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## **1. Effective Date**

- 1.1 This policy is effective on **1 April 2021**.
- 1.2 This policy replaces the previous Department of National Defence (DND) / Canadian Armed Forces (CAF) financial management policy, Financial Administration Manual (FAM) 1016-6 Interdepartmental Settlements issued on 08 August 2002.
- 1.3 The policy was approved by the Assistant Deputy Minister (Finance) (ADM (Fin)) on **22 March 2021**.

## **2. Application**

- 2.1 This policy applies to Interdepartmental Settlements (IS) involving DND / CAF. The policy defines the financial management (FM) policy requirements for the accounting and reporting of IS.

## **3. Context**

- 3.1 The Government of Canada as a whole and DND / CAF use the interdepartmental settlements payment mechanism to settle transactions when goods or services are exchanged between departments, when one department operates a program on behalf of another department and for salary recoveries related to employee transfers, secondment agreements or Interchange Canada agreements. Partnering federal government departments which operate within the Consolidated Revenue Fund (CRF) use the Receiver General's (RG) Standard Payment System – Interdepartmental Settlement (SPS-IS) to facilitate the payment of such transactions.

As per chapter 12 paragraph 12.4.1 of the RG Manual: "The interdepartmental settlement (IS) process must not be used to process intradepartmental settlements, (i.e. financial transactions entirely within the same department, [...])."

- 3.2 Due to the nature and complexity of its programs, the Department and the CAF are faced with unique situations that may not be addressed or fully articulated under the Treasury Board (TB) Directive on Charging and Special Financial Authorities. This policy outlines and explains the DND / CAF specific FM policy requirements for IS transactions. It does not generally repeat information stated in TB publications except as required for context and clarity.
- 3.3 This policy must be applied in conjunction with and after reading the following:
  - TB Directive on Delegation of Spending and Financial Authorities;
  - TB Guide to Delegating and Applying Spending and Financial Authorities;
  - TB Guideline on Financial Management of Pay Administration; and
  - Receiver General Manual Chapter 12 – Interdepartmental settlement processing.
- 3.4 This policy must also be read in conjunction with:
  - FAM Chapter 1016-2 - Expenditure Initiation and Commitment Control – FAA Section 32;

- FAM Chapter 1016-3 - Account Verification – FAA Section 34;
- FAM Chapter 1016-4 - Manage Payments – FAA Section 33;
- FAM Chapter 1016-6-1 Other Government Department (OGD) Suspense Accounts;
- FAM Chapter 1021-1 Liabilities Including Payables at Year End (PAYE); and
- FAM Chapter 1023-1 – Financial Management of Civilian Pay.

- 3.5 All financial documentation supporting the use and processing of IS transactions must be retained for six years from the end of the fiscal year in which the transaction took place. When an Accounts Receivable is created, all documentation is retained until the account is cleared. When a criminal, disciplinary or recovery action is taken, all documentation must be retained and protected for six fiscal years after the process is completed.
- 3.6 See [Appendix A](#) for the definitions applicable to this policy and a list of acronyms used.

## **4. Objectives and Expected Results**

- 4.1 The objectives of this policy are to:
- Identify the key DND / CAF stakeholders involved with the FM of IS transactions and to outline their roles and responsibilities; and
  - State and explain the DND / CAF FM policies and practices related to IS transactions that are not addressed in the TB Directive on Charging and Special Financial Authorities.
- 4.2 The expected results of implementing this policy are:
- Effective governance, oversight and internal controls over IS transactions;
  - Increased awareness by key DND / CAF stakeholders of their roles and responsibilities related to the use of IS; and
  - Responsible management of IS in accordance with the DND / CAF's implementation of the TB Directive on Charging and Special Financial Authorities.

## **5. Requirements**

### **Commitment, Certification and Payment Authorities**

- 5.1 IS transactions must include proper audit trails demonstrating expenditure initiation, commitment authority, certification authority and payment authority. This is a mandatory requirement as per Appendix 'A' of the TB Directive on Delegation of Spending and Financial Authorities. For more detail, refer to FAM Chapter 1016-2 Expenditure Initiation and Commitment Control – FAA Section 32, FAM Chapter 1016-3 Account Verification – FAA Section 34 and FAM Chapter 1016-4 Manage Payments – FAA Section 33.

## Formal Agreements

- 5.2 A formal written agreement between DND / CAF and an Other Government Department (OGD) must be initiated prior to the provision of goods or services, prior to one department operating a program on behalf of another department, and prior to salary recoveries related to employee transfers, secondment agreements or Interchange Canada agreements. Agreements must be duly authorized as per section 4.7.3 of the TB Directive on Charging and Special Financial Authorities. This includes situations where the costs are waived.

For IS transactions related to salary recoveries the RG Manual Chapter 6 states that: "Transfer-out departments recover salary expenses from Transfer-in departments". Furthermore, as per the TB Guideline of Financial Management of Pay Administration, salary recovery requires communication and coordination between departments to ensure accuracy and compliance with relevant laws and regulations. The department specific requirements for these IS transactions are outlined in FAM 1023-1 – Financial Management of Civilian Pay, the Standard Operating Procedures: - Civilian Pay and Salary Forecasting and in the Civilian Salary Management and Forecasting Guide.

For further information on procurement and contracting refer to the DND / CAF Procurement Administration Manual (PAM). For information on Memorandums of Understanding refer to PAM 3.3.13 – Memorandum of Understanding (MoUs). You may also wish to consult the TB Guideline on Service Agreements: An overview and the TB Guideline on Service Agreements: Essential Elements.

Examples of formal agreements related to employee transfers are: Letters of Offer, Secondment Agreements and Interchange Canada Agreements.

- 5.3 In less complex situations, when DND / CAF is only paying for a single or a few types of low value items or costs (e.g. related to travel, conferences, etc.), a detailed email stating what goods or services are to be supplied or rendered, the price and any applicable terms, as the case may be, will suffice. For audit trail purposes the detailed email shall be marked "Invoice" prior to the certification of section 34 of the *Financial Administration Act (FAA)*.

The department specific requirements related to IS transactions for salary recoveries are outlined in FAM 1023-1 – Financial Management of Civilian Pay and its supporting procedures and guideline documents.

Emails as substitutes for formal agreements are exceptions and not the norm. Responsibility Centre (RC) Managers must plan ahead, have approved authorization, including *FAA* section 32, and enter into formal agreements with their OGD counterparts prior to conducting interdepartmental business.

- 5.4 In emergency situations, the stipulation mentioned in [paragraph 5.2](#) above can be waived. However, a justification must be part of the audit trail and a written formal agreement must be completed as quickly as possible. Refer to the PAM for more information regarding what constitutes an emergency and to the departmental

delegation of authorities instrument for more information on emergency contracting authorities.

- 5.5 For departmental specific requirements regarding IS transaction details refer to the Standard Operating Procedures: Interdepartmental Settlements.

### **Costs to be Considered**

- 5.6 Internal charging (amongst departments), whether for enterprise services or when collaborating, must be completed in accordance with sections 4.4, 4.5, 4.6 and 4.7 of the TB Directive on Charging and Special Financial Authorities and in accordance with the DND / CAF Provision of Services Manual.

### **Creditor or Debtor Initiated Settlements**

- 5.7 The SPS-IS allows government departments operating within the CRF to settle transactions with each other. Stakeholders are required to know when DND / CAF is expected to be the initiator of an SPS-IS transaction.
- 5.8 **Creditor Initiated:** As a general rule, creditor departments (providers of goods or services) initiate IS requisitions i.e. SPS-IS is an automated system initiated by the creditor.
- 5.9 **Debtor Initiated:** In some cases only the debtor departments (payers) know the amounts involved and initiate the IS requisitions. Such transactions are considered exceptions to the general rule.
- 5.10 **Other Cases:** There are cases where the parties involved should mutually decide on the initiator. Refer to section 12.2 Table A – Creditor initiated transactions and Table B – Debtor initiated transactions of the RG Manual, Chapter 12 - Interdepartmental settlement processing, for a non-exhaustive listing of IS transactions.

### **Disputes and Reversals – Questioning an Interdepartmental Settlement**

- 5.11 Given the budgetary impacts of commitment management and need for accurate forecasting, IS transactions must be timely and accurate. Also, IS transactions are directed to a suspense account which creates an administrative burden given that correcting a posted transaction requires additional reconciliations. Therefore, all stakeholders must be aware of the impacts of SPS-IS errors, disputes and reversals as follows below.
- 5.12 The term 'Questioning' with respect to IS transactions is specific to the SPS-IS. It refers to a situation where an IS has been successfully processed and reported to the RG-General Ledger and is subsequently questioned in SPS because of irregularities, errors or disputes. IS transactions can be questioned by either the recipient or the initiating department.

Questioning an SPS-IS results in the reversal or cancellation of the original transaction. As a consequence, partnering departments need to re-initiate the settlement transaction.

- 5.13 Partnering departments must resolve the issue and agree to a corrective action. Any disputes are to be resolved fairly and promptly through negotiation and mediation.
- 5.14 For general information and a listing of common errors with examples, refer to the RG Manual Chapter 12 - Interdepartmental settlement processing.

### **Fiscal Year-end**

- 5.15 In accordance with the Department's Year-end instructions, when IS transactions cannot be processed by the March 31<sup>st</sup> they must be recorded as either Payables at Year-end (PAYEs) or Receivables at Year-end (RAYEs). A PAYE in one government department has an offsetting RAYE in another department, and vice versa. The onus falls on both departments to communicate and establish their own accounting entries to ensure that payables in one collaborating department's financial system match the other one's receivables.

Every effort should be made to process IS transactions during the year in order to minimize the number of PAYEs and RAYEs with OGDs required at fiscal year-end. Refer to FAM Chapter 1021-1 Liabilities Including Payables-at-Year-End (PAYE), the related Standard Operating Procedures: Payables-at-Year-End and the Finance Year-End Instructions.

## **6. Roles and Responsibilities**

### **The Deputy Minister**

- 6.1 The Deputy Minister is responsible for:
- Implementing an effective framework to manage interdepartmental settlement transactions;
  - Ensuring Level One (L1) Advisors and the ADM (Fin) / CFO are aware of their responsibilities with respect to this policy and have the necessary knowledge to carry them out.

### **Assistant Deputy Minister (Finance)/Chief Financial Officer**

- 6.2 The Assistant Deputy Minister (Finance) / Chief Financial Officer ADM (Fin) / CFO is responsible for:
- Ensuring the appropriate and legitimate use of IS transactions within DND / CAF;
  - Approving this policy;
  - Overseeing the implementation and monitoring of this policy; and
  - Ensuring that corrective actions are taken to address instances of non-compliance with this policy by a civilian, or in the case of a CAF member, notifying the military chain of command that corrective actions must be taken.

### **Level One Advisors**

- 6.3 L1 Advisors (Assistant Deputy Ministers and Military L1s) are responsible for:

- Ensuring that this policy and its supporting procedures are properly applied within their organization.

**Director General, Strategic Financial Governance**

6.4 The Director General, Strategic Financial Governance (DGSFG) is responsible for:

- Ensuring that this policy takes into consideration the unique situations and circumstances of DND / CAF;
- Ensuring that procedures are developed / updated in support this policy;
- Ensuring that DND / CAF financial management and related systems support the management of IS transactions;
- Ensuring that business processes and system requirements related to IS transactions are integrated into DRMIS;
- Testing key internal controls, reporting on the results, and tracking remediation if and as required;
- Providing financial policy interpretation and clarification when appropriate; and
- Bringing to the attention of the ADM (Fin) / CFO any significant compliance issues with this policy that they become aware of and providing recommendations on how to address them.

**Director General, Financial Operations and Services**

6.5 The Director General, Financial Operations and Services (DGFOS) is responsible for:

- Collaborating with DGSFG in the development / updating of procedures in support of this policy;
- Ensuring that the requirements for IS transaction processing are clearly identified and communicated across DND / CAF;
- Ensuring departmental compliance with this policy is monitored;
- Ensuring the accuracy, reasonableness and availability of information related to IS transactions for reporting purposes;
- Monitoring the IS Suspense Accounts; and
- Bringing to the attention of the ADM (Fin) / CFO any significant compliance issues with this policy that they become aware of and providing recommendations on how to address them.

**Corporate Departmental Accounting Office**

6.6 The Corporate Departmental Accounting Office (CDAO) is responsible for:

- Ensuring that compliance with this policy is monitored in accordance with verification and other tasks performed on IS transactions; and
- Monitoring Regional Departmental Accounting Office (RDAO) compliance with this policy.

### **Level One Comptrollers**

6.7 L1 Comptrollers are responsible for:

- Ensuring that effective processes and controls are in place to support the proper application of this policy and its supporting procedures;
- Ensuring that both civilian and military personnel are trained, aware and fully understand IS transaction processing requirements;
- Approving requests for creating and introducing 'IS Coding Keys' as part of the financial coding block;
- Supporting those in their financial chain of command to ensure IS transactions are duly authorized, compliant, timely, accurate, monitored and properly recorded;
- Reviewing Memorandums of Understanding (MoUs) related to collaborating departments using OGD suspense accounts as per FAM Chapter 1016-6-1 Other Government Department (OGD) Suspense Accounts;
- Supporting those in their financial chain of command to ensure that disputes with partnering departments and proposed corrective actions are resolved fairly and promptly through negotiation and mediation;
- Ensuring that PAYEs / RAYEs and corresponding transactions are properly recorded and communicated to partnering departments; and
- Ensuring that compliance with this policy is monitored within their L1 organization.

### **Regional Departmental Accounting Office Comptrollers**

6.8 RDAO Comptrollers are responsible for:

- Ensuring that compliance with this policy is monitored within their area of responsibility; and
- Providing guidance and assistance to managers in applying this policy.

### **Responsibility Centre Managers**

6.9 RC Managers are responsible for:

- Ensuring the proper application of this policy and its supporting procedures;
- Ensuring that both civilian and military personnel are trained, aware and fully understand IS transaction processing requirements;
- Determining whether the use of an IS coding key is appropriate and if so, making a request for the creation of a new IS coding key in writing, with justification, to their L1 Comptroller;
- Ensuring that in all instances an authorized formal written agreement is in place prior to initiating any transactions related to salary recoveries or before providing / obtaining any goods or services from an OGD as indicated at the sub-section on Formal Agreements i.e. [paragraphs 5.2 to 5.5](#) above;
- Ensuring that when an OGD suspense account will be used to process transactions, an MoU between the collaborating departments is in place as per FAM Chapter 1016-6-1 Other Government Department (OGD) Suspense Accounts;
- Ensuring that their IS transactions are compliant with legislation, regulation and the TB suite of financial management policy instruments;



- Ensuring that their IS transactions are compliant with FAM Chapter 1016-2 Expenditure Initiation and Commitment Control – FAA Section 32, with FAM Chapter 1016-3 Account Verification – FAA Section 34 and with FAM Chapter 1016-4 Manage Payments – FAA Section 33;
- Ensuring that proper audit trails exist to demonstrate expenditure initiation authority (including pre-approvals such as Travel, Hospitality, and Event approvals, etc.), to demonstrate commitment authority (*FAA Sec. 32*), to facilitate certification authority (*FAA Sec. 34*) and to facilitate payment authority (*FAA Sec. 33*);
- Ensuring that all documentation related to IS transactions are maintained and stored as described at [paragraph 3.5](#) above;
- Ensuring that disputes with partnering departments and proposed corrective actions are resolved fairly and promptly through negotiation and mediation;
- Ensuring that 'Questioned' SPS-IS transactions are re-initiated as per [paragraph 5.12](#) above;
- Monitoring their budgets and DRMIS to ensure their IS transactions have been processed accurately, in a timely manner (allowing for time requirements related to questioning and reversals see [paragraphs 5.11 to 5.14](#) above), are properly recorded and have been completed as per related agreements;
- Taking prompt action to resolve items in the IS Suspense Account; and
- Ensuring that PAYEs / RAYEs and corresponding transactions are properly recorded and communicated to partnering departments.

## **7. Consequences of Non-Compliance**

- 7.1 Under the TB Policy on Financial Management, the DM is responsible for investigating and acting when significant issues regarding policy compliance arise, and ensuring that appropriate remedial action is taken to address such issues within DND / CAF. The TB Framework for the Management of Compliance provides guidance on the considerations for determining the possible mix of consequences, which include: the impact of the non-compliance, whether there has been a history of non-compliance, whether there was intent or other circumstances.
- 7.2 To support the DM's responsibility under the TB Policy on Financial Management, the ADM (Fin) / CFO or in the case of a member of the CAF, the military chain of command at the ADM (Fin) / CFO's direction, must ensure corrective actions are taken to address instances of non-compliance with this policy. Corrective actions can include a requirement for additional training, changes to procedures or systems, removal or suspension of delegated financial authorities on a temporary or permanent basis, disciplinary action or other measures as appropriate.

## **8. References**

### **8.1 Legislation**

[Financial Administration Act](#)

### **8.2 Receiver General for Canada**

[The Receiver General Manual Chapter 6 – Payroll Systems and Departments](#)

[The Receiver General Manual Chapter 12 – Interdepartmental Settlement Processing](#)

**8.3 Treasury Board FM Policy Instruments**

[Policy on Financial Management](#)  
[Directive on Charging and Special Financial Authorities](#)  
[Guide to Internal Charging and Special Financial Authorities](#)  
[Directive on Delegation of Spending and Financial Authorities](#)  
[Guide to Delegating and Applying Spending and Financial Authorities](#)  
[Framework for the Management of Compliance](#)  
[TB Guideline on Financial Management of Pay Administration](#)  
[TB Guideline on Service Agreements: An Overview](#)  
[TB Guideline on Service Agreements: Essential Elements](#)

**8.4 DND / CAF FM Policies**

[Chapter 1016-2 - Expenditure Initiation and Commitment Control – FAA Section 32](#)  
[Chapter 1016-3 - Account Verification – FAA Section 34](#)  
[Chapter 1016-4 - Manage Payments – FAA Section 33](#)  
[Chapter 1016-6-1 Other Government Department \(OGD\) Suspense Accounts](#)  
[Chapter 1021-1 Liabilities Including Payables-at-Year-End \(PAYE\)](#)  
[Chapter 1023-1 – Financial Management of Civilian Pay](#)

**8.5 DND / CAF FM Guides, Forms and Other Tools**

Corporate Departmental Accounting Office SOP 1.10 – [Sections 33 and 34 Certification of Payables at Year-End \(PAYE\)](#)  
[DAOD 6001-1 Recordkeeping](#)  
[DRIMIS Business Process Procedure #AP-IP-OGD-1000: Enter an Invoice \(K1\) for an Other Government Department \(OGD\) – IS Processing, Debtor Initiated / T-Code FB60](#)  
[DRIMIS Business Process Procedure #AR-ISP-OGD-1100: Enter an Other Government Department \(OGD\) Customer Invoice \(D1\) / T-Code FB70](#)  
[Finance Year-End Instructions as posted on the DRMIS home page](#)  
Standard Operating Procedures: Civilian Pay and Salary Forecasting  
Civilian Salary Management and Forecasting Guide  
Standard Operating Procedures: Interdepartmental Settlements  
Standard Operating Procedures: Payables-at-Year-end  
Standard Operating Procedures: Procure to Payment  
[The Procurement Administration Manual](#)  
[The Provision of Services Manual](#)

**9. Enquiries**

- 9.1 Questions on policy interpretation and clarification are to be addressed to the appropriate Comptroller.
- 9.2 If the local Comptroller requires assistance, the question will be escalated through the financial chain of command.

- 9.3 If the L1 Comptroller needs guidance on the matter(s) raised, the L1 Comptroller may contact the CDAO (for receivables) or the Director Financial Accounting (DFA) - Financial Control & Reconciliation (for payables).
- 9.4 If either the CDAO or Financial Control & Reconciliation teams need guidance on the matter(s) raised they may contact the Director Financial Policy (DFP).

## Appendix A – Definitions and Acronyms

### Definitions

The following definitions apply to this policy.

**Creditor Department (Ministère créancier)** the provider of goods or services i.e. the department to which funds are owed.

**Debtor Department (Ministère débiteur)** the purchaser of goods or services i.e. the department which owes funds or the paying department.

**Formal Agreement (Entente officielle)** a written financial agreement between the supplier and the recipient. The agreement provides the basis for charging and recovering for the goods or services transferred between appropriations.

**Standard Payment System (SPS) (Système normalise des paiements (SNP))** is an application that supports the treasury functions of the Receiver General.

**Suspense Account (Compte d'attente)** is an account to which a transaction is posted on a temporary basis until its ultimate disposition is determined.

### Acronyms

ADM – Assistant Deputy Minister

ADM (Fin) – Assistant Deputy Minister (Finance)

CAF – Canadian Armed Forces

CDAO – Corporate Departmental Accounting Office

CFO – Chief Financial Officer

CRF – Consolidated Revenue Fund

DFA – Director Financial Accounting

DFP – Director Financial Policy

DGFOS – Director General, Financial Operations and Services

DGSFG – Director General, Strategic Financial Governance

DM – Deputy Minister

DND – Department of National Defence

DRMIS – Department Reporting and Management Information System

FAA – Financial Administration Act

FAM – Financial Administration Manual

FM – Financial Management

IS – Interdepartmental Settlement

L1 – Level One

OGD – Other Government Department

PAYE – Payables at Year-end

RAYE – Receivables at Year-end

RC – Responsible Centre

RDAO – Regional Departmental Accounting Office

SOP – Standard Operating Procedure

SPS – Standard Payment System

SPS-IS – Standard Payment System – Interdepartmental Settlement

TB – Treasury Board

TBS – Treasury Board Secretariat