



Agriculture and
Agri-Food Canada

Agriculture et
Agroalimentaire Canada



Audit of the Integrated Services Function at Selected Research Centres

Office of Audit and Evaluation

January 2010

Canada

Report recommended for Deputy Minister's approval by the AAFC Audit Committee,
January 29, 2010.

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Cat. No. A22-515/2010E-PDF
ISBN 978-1-100-14908-0
AAFC No. 11163E

Aussi offert en français sous le titre: « *Vérification de la fonction des services intégrés dans certains centres de recherche* ».

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EXECUTIVE SUMMARY

Agriculture and Agri-Food Canada's (AAFC) Office of Audit and Evaluation was requested by management to include in its 2008/09 to 2010/2011 *Risk-based Internal Audit Plan* an audit of the Integrated Services Function (ISF) at Research Centres.

The Department has 19 research centres and 11 sub-centres located across Canada. Scientists at these centres work on projects to benefit Canada's agri-food sector. With some exceptions, each centre is managed by a Research Manager who coordinates the scientific research and by an Integrated Services Manager (ISM) who coordinates the provision of local corporate services (i.e., human resources, finance, and asset management) to support the work of the research centre. Across Canada, including Headquarters in Ottawa, the Integrated Services Function (ISF) employs approximately 420 staff on an on-going basis with an increase to approximately 475 during the peak summer months. The annual salary budget for the ISF is \$24.5 million and the (non-pay) operating budget is \$40.4 million.

While Research Managers report through the Associate Director General of the Science Bureau, the Director General and the Assistant Deputy Minister of Research, the Integrated Services Managers at each centre report through the Director of Integrated Services, the Director General of Assets Management and Capital Planning, and the Assistant Deputy Minister of Corporate Management.

The objectives of the audit were to assess:

- a) the adequacy and effectiveness of key controls identified in selected areas within human resources, financial management, and asset management of the Integrated Services Function at selected research centres; and
- b) ISF compliance with relevant policies.

Audit criteria used to assess the management control framework were developed based upon the Treasury Board Secretariat Core Management Controls.

The audit was conducted at AAFC Headquarters and in the Brandon (Manitoba), Fredericton (New Brunswick), and Swift Current (Saskatchewan) research centres between March 2009 and June 2009. The scope of the audit work focussed on control procedures in the areas of management oversight, acquisition card expenditures, fleet maintenance, non-contract expenditures over \$5,000, travel, overtime, asset stewardship, and values and ethics.

The audit concluded that three of eight areas subject to audit at the ISFs visited require control improvements. Based on the audit work performed, issues were noted in the following specific areas:

- While the Director, Integrated Services is provided with regular financial budget updates from the ISMs across the country, monitoring and reporting of other key activities (e.g. staffing, training) is done on an ad hoc basis.
- The ISM is only physically present at the Brandon Research Centre on a part-time basis which limits oversight capacity.
- Asset listings at the ISFs visited were not accurate or up-to-date and several assets selected for test purposes from the asset listings provided by the ISMs could not be located at the time of the audit site visits.
- Physical access controls to on-site fuel supplies varied widely among the research centres reviewed, leaving some centres more exposed to risk than others.
- Some exceptions to the Acquisition Card Policy were noted at each centre. The exceptions involved deficiencies with regard to the timing of expenditure initiation authority and/or the documentation/approval of expenditures under Section 34 of the FAA.

Controls in other areas were found to be satisfactory, with a number of good practices noted.

The Chief Audit Executive has provided assurance that sufficient and appropriate audit procedures have been conducted and evidence gathered to support the accuracy of the opinion provided and contained in the detailed report.

1.0 INTRODUCTION

1.1 Background

Agriculture & Agri-Food Canada (AAFC) has 19 research centres and 11 sub-centres located across Canada. Scientists at these centres work on projects to benefit Canada's agri-food sector. With some exceptions, each research centre is managed by a Research Manager who coordinates the scientific research and by an Integrated Services Manager (ISM) who coordinates the provision of local corporate services to support the work of the research centre. Across Canada, including Headquarters in Ottawa, the Integrated Services function (ISF) employs approximately 420 staff on an ongoing basis with an increase to approximately 475 during the peak summer months. The annual salary budget for the ISF is \$24.5 million and the (non-pay) operating budget is \$40.4 million.

Each local Integrated Services function provides the following types of services to its research centre(s):

- Human Resources: Staffing and classification support for delegated positions, employee departure, pay documentation, leave input, and training administration
- Finance: Travel, accounts payable, and financial reporting
- Asset Management: Security, procurement, inventory, stores operations, fleet management, real property, facility and ground maintenance, on-site management of construction projects, and environmental stewardship.

While Research Managers report through the Associate Director General of the Science Bureau, the Director General and the Assistant Deputy Minister of Research, the Integrated Services Managers at each centre report through the Director of Integrated Services, the Director General of Assets Management and Capital Planning, and the Assistant Deputy Minister of Corporate Management.

In 2008, allegations surfaced of inappropriate use by AAFC employees of government assets at the Brandon (Manitoba) research centre. In response, the Department investigated the allegations and conducted Threat and Risk Assessments (TRAs). Management subsequently requested this audit, which was approved as an addition to the Office of Audit and Evaluation's 2008/09 to 2010/11 *Risk-Based Internal Audit Plan*.

1.2 Audit Objective and Scope

While not intended to be a follow-up to the departmental investigation into the allegations concerning the Brandon research centre, the objectives of the audit were very focused and the scope was limited in order to provide AAFC management with timely insight into the potential control weaknesses identified as a result of that investigation.

The objectives of the audit were to assess:

- a) the adequacy and effectiveness of key controls identified in selected areas within human resources, financial management, and asset management of the Integrated Services Function at selected research centres; and,
- b) ISF compliance with relevant policies.

For the purposes of this audit, controls are considered to be adequate if management has planned and organized (designed) them in a manner that provides reasonable assurance that the organization's risks have been identified and are being managed effectively and that the organization's goals and objective(s) will be achieved efficiently and economically.

Based on an assessment of risks flowing from the issues noted at the Brandon research centre, the audit focused on the control procedures employed by ISF staff in the following eight areas:

- Management oversight: Monitoring by and reporting at the Director, Integrated Services and Integrated Services Manager (ISM) levels
- Acquisition card expenditures: Processes related to expenditure initiation and Section 34 FAA documentation and approval
- Fleet maintenance credit card expenditures: Card assignment and payment procedures
- Expenditures greater than \$5,000 not made against a contract: Compliance with departmental procurement requirements
- Travel authorization and expenses: Compliance with TB Travel Directive
- Overtime: Approval and recording of compensatory leave
- Asset stewardship: Asset listings, on-site fuel supplies, and fleet vehicle usage
- Values and ethics: Employee acknowledgement of the Values and Ethics Code for the Public Service.

The Brandon, Manitoba research centre was selected for inclusion in the audit scope at the request of management. Two additional research centres (Swift Current, Saskatchewan and Fredericton, New Brunswick) were selected for inclusion in the scope of the audit based on their comparability to the Brandon centre in terms of size and location.

It should be noted that transactions and processes reviewed in the course of this audit are related to fiscal year 2008/09.

1.3 Audit Criteria

Audit criteria used to assess the management control framework were developed based upon the Treasury Board Secretariat (TBS) Core Management Controls Model, relevant legislation and regulations, and TBS and AAFC policies.

The TBS Core Management Controls Model is based on the ten areas of the TBS's Management Accountability Framework (MAF) and identifies the controls that can reasonably be expected to be in place to ensure the Federal Government is well-managed and promotes management excellence.

The specific audit criteria are listed in Appendix A.

1.4 Audit Approach

The audit was conducted in accordance with the Standards for the Professional Practice of Internal Audit and the Treasury Board (TB) Policy on Internal Audit. These standards require that the audit be planned and performed in such a way as to obtain reasonable assurance that audit objectives are achieved. The audit included various tests, as considered necessary, to provide such assurance. These tests included interviews, observations, walkthroughs, review of supporting documentation, sampling of transactions and analytical reviews.

Audit procedures were designed to draw conclusions on the existence and effectiveness of key controls in the scope areas examined. They were not designed to draw conclusions beyond those scope areas.

The audit was completed in the following phases:

Planning	March 2009 to April 2009
Conducting	April 2009 to June 2009
Reporting	June 2009 to September 2009

1.5 Conclusion

It is the opinion of AAFC's Internal Audit Directorate that control improvements are required in the three areas of management oversight, asset stewardship, and acquisition card expenditures. The specific audit observations and recommendations for those areas requiring management action are detailed in Section 2.0 of this report.

For the other five areas subject to audit at the ISFs visited, controls were found to be satisfactory. In particular, the audit observed the following:

- Fleet maintenance system credit cards used for the purchase of off-site fuel and the repair and maintenance of fleet vehicles were properly assigned to fleet vehicles; credit card statements were properly approved under Section 34 FAA; and credit card charges were supported by appropriate receipts
- While the size and composition of each local fleet vary according to the business needs of each research centre, to discourage the non-business use of Crown vehicles, fleet vehicle log books are utilized to record information such as the driver, destination, kilometres and date of trips
- Payments greater than \$5,000 not made against a contract were used only in appropriate circumstances (e.g. emergencies, utility payments)
- ISF employee travel was preauthorized; arrangements were made in accordance with the Treasury Board Travel Directive; and expense claims were verified, approved and supported by receipts
- ISF employee overtime claimed as compensatory leave was properly approved and recorded in departmental systems. Overtime claimed as cash was supported by approved overtime claims and,
- The employee appointment process (whether for a person new to the public service or a change in position for an existing employee) required that the employee acknowledge compliance with the *Values and Ethics Code for the Public Service* upon appointment.

1.6 Statement of Assurance

In the professional judgment of the Chief Audit Executive, sufficient and appropriate audit procedures have been conducted and evidence gathered to support the accuracy of the opinion provided and contained in this report.

The opinion is based on a comparison of the conditions, as they existed at the time, against pre-established audit criteria that were agreed on with management. The opinion is applicable only to the organizations and activities examined. The evidence was gathered in compliance with TB policy, directives and standards on internal audit, and the procedures used meet the professional standards of the Institute of Internal Auditors.

Original signed by:

Laura Ruzzier
Chief Audit Executive

Date

1.7 Acknowledgements

The Office of Audit and Evaluation would like to thank those individuals who contributed to this project and, in particular, departmental interviewees who provided insights and comments useful to this audit.

2.0 DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

This section presents the key observations, based on the evidence and analysis associated with the audit, and provides recommendations for improvement.

Management responses are included and provide:

- An action plan to address each recommendation
- A lead responsible for implementation of the action plan and
- A target date for completing the implementation of the action plan.

Although the recommendations in this report are directed at the three Integrated Services Functions visited during the audit, management should consider the potential need to implement them at some or all other centres.

2.1 Management Oversight of the Integrated Services Function

The Director, Integrated Services is responsible for overseeing the ISF at 19 primary research centres and 11 sub centres geographically spread across the country, many in rural locations. His span of control is quite large. Management oversight is exercised for the most part on an ad-hoc basis. The Director monitors some staffing activities and procurement transactions from headquarters in Ottawa as well as ISM travel. He also typically visits 6 – 8 research centres each year and maintains close contact with the ISMs who are heavily involved in managing the day-to-day operations of the centres.

The Director receives regular financial updates from the ISMs to monitor whether the ISFs at the centres are operating in accordance with their established budgets. A monitoring and reporting framework has not been formally established, however, to oversee the performance of other key activities at the research centres (e.g. training and development, asset management, building maintenance, security).

Given the decentralized nature of the function, and its wide ranging responsibilities, an ad-hoc approach to management oversight may not properly identify or systematically address potential risks and/or opportunities for improvement. A more structured approach is necessary to implement a sound basis for control over key activities at the centres and to lay the groundwork for future managers, particularly since several current and experienced managers will be eligible to retire in the next few years.

It was noted during the audit that while the ISMs at the Fredericton and Swift Current research centres work full-time on-site at their respective centres, the ISM for the Brandon Research Centre is also the ISM for the Morden Research Centre. As a result, the ISM is only physically present at the Brandon Research Centre on a part-time basis. Bearing in mind the recent issues at this centre, senior management in the Department should consider enhancing ISF oversight to promote a strong values-based and ethical work culture.

Recommendation:

The Assistant Deputy Minister, Corporate Management should:

- a) Ensure that ISF senior management, in consultation with the ISMs, develops and implements a framework for monitoring and reporting on key ISF activities;
- b) Identify options to improve oversight at the Brandon Research Centre.

Management Response:

Action Plan

- a) *A monitoring and reporting framework will be developed and implemented*

Integrated Services (IS) management appreciates the need for enhanced oversight and staffed an Assistant Director position in September 2009 to help address this challenge. Although there are significant monitoring and reporting elements currently in place, these and other elements will be tied together into a formal integrated framework that will monitor and report on the key activities undertaken at the sites.

Lead Responsible

Assistant Deputy Minister, Corporate Management

Target Date for Completion

March 31, 2010

- b) *Options have been assessed and action taken.*

IS management has improved oversight and operations at the Brandon Centre through a re-alignment of duties whereby farm operations are now under the control of the resident Research Manager thus providing greater day to day operational co-ordination and oversight of equipment and fuel use as examples.

ISF management feels that the oversight at the centre is appropriate to the risks. The organization currently has other instances where a single ISM may manage more than one centre.

The monitoring and reporting framework (discussed above) will also serve to improve oversight at the Brandon Research Centre.

Lead Responsible

Assistant Deputy Minister, Corporate Management

Target Date for Completion

Completed August 2009

2.2 Asset Stewardship

In this section of the audit, the key controls related to asset listings and on-site fuel were reviewed and the following issues were found to require management's attention.

2.2.1 Asset Listings

As per the AAFC *Policy on Planning, Managing and Accounting for Assets, Operation & Use*, AAFC managers are responsible for ensuring an asset is used effectively and for its authorized purpose and for conducting a physical review of assets for which they are custodians to ensure the asset listing is current and accurate. The asset listing is the record of the value, number and nature of assets held by the Department.

Audit tests revealed that the asset listings at the three research centres visited were not accurate or up-to-date. Based on the audit sample, there were assets on the asset listings which could not be located at the time of our site visits (e.g. computer devices and research lab equipment). The auditors were informed by ISF staff that some items had been transferred, disposed of or scrapped without updating the asset listing. The auditors were also informed that disposals or changes in asset location are sometimes not communicated to ISF staff by the asset custodians.

Asset listings provide management with key information to help make decisions required to manage departmental assets on a life-cycle basis and forecast future asset expenditures (e.g. to replace aging assets). The asset listings may also impact the AAFC's financial statements. Inaccuracies can lead to errors in financial reporting. Lastly, the asset listing provides the Department with a basis for control to ensure Crown assets are safeguarded and protected from misuse.

Specific concerns were raised at one centre regarding the safeguarding of assets in general as not all assets were securely stored in locked areas and there had been identified issues in the past with missing or stolen assets. This concern was related particularly to outside farm equipment.

In the course of the internal audit, it was determined that the ISFs audited had assigned duties for inventory management to a particular employee, including the responsibility to tag assets and update asset information in the Department's integrated financial and materiel management system. Based on discussions, these employees were provided with limited guidance on how to perform their inventory management tasks. As a result, inventory processes varied at each centre. Although inventory counts were in progress at two of the three centres visited, none of these centres had completed full asset counts in recent years.

The audit also revealed none of the research centres visited had barcode readers to automate their asset counts. Based on discussions, the current manual process is time-consuming and resource-intensive. In addition, the manual count process increases the risk of errors.

The Department has a public responsibility to safeguard Crown assets. The location and nature of research centres increases the risk in this area as the centres are often located in rural settings and may be large employers with a high community profile. In this context, asset loss or misappropriation could, in addition to any financial consequences, negatively affect the reputation of the Department.

Recommendation:

The Assistant Deputy Minister, Corporate Management should:

- a) Direct that a full asset count at each centre be completed in accordance with policy requirements to ensure that the asset listings are accurate and up-to-date and any discrepancies noted during the counts should be followed-up;
- b) Ensure that functional guidance is provided to ISF staff to standardize the asset count procedures at each centre; and
- c) Consider the acquisition of barcode readers to improve the efficiency and accuracy of the asset counts.

Management Response:

Action Plan

- a) *Work is underway to complete capital asset (assets \$ 10K+) counts at each centre as part of a barcode assets inventory project. Discrepancies and*

adjustments will follow the inventory taking.

The department endorsed a bar code solution for inventory control in 2008. A significant project (\$ 1M) is underway to implement the hardware, software and training that will enable the department to have a Saturn interfacing bar code solution. Hardware/software procurement and system training were completed in January. Capital asset inventory taking started in December.

Lead Responsible

Assistant Deputy Minister, Corporate Management

Target Date for Completion

May 2010 – capital asset count
October 2010 – discrepancies and adjustments

- b) *Detailed instructions on use of barcode readers have provided standardization of asset count procedures. User guide completed and distributed.*

Lead Responsible

Assistant Deputy Minister, Corporate Management

Target Date for Completion

Completed January 15, 2010

- c) *Barcode readers have been acquired.*

Lead Responsible

Assistant Deputy Minister, Corporate Management

Target Date for Completion

Completed October 2009

2.1.2 On-site Fuel Control

On-site fuel for fleet vehicles and some farming machinery is available at some research centres. While the audit was not designed to detect fuel theft, it was noted that there is no departmental standard for on-site fuel security at research centres and funding for fuel

system improvement (for example, with improved reporting capabilities) is subject to approval from headquarters and is dependent on a spending prioritization process and the availability of funds. There is a potential reputational risk to the Department should fuel theft occur.

The three centres visited for this audit each had on-site fuel and it was physically restricted (controlled) to varying degrees. For example, at one research centre, the fuel pump is kept inside a locked compound to which only authorized employees are given keys. To obtain fuel, employees must enter their employee number, password, vehicle number and odometer reading. The system then determines if they are authorized to take fuel. At another research centre access is restricted only by a card swipe or by a key, and the pumps are not physically secured within a locked compound. Unsecured pumps increase the likelihood of fuel misappropriation. Preventative controls help to minimize the risk in this regard.

The fuel reports available vary across the centres depending on the pump system used. Based on discussions with Integrated Services staff, fuel consumption at each centre is not currently being monitored nor is fuel consumption reconciled with fuel purchases. As a result, it may be difficult to detect fuel theft or fuel leakages.

Recommendation:

The Assistant Deputy Minister, Corporate Management should direct that ISF senior management, in consultation with the ISMs, review the adequacy of existing on-site fuel controls in light of the risks at each centre to ensure they are appropriate to local circumstances.

Management Response:

Action Plan

Management will review the fuel controls in place at each centre to ensure they are appropriate to the threats and risks associated with the site.

Lead Responsible

Assistant Deputy Minister, Corporate Management

Target Date for Completion

January 2010

2.3 Acquisition Cards

Based on the audit work performed, a number of exceptions to the AAFC policies on acquisition cards and related processes were noted at the three research centres visited during the audit. The exceptions found were different at each centre and included the following:

- Under the AAFC *Acquisition Card Policy*, cardholders are not permitted to certify Section 34 FAA for their own transactions. It was noted that in one instance, expenditures were being approved (Section 34) by the cardholder which is contrary to the policy.
- As per the AAFC *Account Verification Policy*, the officer with delegated Section 34 signing authority is required to examine the payment file to ensure that there is, at a minimum, a valid expenditure initiation authority, a proper payment document, and evidence of goods or services received. At one location, the audit found that Section 34 FAA approval was granted without adequate documentation to support the charges. This was specific to one acquisition card maintained at an off-site location. Based on discussions with ISF staff, the documentation to support these purchases was retained off-site and was not routinely forwarded for review by the Section 34 officer.
- It was noted in a number of cases at two of the Integrated Services functions that expenditure initiation authority was not always provided prior to the purchase being made. In some cases, authority was granted after the purchase or it was not clear when authorization was provided as the expenditure initiation documents were not dated.

Based on discussions with the Integrated Services staff, some issues seemed to be caused by a lack of familiarity with policy. If acquisition card processes are not appropriately implemented and policy is not appropriately followed there is an increased risk of inappropriate purchases on acquisition cards, purchases not being in line with management's intentions, and failure to detect issues with acquisition card purchases.

Recommendation:

The Assistant Deputy Minister, Corporate Management should take appropriate steps to ensure policy compliance in each area where exceptions were noted in the audit report, specifically:

- Approval of cardholder expenditures under Section 34 FAA
- Sufficient documentation to support acquisition card purchases
- Adequacy of expenditure initiation authority

Management Response:

Action Plan

- a) *All sites will be tasked to confirm those responsible for approving each cardholder's expenditures under Section 34 and corrective measures will be initiated, where appropriate.*

Lead Responsible

Assistant Deputy Minister, Corporate Management

Target Date for Completion

Completed January 15, 2010

- b) *A policy reminder will be sent out to all sites.*

Lead Responsible

Assistant Deputy Minister, Corporate Management

Target Date for Completion

Completed December 2009

- c) *A policy reminder will be sent out to all sites*

Lead Responsible

Assistant Deputy Minister, Corporate Management

Target Date for Completion

Completed December 2009

APPENDIX A – AUDIT CRITERIA

AUDIT CRITERIA

- A1. Effective oversight has been established to oversee the Integrated Services Function
- B1. All expenditures of public funds made using acquisition cards are authorized, and government business related.
- C1. All expenditures of public funds made using fleet maintenance credit cards are authorized, and related to government business.
- C2. Fuel use from the on-site refuelling stations is monitored and safeguarded.
- D1. Processes are in place to ensure that direct payments (i.e., payments in excess of \$5,000 and not made against a contract) are used in emergency situations only and that appropriate approval is obtained.
- E1. Employee travel is pre-authorized, arrangements are made in compliance with the *Treasury Board Travel Directive*, claims are supported by receipts and expense claims are verified and approved before reimbursement.
- F1. Controls and processes are in place to ensure that overtime transactions are properly approved; recorded accurately and recorded and approved in a timely manner.
- G1. There is effective stewardship and monitoring of use of government assets.
- H1. Employees formally and regularly acknowledge compliance with the Treasury Board values and ethics code of conduct policy.