial reporting and assist in monitoring of expenses and therefore support decision making.
- 1.4. All accounts shall be reconciled on a regular and timely basis.
- 1.5. Access to accounts is appropriately restricted.
- 1.6. Regular comparison of budgeted versus actual dollar spending and variance analysis is completed.

1.7 Exception reports and the timeliness to clear and correct transactions is completed.

1.8 Electronic system controls, such as access authorization, valid date range test, dollar value limits and batch totals, are in place to ensure data integrity.

## 2. Segregation of Duties:

2.1. Since no one person shall be in control of a complete transaction, the functions of ordering, recording, payment for purchases, and the signing of cheques shall be divided among at least three (3) people.

2.2. No one person shall be responsible for both the physical control of program assets and accounting and record keeping.

2.3. No one person shall be responsible for the custody of different assets which are susceptible to substitution.

2.4. Duties shall be segregated, so that the work of one employee is regularly reviewed or checked by another employee in the normal course of the second employee's work.

## 3. Asset Safeguards:

3.1. A well-designed system of internal controls will take advantage of available means other than system controls for safeguarding assets. These shall include:

3.1.1 Protection of Legal Tender - Cash funds shall be kept in a secure location and shall be deposited in the bank as soon after receipt as possible. Cheques and money orders shall be stamped upon receipt "Deposit only to the credit of ....". Cheques received need to be cashed promptly to minimize the number of uncollectable accounts.

3.1.2 Use of a capital asset ledger.

3.1.3 Delegate appropriate staff with authority to approve journal entries and credits.

3.1.4 Trial balances including all asset accounts that are prepared and reviewed by supervisors on a monthly basis.

3.1.5 Security. Offices shall be equipped with electronic security systems where practical.

3.1.6 Adequate insurance.

No system of control can give full protection against loss. Insurance against a variety of hazards i.e. fire, robbery, legal liability, embezzlement, shall be carried to reimburse the Agency if major loss should occur. Insurance coverage shall be reviewed annually and increased, if necessary, to minimize the effect of inflation.

The Board of Health is responsible for adequate insurance coverage and will include policies as set out hereunder:

3.1.1.1. Property, Extra Expense and Employee Dishonesty Coverage

3.1.1.2. Professional and General Liability

3.1.1.3. Directors and Officers Liability, Penal Defence

3.1.1.4. Group Accident

3.1.1.5. Boiler and Machinery

3.1.1.6. Automobile (Third Party)

3.1.1.7. Indemnification of Directors, Corporation Officers and Agents

## 4. External Auditor:

- 4.1. The Board shall appoint a licensed external auditor to perform the annual audit of the organization pursuant to Bylaw #1. A copy of the audited financial statement shall be provided to each Director of the Board of Health following the fiscal year end. The external auditor shall ensure that the audited financial statements are reconciled to any yearend-reporting document required of funding bodies.
- 4.2. Routine components of the audit may commence prior to the actual yearend to accelerate the completion of the audit and the availability of the audited financial statements following the end of the fiscal period.
- 4.3. The auditor shall present his/her report to the Board of Health as soon as feasible after the end of the accounting period.
- 4.4. The audit report shall be prepared in accordance with instructions (if any) from the funding bodies.

5. Banking:

- 5.1. The Board of Health shall enter into an agreement with a recognized chartered bank or trust company which will provide the following services:
  - 5.1.1. a current or savings account(s) for the Board;
  - 5.1.2. provision for preview of cancelled cheques on a monthly basis, together with a statement showing all debits and credits;
  - 5.1.3. payment of interest at a rate to be negotiated between the Board and the investment company for all surplus funds temporarily held in such account(s);
  - 5.1.4. electronic transactions and electronic access to all records in a secure fashion;
  - 5.1.5. provide advice and other banking services as required by the Board
- 5.2. The Board shall maintain a formal list of names, titles and signatures of those individuals who have signing authority. A duplicate of this list must be on file with the chartered bank and/or Investment Company.
- 5.3. Signing authorities shall be restricted to the Chair, Vice-chair, Medical Officer of Health, Business Manager, and Director of Quality, Corporate and Information Services.
- 5.4. Two signatures shall be required on each cheque.
- 5.5. Before signature, all cheques shall be independently verified against invoices which shall be stamped with the date and cheque number to signify that it has been done. Under no circumstances shall the signing officer who is manually signing cheques also process the cheques.
- 5.6. Cheques shall be sequentially numbered and access is restricted to those with authorization to issue payments. ( Accounts payable administrator and back up)
- 5.7. All cancelled or void cheques shall be accounted for along with explanation for cancellation.
- 5.8. A process shall be in place for accruing liabilities.
- 5.9. Stale-dated cheques shall be followed up on and cleared on a timely basis.
- 5.10. A log of cheque numbers processed in each cheque run and the dollar total shall be signed by the individual processing the cheques and by the signing officer(s) manually signing cheques.
- 5.11. All cheques shall be kept locked, including blank unused cheques.
- 5.12. Blank cheques shall never be signed.
- 5.13. Bank accounts shall be reconciled monthly.
- 5.14. Bank statements and cancelled cheques are reviewed on a regular and timely basis by a person other than the person processing the cheques / payments



## 6. Purchasing:

- 6.1 The Health Unit shall purchase high quality goods and services at the most competitive price using a fair and transparent process.
- 6.2 All goods and services shall be purchased on a timely basis with the appropriate authorization.
- 6.3 All purchase orders shall be approved by the Business Manager or the Medical Officer of Health or Director of Quality, Corporate and Information Services.
- 6.4 Purchase order numbers shall be generated by the automated accounting system in numerical order.
- 6.5 All purchases, of materials, supplies, services, equipment and furnishings shall be supported by approved pre-numbered purchase orders except for the goods and services listed below:
  - a) Training and education
    - Registration and tuition fees for conferences, conventions, courses and seminars
  - b) Reimbursable employee expenses
    - i. Meal allowances
    - ii. Travel expenses
  - c) Employer regulated expenses and remittances
    - i. Payroll deduction remittances
    - ii. Union dues remittances
    - iii. Tax remittances (EHT, WSIB, HST)
    - iv. OMERs remittances
    - v. Loan payments and interest
  - d) Professional and Special Services
    - i. Legal fees and other professional services related to litigation or legal matters
    - ii. Bank fees and charges
    - iii. Payments pursuant to agreements approved by the Board
    - iv. Software licensing renewals
  - e) Utilities
  - f) Advertising services required by the Health Unit on or in, but not limited to, radio, television, newspaper, and magazines
  - g) Emergency goods and services where an unforeseen situation of urgency exists, and the goods or service cannot be obtained in time through a competitive process. Purchases of this nature must be authorized at the MOH/CEO or Director level. An unforeseen situation of emergency does not occur where the Health Unit has failed to allow sufficient time to conduct a competitive process
- 6.6 When goods are received, the person responsible for receiving shall ensure goods received align with the items listed on the purchase order and documented on the packing slip (if available). The department ordering the goods will be notified of the receipt and to pick up as soon as possible for secure and safekeeping.

## 7. Reimbursement of Expenses & Accounts Payable

- 7.1. Employee and Board member travel and other expenses shall be approved by appropriate individuals for reimbursement and are supported by itemized receipts.

- Original source documents are maintained and secured to support all receipts and expenditures.
- Regular monitoring to ensure compliance with applicable directives.

7.2 The Business Manager, shall:

- Ensure Separate roles for setting up a vendor, approving payment and receiving goods.
- Ensure Separate roles for approving purchases and approving payment for purchases.
- Ensure Processes in place to take advantage of offered discounts.
- Ensure Monitoring of breaking down large dollar purchases into smaller invoices in an attempt to bypass approval limits.
- Ensure Accounts payable sub-ledger is reconciled to the general ledger control account on a regular and timely basis.

7.3 Accounts payable shall be processed against individual original invoices and not monthly statements (except credit cards) to avoid possibility of duplication of payment. Invoices shall be stamped paid at time of payment for the same reason

7.4 Cheques shall be processed by the Accounts Payable Administrator and submitted with the supporting invoices to the signing officer(s) for review and approval.

7.5 Electronic Payments shall be processed by the Accounts Payable Administrator and submitted with the supporting invoices to the signing officer. The Accounts Payable Administrator will prepare a .txt file for the signing officer to review and approve for EFT (Electronic Funds Transfer) by the bank to the respective vendor(s).

7.6 Credit card use shall be strictly limited and controlled by the Finance staff.

7.7 Credit card monthly statements shall be reconciled to individual invoices for the purchases to verify that the charges to the Agency are correct.

7.8 The credit card monthly statement and individual invoices shall be reviewed and approved by the Business Manager or the Director of Quality, Corporate and Information Services or Medical Officer of Health.

7.9 Payment shall not be made to a supplier or credit card company based on a memorandum of instructions from any employee.

8. Funds Received:

- 8.1. All funds received (i.e. cash, cheque, money order, debit/credit etc.) shall only be received by designated employees in each department/program, who in turn shall issue a receipt immediately.
- 8.2. All funds shall be kept locked and access to funds will be limited.
- 8.3. All funds shall be deposited at a minimum weekly. All deposits shall be verified and balanced before depositing by the Finance staff.
- 8.4. Cash on hand should not be used to cash personal cheques for employees.
- 8.5. Cheques/money order(s) received shall have a restrictive endorsement applied (a stamp "Deposit to the credit of ... or for Deposit only").

9. Payroll:

9.1. An employee shall only be placed on payroll upon receipt of completed appointment of new staff form from the appropriate director. This advice shall indicate:

9.1.1. Employee's name

9.1.2. Starting salary and starting date

9.2. Payroll shall be prepared on the basis of timesheets maintained by the computerized HRP system. These records shall be reviewed and approved by the respective Manager/Director on a

bi-weekly basis. The computerized HRP system shall not permit an employee to approve their own timesheet for payment.

- 9.3. Changes in employee's position or salary shall be documented by Human Resources, reviewed and approved by respective manager and forwarded to Payroll Administrator for processing and reconciliation.
- 9.4. Controls shall be instituted in the distribution of payroll to ensure that terminated employees are no longer in the payroll system.
- 9.5. Payroll output shall be prepared by the Payroll Administrator and then reviewed, approved and submitted to the bank by the Business Manager or Human Resources Manager.
- 9.6. Changes in payroll benefit deductions shall only be documented between the employee and Human Resources and forwarded to Payroll administrator for processing and reconciliation.
- 9.7. Changes in payroll deductions for personal use of cell phones shall be made by Supervisor, Information Technology and forwarded to Payroll Administrator for processing and reconciliation.
- 9.8. Travel expenses, safety boot purchases and other miscellaneous purchases made by staff, shall be documented on proper forms, reviewed and approved by respective director/manager and then shall be reimbursed through payroll processing.
- 9.9. An itemized list and total based on supporting documentation shall be submitted by the Accounts Payable Administrator to Payroll Administrator for processing and reconciliation.
- 9.10. All instructions for changes of personal information required for payroll purposes shall be submitted in writing to Human Resources or done directly by employee in Computerized HRP system.