

**AUDIT OF KEY FINANCIAL PROCESSES
WESTERN ARCTIC FIELD UNIT**

FINAL REPORT

Prepared by:

Office of Internal Audit and Evaluation

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**Her Majesty the Queen of Canada, represented by
the Chief Executive Officer of Parks Canada, 2011
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SUMMARY

Parks Canada Agency (PCA) is conducting a series of cyclical audits of field units, service centres and the various branches of national and regional offices to review key financial, administrative and management practices. The audits focus on compliance with Treasury Board Secretariat (TBS) and PCA policies and practices. The audit of the Western Arctic Field Unit (WAFU) was conducted as part of this cyclical audit program.

The objectives of this audit were to determine whether due diligence is being exercised in key management processes and to assure senior management that appropriate processes and controls are in place at the WAFU to limit the risks of non-compliance with TBS and PCA policies.

The audit reviewed the management control framework (MCF) applied to financial management and covered the following key financial process areas: hospitality and food, telecommunications, inventory management, contracting, payments to suppliers, and financial coding. This audit mainly covered the period from April 1, 2009, to July 31, 2010.

The audit methodology consisted of a review of relevant documents, interviews with WAFU staff, and a sampling of transactions in the key financial areas. The visit to the WAFU took place from August 13 to 20, 2010.

This audit was planned and conducted in accordance with the internal audit standards of the Government of Canada.

Overall, we found that the financial and administrative functions are effective enough to ensure due diligence with respect to the application of most of the management processes examined, as well as to guarantee to senior management that appropriate controls are in place at the WAFU to ensure compliance with TBS and PCA policies and practices.

However, we did identify opportunities for improving the financial processes for telecommunications, contracting, payments to suppliers, and inventory management in order to strengthen controls and enhance compliance with the policies in effect.

Audit reporting summary for the Western Arctic Field Unit:

Ref.	Management Process	Rating
6.1	Management Control Framework	BLUE – Minor Improvements Needed
6.2	Hospitality and food	BLUE – Minor Improvements Needed
6.3	Telecommunications	YELLOW – Moderate Improvements Needed
6.4	Inventory	YELLOW – Moderate Improvements Needed
6.5	Contracting	YELLOW – Moderate Improvements Needed
6.6	Payments to suppliers	YELLOW – Moderate Improvements Needed
6.7	Financial coding	BLUE – Minor Improvements Needed

The following is a list of the recommendations made in the report to the Western Arctic Field Unit Superintendent:

1. The Western Arctic Field Unit Superintendent must ensure that an adequate segregation of duties is in place concerning the processing of financial operations.
2. The Western Arctic Field Unit Superintendent must ensure that hospitality claim forms are completed in full and signed.
3. The Western Arctic Field Unit Superintendent must ensure that documented justification is submitted to the designated administrator for all new acquisition requests for wireless devices.
4. The Western Arctic Field Unit Superintendent must implement a process to ensure that users acknowledge their obligations with respect to the Policy on the Use of Cellular and Other Mobile Wireless Devices.
5. The Western Arctic Field Unit Superintendent must ensure that procedures are in place to reduce the risk of non-compliance with respect to the use of wireless devices.
6. The Western Arctic Field Unit Superintendent must ensure that a physical inventory is performed on a regular basis to confirm the completeness of the inventory and the existence of the assets recorded in the ledger.

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7. The Western Arctic Field Unit Superintendent must ensure that proper training is provided so that data is entered in a reasonable amount of time.
 8. The Western Arctic Field Unit Superintendent must ensure that:
 - service contract files include a statement of work;
 - files for non-competitive contracts contain adequate justification;
 - the information necessary to support the contract value is on file; and
 - contracts and amendments to contracts are signed in a timely manner by the proper authority.
 9. The Western Arctic Field Unit Superintendent must ensure that:
 - all invoices are correctly authorized and dated in accordance with section 34 of the *Financial Administration Act* (FAA);
 - payments for training expenses are accompanied by the necessary authorization form;
 - purchase orders and other commitment or authorization documents are signed and attached to the supporting documentation for the payment; and
 - invoices are dated upon receipt,
 - a budget is presented annually to board members for approval.
 10. The Western Arctic Field Unit Superintendent must ensure that GST is not paid to the supplier unless a valid tax number appears on the invoice.

1. BACKGROUND

Parks Canada Agency (PCA) is conducting a series of cyclical audits of field units, service centres and the various branches of national and regional offices to review key financial, administrative and management practices. The audit of the Western Arctic Field Unit (WAFU) was conducted as part of this cyclical audit program.

Field units are groupings of national parks, national historic sites and national marine conservation areas that are usually near one another. Their proximity allows them to share management and administrative resources. The service centres support the organization in a variety of professional and technical disciplines. It is the responsibility of service centre directors and field unit superintendents to ensure that the policies, directives and guidelines issued by the Treasury Board Secretariat (TBS) and PCA are followed.

2. OBJECTIVES AND SCOPE

The objectives of this audit were to determine whether due diligence is being exercised in key management processes at the WAFU and to assure senior management that appropriate processes and controls are in place to ensure compliance with TBS and PCA policies and practices.

The audit reviewed the management control framework (MCF) applied to financial management and covered the following key financial process areas:

- hospitality and food;
- telecommunications;
- inventory;
- contracting;
- payments to suppliers; and
- financial coding.

Transactions that occurred during the period from April 1, 2009, to July 31, 2010, were mainly examined.

3. METHODOLOGY

The audit methodology involved the following activities:

- Visit to the WAFU office in Inuvik, NWT;
- Interviews with the managers and staff responsible for the main financial sectors of the WAFU;
- Examination of the relevant supporting documentation, in particular the 2004 audit report, the organizational chart, the PCA signing authority delegation chart, and the policies governing the key financial sectors; and

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- Examination of a sample of transactions for each key financial sector, where applicable.

The sample of transactions was established on the basis of data taken from the STAR financial system. The proportional selection of transactions in relation to the areas covered by the audit was based on the judgment of auditors.

The visit to the WAFU office took place from August 13 to 20, 2010. Once the fieldwork was completed, our preliminary findings were submitted to the WAFU Superintendent and the Manager of Finance and Administration.

Our findings and recommendations have been made in accordance with the Audit Reporting Rating System described below:

Audit Reporting Rating System		
RED	Unsatisfactory	Controls are not functioning or are nonexistent. Immediate management actions need to be taken to correct the situation.
ORANGE	Significant Improvements Needed	Controls in place are weak. Several major issues were noted that could jeopardize the achievement of program/operational objectives. Immediate management actions need to be taken to address the control deficiencies noted.
YELLOW	Moderate Improvements Needed	Some controls are in place and functioning. However, major issues were noted and need to be addressed. These issues could compromise the achievement of program/operational objectives.
BLUE	Minor Improvements Needed	Many of the controls are functioning as intended. However, some minor changes are necessary to make the control environment more effective and efficient.
GREEN	Controlled	Controls are functioning as intended and no additional actions are necessary at this time.

4. STATEMENT OF ASSURANCE

This audit was planned and conducted in accordance with the internal audit standards of the Government of Canada.

5. AUDIT OPINION

Overall, we found that the financial and administrative functions are effective enough to ensure due diligence with respect to the application of most of the management processes examined, as well as to guarantee to senior management that appropriate controls are in place at the WAFU to ensure compliance with TBS and PCA policies and practices.

However, we did identify opportunities for improving the financial processes for telecommunications, contracting, payments to suppliers, and inventory management in order to strengthen controls and enhance compliance with the policies in effect.

6. OBSERVATIONS AND RECOMMENDATIONS

6.1 Management control framework

BLUE	Minor Improvements Needed	Many of the controls are functioning as intended. However, some minor changes are necessary to make the control environment more effective and efficient.
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A control framework is implemented by an organization to support its operations and ensure that employees carry out their duties efficiently and effectively. The key elements of an effective management control framework are, in particular, clear governance, properly defined roles and responsibilities, effective communication, and regular control measures.

To determine whether the management control framework is adequate to ensure compliance with financial policies, we applied the following audit criteria:

- C1- Information essential for achieving operational objectives is identified, collected, processed and quickly transmitted to those concerned.
- C2- Staff roles and responsibilities, specifically those relating to control, are clearly defined, documented and circulated.
- C3- Business and operational plans are prepared in co-operation with the stakeholders and set adequate budget parameters and needs in terms of human and material resources and security.
- C4- The control environment in place facilitates sound, effective management.
- C5- The control activities exercised ensure early detection of anomalies and permit timely application of corrective measures.
- C6- The control activities exercised ensure proper management of finance staff.
- C7- The finance group has sufficient, competent staff to achieve operational objectives.
- C8- Operations-related risks are formally assessed on a regular basis.

Observations

Governance

The WAFU is under the responsibility of the Director General, Western and Northern Canada, and includes approximately 30 permanent employees. The WAFU's annual operating budget for 2010-2011 is approximately \$3.7 million. Its business plan covers a five-year period and is updated every year. The plan gives an overview of the size of the WAFU at various levels: area, budget, site description, number of visitors, existing infrastructure, and challenges.

PCA's risk profile, which was reviewed and approved by the CEO in April 2009 and provides for the harmonization of integrated risk management with the planning cycle and report creation. The WAFU's business plan for 2010-2011 to 2014-2015 reflects the

risk management approach. The business plan identifies specific targets and time frames that the WAFU has committed to achieve in order to help PCA meet the performance expectations set for each program activity.

The business plan is developed by the management team. The planning process is lead by the Field Unit Superintendent. Once the plan is complete, it is submitted to the executive management committee and then to all field unit employees to inform them of the general objectives to be met. The plan is also used by managers to set staff objectives identified in annual evaluations. Throughout the year, the plan is available on the WAFU's shared computer network to staff for consultation.

The WAFU has not established or documented a formal risk assessment process for all financial processes. However, risk management is discussed during the development of the business plan. The team responsible for the business plan takes into account the risks identified in PCA's risk profile and sees how these risks can interact with the operations of the WAFU. According to the management team, the most significant immediate risks are staff recruitment and retention, because they have a direct impact on the achievement of the WAFU's objectives. Other risks, such as climate change and partner capacity, may also affect operations. Moreover, risks are taken into account during infrastructure or major project studies when project approval is requested. A form outlining the risks identified and the measures to take must be submitted by the WAFU for approval by the DG, Western and Northern Canada.

The WAFU has developed an emergency response plan. It establishes roles and responsibilities, decision processes in park emergency situations, and a hotline to provide information in case of an emergency (i.e. available employees, rescue procedures, site closures). Useful information for visitors on search and rescue, as well as general information on precautions to take in the park, is published in the information brochures for each national park.

Roles and responsibilities

An organizational chart was available when the audit began and is updated on a regular basis. When employees are hired, they receive a generic job description or are informed that they have access to the description on the intranet. Specific objectives may be developed at the time of hiring and reviewed during annual performance evaluations.

The recurring tasks performed by finance staff have been recorded to clearly establish the role of each employee. This document is useful not only for officially stating the tasks to be performed, but also for helping the Manager of Finance and Administration to prepare a proper performance evaluation. This document also helps staff transition in case of turnover in the finance team.

Communications

The geographical location of the WAFU requires staff to use various means of communication. All field unit offices use telephone and email for day to day communications. During the field season, satellite phones, satellite pagers and VHF radio (Ivvavik National Park only) are the sole means of communication with staff operating in one of the 5 administered sites. The management team meets to discuss issues, priorities and operations every two weeks. Because of the hectic nature of summer season, this schedule is often not met during June, July and August. The holding and frequency of meetings help strengthen the accountability of WAFU managers with regard to the common objectives to be met. Meetings are not conducted in person, because the geographical distances entail high travel costs and significant investment in travel time. The minutes are sent to all staff after each meeting. Management team meetings are open to all, and employees interested in attending are welcome.

An all-staff meeting is held once per year, in the spring. This meeting serves as a forum for the Superintendent to share the organization's vision and strategy; to remind the staff of the importance of financial controls and to communicate new practices; to provide mandatory training (i.e. harassment, workplace health and safety, bear awareness, and the FA201 course for employees with financial authorities etc). The end-of-season meeting is a chance for the Manager of Finance and Administration to run over instances of non-compliance noted during the summer, reiterate the importance of complying with the financial policies, and suggest measures to promote compliance.

All field unit finance staff work in the Inuvik office. For this reason, work-related discussions take place on a regular basis. The finance staff and managers can obtain support from the Manager of Finance and Administration whenever necessary.

Control and monitoring measures

Responsibility for compliance with financial policies relies on the person who holds spending authority under section 34 of the *Financial Administration Act* (FAA). The revised specimen signature forms allow for confirmation of the level of delegation of authority granted to an employee for a specific financial centre or cost centre. This form facilitates audits and eliminates ambiguities. As stipulated in the *Instrument of Delegation: Administrative and Financial Signing Authorities*, specimen signature forms must be examined and updated yearly. During the audit, the specimen signature form log was up-to-date.

Employees must have successfully completed the on-line training course FA201 (Parks Canada financial management) to have signing authority under the FAA. Most of the managers and finance staff at the WAFU had completed the training at the time of the audit. Those who had not taken or passed the course didn't have signing authority.

The segregation of responsibilities is clearly defined by the assignment of duties. Expenditures are initiated in various field unit groups and are approved by the delegated manager. Commitment documents such as purchase orders or contracts are submitted to the financial officer. When the invoice arrives at the WAFU, it is date-stamped, attached

to the corresponding commitment document and submitted to the manager for approval. Once the goods have been received or the services have been rendered, the manager signs the invoice to confirm receipt and authorizes the payment. Then documentation is returned to the financial officer, who conducts the necessary verifications and enters the information in the STAR financial system. The person with payment authority under FAA s.33 ensures that the information is in compliance and complete before issuing payment. Payments are released twice per week on average.

Finance staff conduct random checks based on the risk associated with the type of transaction under the Account Verification and Sampling Policy. Also, a statistical sampling is selected at the national level, and the selected transaction lists are sent to the finance group every month for audit and compliance monitoring. According to the Manager of Finance and Administration, an average of six transactions are selected each month.

The interviews highlighted an important weakness in the basic controls with regard to the STAR financial system. The financial officer who receives the invoices is responsible for entering them in the financial system and is also the only person who can create vendor profiles in STAR. The segregation of duties should be improved to reduce the risk of misappropriation of funds.

All WAFU employees have access to a computer and can consult the Parks Canada intranet site to obtain information on policies and/or directives. Explanatory documents and tips sheets are also available on the WAFU network. Furthermore, there is a central registry at the WAFU library. This registry is kept up-to-date and contains hard copies of financial policies, directives, work instructions and various forms.

Budget monitoring is performed using financial reports prepared by finance staff. The information is taken from the STAR financial system and presented according to the internal order numbers associated with each WAFU project. The reports are submitted to managers each month. The managers are responsible for validating the information, specifically the financial coding, and making any necessary corrections. There is constant communication between managers and the Manager of Finance and Administration to ensure that budgets are monitored properly. If managers want other types of reports or at different frequency, they can ask the Manager of Finance and Administration. The exercise enhances managers' accountability for their budgets.

Conclusion

The analysis of the MCF shows that the practices implemented at the WAFU ensure an effective management of financial processes. However, certain changes must be made to the segregation of duties in order to strengthen the existing controls.

Recommendation

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1. The Western Arctic Field Unit Superintendent must ensure that an adequate segregation of duties is in place concerning the processing of financial operations.

Management response

Agree: Segregation of duties will be remedied to eliminate vendor creation and payment processing conflict.

6.2 Hospitality and food

BLUE	Minor Improvements Needed	Many of the controls are functioning as intended. However, some minor changes are necessary to make the control environment more effective and efficient.
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The government of Canada has decided to strengthen financial controls to increase accountability and transparency in the management of public funds. Hospitality fees are one of the expenditure categories specifically targeted by these tighter controls.

The TBS *Hospitality Policy* stipulates that activities must be organized in an economical, consistent and appropriate way to facilitate government business or when considered desirable as a matter of courtesy. Requests for hospitality expenses must always be approved by the delegated officer in charge before the activity is held.

Where approval by the Minister (>\$5,000) or by the CEO (between \$1,500 and \$5,000) is required, hospitality requests must be submitted far enough in advance to ensure that approval is received before the activity is held.

In 2007, Parks Canada issued a new hospitality fee policy in line with the TBS policy. A memorandum to senior managers was also sent to support PCA's position in this regard.

To determine whether due diligence is being exercised in the financial process for hospitality and food expenses and whether controls are adequate to ensure compliance with policies, we applied the following audit criteria:

- C1- Hospitality activities are conducted in appropriate venues.
- C2- Financial limitations placed on hospitality expenses are respected.
- C3- Hospitality activities are approved prior to the event at the appropriate approval level.
- C4- Recipients of hospitality activities are in compliance with PCA.
- C5- Payments for hospitality activities respect the provisions of PCA.
- C6- Transactions recorded in the food account comply with the applicable policies and do not include any hospitality expenses.

Observations

The audit team selected 12 organized events with a total value of \$23,600 for the 2009-2010 and 2010-2011 fiscal years. The events were selected from a two-year period because of the low volume of transactions recorded in the hospitality account in 2010-2011. We also selected six transactions recorded in the food account with a total value of \$6,290 to ensure that these expenses were not hospitality fees.

A review of the documents revealed the following instances of non-compliance with the Hospitality Policy:

- one event went ahead without pre-authorization;
- one transaction lacked the appropriate FAA s.34 authorization;
- one transaction recorded in the food account that was authorized after the fact.

Note that none of the audited hospitality activities had a list of participants attached to the supporting documentation for the payment. Attaching such a list to the hospitality form is a good practice because it can confirm the number of people present, as well as where they are coming from. This practice is also used to confirm that the person who authorized the hospitality expenses did not personally benefit from the event.

Conclusion

Overall, the controls in place to manage and process hospitality fees are adequate. However, the importance of having final approval for the hospitality claim form must be strengthened.

Recommendation

2. The Western Arctic Field Unit Superintendent must ensure that hospitality claim forms are completed in full and signed.

Management response

Agree: Reiteration of this requirement has been communicated to managers and staff. As a best practice, a list of PCA participants at Parks Canada events where hospitality is provided will be compiled.

6.3 Telecommunications

YELLOW	Moderate Improvements Needed	Some controls are in place and functioning. However, major issues were noted and need to be addressed. These issues could compromise the achievement of program/operational objectives.
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Parks Canada's Policy on the Use of Cellular and Other Mobile Wireless Devices came into effect on October 1, 2008. The goal is to foster more cost-effective and more

appropriate use of wireless devices. To that end, Public Works and Government Services Canada (PWGSC) has implemented a new procurement process and new acquisition agreement. In the past, cellular phones and other devices were purchased from a large number of suppliers offering a wide range of functions and plan options. The new agreement is intended to reduce PCA's usage costs. The policy establishes guidelines and official procedures for purchasing, managing, safely and appropriately using cellular phones and other mobile wireless devices. The policy has two components: acquisition and use.

To determine whether due diligence is exercised in the financial process for telecommunications fees and whether controls are adequate to ensure compliance with policies, we applied the following audit criteria:

- C1- The manager or designated administrator must document user requirements in terms of wireless devices and wireless telecommunications services.
- C2- All requests for acquisition/cancellation of or changes in services are co-ordinated by the designated administrative authority.
- C3- The procurement process for devices is consistent with guidelines.
- C4- Non-standard requests are submitted to the Chief Information Officer (CIO) for approval, subject to the manager's recommendation.
- C5- Attribution of the communication device was authorized by a Level A manager or higher and meets current criteria.
- C6- Managers ensure that the users who report to them are familiar with the policy on the use of wireless devices and agree to comply with the policy before being granted the device.
- C7- Use of the device complies with the terms of the policy and current guidelines.
- C8- Personal calls are identified, calculated and reimbursed by the user where applicable under the policy's terms.
- C9- The administrative authorities responsible for managing wireless services at field units and service centres have developed internal processes for this policy.
- C10- Managers and designated administrators regularly examine the staff's usage records.

Acquisition

In accordance with the policy, an administrative authority has been designated for the WAFU: the Manager of Finance and Administration. When necessary, an e-mail is sent to the Manager to request the acquisition of a device. The designated administrator does not dispute the decision to acquire the device and orders it through the procurement system in place. In accordance with the policy, user needs must be documented in order to allow the designated administrator to recommend an appropriate and adequate service.

The only cellular phone service provider in this part of the country is not one of the two suppliers authorized by the PWGSC standing offer. As a result, all requests for cellular phone service must be considered non-standard purchases. When a device is requested, an e-mail is sent to a representative of the Office of the CIO who is responsible for acquisition and configuration. No new cellular phones have been purchased since the policy came into effect.

Interviews with the staff have shown a limited level of knowledge of the national telecommunication obligations. However, a local directive is in force at WAFU regarding the usage of satellite phone, which is the most convenient device to use on-sites. This directive mitigates the risk of wrong usage and ensures those satellite phones are used for work only. As a good practice, users could sign a form acknowledging familiarity with the existing policies on the use of wireless devices, similar to the form for acquisition cards, before taking possession of the device. This formality would encourage the user and manager to meet their respective responsibilities and obligations.

Use

The policy clearly states that users must identify personal calls on monthly statements. The total amount must be identified and calculated to ensure that the user does not exceed the annual amount that is allocated for personal use. Lastly, the delegated managers are responsible for monitoring the use of wireless devices for employees who report to them.

The WAFU makes very little use of wireless communication devices. Only two employees use such devices, including one telephone used by the duty officer. This officer is on standby and is responsible for answering all calls from clients. Duty officer is a rotating position, which means that the telephone is not attributed to a specific employee.

Because there is no cellular phone service in the WAFU's parks, a certain number of satellite phones are available for employees assigned to work in the parks. Since satellite phones involve very high costs, there is an internal directive in place to control the use of these devices. Employees can use these devices if they use their personal calling cards.

An audit of 18 monthly statements revealed that personal calls had not been identified by users and that no total use per employee had been recorded. Monitoring is performed by the Manager of Finance and Administration on monthly statements for the satellite phones but the policy states that it is the manager to whom the user reports who should be performing this monthly verification.

Conclusion

Overall, the use of devices is adequate. However, special attention must be paid to the following fields of activity: documentation of communication needs, identification of personal calls by users, and monitoring of usage by managers. Procedures will have to be

put in place by the WAFU to reduce the risk of non-compliance with the policy and provide monitoring activities to that effect.

Recommendations

3. The Western Arctic Field Unit Superintendent must ensure that documented justification is submitted to the designated administrator for all new acquisition requests for wireless devices.

Management response

Agree: With regard to cellular phones, as stated in the audit, no new units have been purchased since the Parks Canada Policy on the Use of Cellular and Other Mobile Wireless Devices came into effect. The field unit only has two cellular phones. When a cellular phone is purchased next, the policy will be applied.

With regard to satellite phones, which are critical communication safety tools used by staff when in the field, the policy will be applied in those instances where time permits. In the instance where a satellite phone is required immediately such that the safety of staff or a field program may be compromised because of delays in following the Policy, then the purchase will proceed with the necessary documentation advanced post facto. (The CIO has communicated to the Field Unit Superintendent the intent to amend the policy to reflect the critical safety nature of these tools and the occasional requirement that their purchase must be made on short notice and outside the time parameters necessarily created by the policy).

4. The Western Arctic Field Unit Superintendent must implement a process to ensure that users acknowledge their obligations with respect to the Policy on the Use of Cellular and Other Mobile Wireless Devices.

Management response

Agree: The national policy is written for mobile wireless devices that are assigned to specific individuals. Such a process will be developed to address the one instance where this is the case in Western Arctic, and in any future such instances. A mechanism for users of shared cellular and wireless devices to acknowledge obligations with regard to the use of such devices consistent with the Policy will be developed for the remainder of staff in the Western Arctic.

5. The Western Arctic Field Unit Superintendent must ensure that procedures are in place to reduce the risk of non-compliance with respect to the use of wireless devices.

Management response

Agree: Only the Superintendent is assigned a wireless device. No other staff member is assigned their own device for work. All other field unit wireless devices are shared work tools: One 24 hour duty-officer cell phone used by a rotating pool of staff throughout the summer season, and a number of satellite phones used by staff while in the field for communications (daily call-ins, weather updates, rendezvous co-ordination, emergencies etc.) The national policy does not address the use of shared communications tools as occurs in the Western Arctic.

Expenses for wireless devices are regularly reviewed. When calls can be identified with specific callers (not always simple given that these devices are not assigned to specific staff, but shared), and are determined to be of a personal nature, costs are recuperated.

To manage the use of these devices, the field unit has required staff to use pre-paid calling cards to make personal calls on satellite phones. Under this recently adopted policy, costs for the personal use of these devices have been significantly reduced. The duty-officer phone, a public safety response tool, is limited to work use only. The national policy would be significantly strengthened with the addition of provisions that address shared wireless devices, as in the Western Arctic, which are a tool to secure staff and public safety.

6.4 Inventory

YELLOW	Moderate Improvements Needed	Some controls are in place and functioning. However, major issues were noted and need to be addressed. These issues could compromise the achievement of program/operational objectives.
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A national inventory management system for goods worth \$1,000 to \$10,000 and attractive goods worth less than \$1,000 was rolled out at Parks Canada in April 2007. All items acquired after April 1, 2007, that fit that description must be entered in the Plant Maintenance module of the STAR financial system. A physical inventory must be taken every two years in order to validate, adjust as needed and keep current information in STAR. Goods worth more than \$10,000 must be entered in STAR promptly, and a physical inventory must also be taken every two years.

To determine whether due diligence is exercised in the financial process for inventory management of goods worth \$1,000 to \$10,000, attractive goods worth less than \$1,000 and goods worth more than \$10,000, and whether controls are adequate to ensure compliance with policies, we applied the following audit criteria:

Goods worth \$10,000 or less

C1- Goods that are covered by the directive and was acquired after April 1, 2007, are recorded in the financial system.

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- C2- The segregation of duties pertaining to the inventory management process is adequate.
- C3- A physical inventory was taken in the last 24 months.
- C4- Measures are in place to ensure that purchased items are recorded in the inventory, regardless of the procurement method used.

Goods worth more than \$10,000

- C5- Acquisitions are adequately identified and entered in the assets management system.
- C6- Acquisitions are entered promptly in the STAR financial system.
- C7- A physical inventory was taken in the last 24 months (equipment, vehicles, etc.).

Observations**Goods worth less than \$10,000**

Managers are responsible for ordering assets necessary for the conduct of operations and for sending copies of the purchase invoices to the finance staff in charge of maintaining the inventory system. There is no mechanism in place to ensure that all purchase invoices are sent to the financial officer at the time of purchase. However, finance staff does conduct a year-end review of acquisition card statements to make sure that managers have sent in their invoices for any items purchased that needed to be inventoried, in order to ensure that the inventory list is complete.

When data is entered, an item number is issued, and barcode labels are used for all assets covered by the policy. Since finance staff were reduced in the summer of 2010 and there was a lack of training, no inventory data was entered during that period. The delay should be rectified by late fall 2010.

No complete physical count to update the inventory has been done since the policy came into effect. Some sectors keep their inventory current on different lists and have done a physical count. However, counts are not done regularly, but rather are tailored to the operational reality of these sectors, and assets are not identified in the manner prescribed by the policy (barcode). These inventory lists are not reconciled with the information entered in STAR.

The segregation of duties for inventory monitoring is appropriate because the inventory custodians do not have access to data entry into the STAR financial system and do not assign item numbers. Furthermore, disposal of assets must be authorized by the Manager of Finance and Administration.

In order to validate the accuracy and completeness of the inventory, 10 items were selected from the inventory lists produced by the STAR financial system and were to be located. The entry of 17 specific items identified at different WAFU sites was also audited. The results are as follows:

- five items selected on site could not be located on the inventory;

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- four items were located but did not have bar codes; and
 - four items were located but were not associated with any cost centre, making it impossible to identify the asset custodian.

The lack of consistency in the data entry process makes it difficult to get complete, up-to-date inventory lists from the STAR system. The system cannot identify items if they are not associated with a cost centre. Such items would therefore not appear on the inventory lists.

Since the WAFU has many assets that are covered by the policy on inventory management of goods worth from \$1,000 to \$10,000 and attractive goods worth less than \$1,000, and since the sites are relatively far away from the administration centre, it would be appropriate to take a complete physical inventory and update the inventory list before the start of the next operating season.

Goods worth more than \$10,000

The same process is in place for goods worth more than \$10,000, except that they are recorded as such in the STAR module by the Manager of Finance and Administration. These assets are therefore not recorded on the same inventory list as goods worth less than \$10,000. According to information obtained, no official physical count has been done in the last two years. The *Asset Accounting Policy and Procedures* state that it is important to periodically examine the goods inventory to verify the existence and condition of all assets and make note of new additions. This examination must be performed on a regular basis.

Note that no physical audit was conducted for goods worth \$10,000 or more; the process is described on the basis of interviews only. The asset management system is not used at the WAFU.

Conclusion

Overall, the inventory management process is well started. However, efforts will have to be made to harmonize the inventory and ensure that enough employees are trained to enter data in STAR. Moreover, a complete physical count would help ensure the accuracy of the inventory lists.

Recommendations

6. The Western Arctic Field Unit Superintendent must ensure that a physical inventory is performed on a regular basis to confirm the completeness of the inventory and the existence of the assets recorded in the ledger.

Management Response

Agree: Physical inventory will be completed by March 31, 2011 to confirm completeness of Low Dollar Value Inventory and STAR Capital Asset.

7. The Western Arctic Field Unit Superintendent must ensure that proper training is provided so that data is entered in a reasonable amount of time.

Management response

Agree: A Low Dollars Value Inventory (LDVI) Refresher training will be undertaken as/when cost-effective opportunity arises. LDVI will be reconciled against payables on a quarterly basis to ensure accuracy and completeness.

6.5 Contracting

YELLOW	Moderate Improvements Needed	Some controls are in place and functioning. However, major issues were noted and need to be addressed. These issues could compromise the achievement of program/operational objectives.
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Managers have access to a variety of contracting methods depending on requirements. Managers can rely on contracting officers and specific usage rules. In addition, the existing delegation of authority limits managers in their actions so that PCA can exercise stricter control over contracting mechanisms and foster more standardized use that complies with policies and directives.

To determine whether due diligence is exercised in the financial process for contracting and whether controls are adequate to ensure compliance with policies, we applied the following audit criteria:

- C1- Guidelines and procedures relating to contracting practices exist at the field unit/service centre and are in compliance with TBS and PCA policies and directives.
- C2- Appropriate training/instruction is provided at all levels to ensure knowledge and understanding of contracting policies and procedures.
- C3- Compliance with contracting policies and procedures is monitored.
- C4- Management reports relating to contracting activities are produced and used to monitor and supervise those activities.
- C5- A need to award a contract has been identified.
- C6- The appropriate contracting method is used.
- C7- Contracts are awarded fairly, bearing in mind the economy principle.
- C8- The nature of the work to be performed or asset to be delivered is specified in the contracts.
- C9- The contracts include conditions to mitigate the risk of non-performance.
- C10- The contracts are approved by persons with the required authorization.

Observations

The WAFU use the following contracting methods: standing offers, purchase orders, local purchase orders (LPOA), competitive sourcing and non-competitive sourcing. The current directive requires managers to go through contract administration and procurement officers at the Western and Northern Service Centre for all contracts and purchases valued at more than \$5,000. The officers are also available to provide training, advice and opinions on contracting. Their duties include working with operations managers to develop statements of work. They help create assessment criteria and terms for contracting for goods and services to ensure a rigorous, fair awarding process. Once the selection process is complete, the contract is signed by the selected contractor and then by a PCA representative. In this way, the risk of non-compliance with the contracting policy is considerably reduced. Note that FA201, a training course that is mandatory in order to obtain delegation of authority, also covers the contracting policy. There is no up-to-date log of active contracts for each site. Such a log would make it possible to monitor the progress of work as well as payments made.

Government contracting must be conducted in a manner that will stand up to public scrutiny in matters of prudence and probity, facilitate access, encourage competition, and reflect fairness in the spending of public funds. PCA requests that its field units maintain a ratio of 80% competitive sourcing to 20% non-competitive sourcing. The ratio of competitive sourcing at the WAFU for the 2009-2010 fiscal year was less than 30% but as per land claim obligations (i.e. use local contractor if available), competition is not always convenient in Northern Communities. Moreover, the majority of the non-competitive sourcing involves low dollar value contracts.

The sampling of contracts reviewed was established according to the level of risk that the contract awarding process could result in. In general, contracts awarded through standing offers or purchase orders present a low risk because most of these purchases are made in collaboration with a contract administration and procurement officer. However, it was noted that WAFU managers frequently use local purchase orders. Since this type of award presents a higher risk of non-compliance with the contracting policy, a number of low-value transactions were selected.

The summary of the selected contracts is as follows:

	2009-2010	
	No.	Value
Local purchase orders	9	\$23,843.35
Purchase orders	1	\$2,000.00
Standing offers	1	\$15,521.94
Competitive sourcing	9	\$153,175.85
Non-competitive sourcing	5	\$20,021.51
TOTAL	25	\$214,562.65

The following instances of non-compliance were identified in the review of the selected contracts:

- one non-competitive contract for which the contracting method, justification, explanation of costs, and conditions for reducing the risk of non-performance were inadequate;
- one non-competitive contract contained no justification and was inadequately authorized;
- one non-competitive contract for which the contracting method and justification were inadequate;
- one contract contained no explanation of the costs or business case and was inadequately authorized;
- one contract contained no statement of work;
- three non-competitive contracts for which the justification was inadequate;
- two contracts lacked the appropriate signature by a contracting authority; and
- one contract for which the contracting method (LPOA) was inadequate.

The audit of the contracting files also revealed the following issues:

- five contracts for which the amount paid to the supplier was higher than the amount established in the contract, with no amendments on file;
- one contract worth more than \$5,000 that was awarded through an LPOA, which is not allowed;
- one contract that was awarded for twice the value estimated by the manager, with no accompanying explanation or justification in the file.

The following table gives a summary of the instances of non-compliance identified during the analysis of the transactions.

Number of instances of non-compliance identified	
Documents were compliant	13
Documents contained 1 instance of non-compliance	7
Documents contained 2 instances of non-compliance	3
Documents contained 3 instances of non-compliance	0
Documents contained 4 instances of non-compliance	1
TOTAL	24

One pre-selected contract file was excluded from the analysis because it was cancelled and deleted from the financial system.

Conclusion

The process in place to comply with Treasury Board's Contracting Policy is generally adequate with respect to contracts valued at more than \$5,000. However, management of the awarding of contracts valued at less than \$5,000 requires improvement. Measures should be taken to ensure that non-competitive contracts contain an appropriate justification and that the contract approval process is strengthened.

Recommendations

8. The Western Arctic Field Unit Superintendent must ensure that:
- service contract files include a statement of work;
 - files for non-competitive contracts contain adequate justification;
 - the information necessary to support the contract value is on file; and
 - contracts and amendments to contracts are signed in a timely manner by the proper authority.

Management response

Agree: Training specific to these lapses will be incorporated into the 2011 spring all-staff. Managers will be directed to ensure personnel adhere to all contracting requirements. Additional training requirements will be identified and implemented within fiscal 2011/12.

6.6 Payments to suppliers

YELLOW	Moderate Improvements Needed	Some controls are in place and functioning. However, major issues were noted and need to be addressed. These issues could compromise the achievement of program/operational objectives.
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The audit of payments to suppliers consists of ensuring that payments were made on time, for the amount of goods or services received, and that people with the proper delegated authority approved purchases. Travel expense claims were included in the selection, as well as some acquisition card statements and training fees. A selection was also made among minor expenses to ensure fair and representative coverage of expenditures.

To determine whether due diligence is exercised in the financial process for payments to suppliers and whether controls are adequate to ensure compliance with policies, we applied the following audit criteria:

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- C1- Policies, guidelines and procedures regarding the purchase of and payment for goods and services from suppliers exist at the field unit/service centre and comply with TBS and PCA policies.
- C2- Adequate training/instruction is provided to employees at all levels to ensure awareness and understanding of the policies and procedures.
- C3- Adherence to the policies and procedures is monitored.
- C4- Procurement of goods and services is appropriately initiated and authorized, and funds are properly committed in the financial system.
- C5- Goods and services on suppliers' invoices match those in purchase orders/contract specifications.
- C6- Price and quantities on invoices match those in purchase orders/contract specifications.
- C7- A person with the appropriate delegated authority signs the certification required under FAA s.34.
- C8- Advances and progress payments are made in accordance with the terms of the contract.

Observations

Supplier invoices are received and dated upon receipt, a process overseen by finance staff. The invoices are then matched up with their purchase orders or contracts and submitted to the managers for authorization. The managers must certify invoice compliance under FAA s.34, including the financial coding. Once all supporting documents have been collected, the documentation is returned to Finance, which releases the payment. Finance officers are responsible for ensuring that all of the required information is on hand and that the appropriate signatures have been obtained before making a payment. Cheques are then released by the Manager of Finance and Administration, who has payment authority under FAA s.33.

The following is an overview of the transactions audited in the selected accounts:

Account Name	Number of Audit Transactions	\$ Amount	% of Audited Expenses / Total Expenses Under the Account
Training expenses	3	7,295	0.8%
Travel expenses	11	25,160	2.5%
Various accounts	21	962,755	96.7%
TOTAL	35	995,210	100%

The review of the 35 selected transactions did reveal the following irregularities:

- three processed invoices that were not date-stamped upon receipt;

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- three transactions for which spending authority under FAA s.34 was inadequate;
 - two transactions for which the amount paid did not correspond to the purchase order, with no accompanying explanation in the file;
 - one transaction of more than \$5,000 that was paid using an acquisition card, which is against the policy;
 - one transaction for an employee's relocation for which the agreement was not signed by the manager of the relocated employee;
 - one transaction involving an acquisition card for which the supporting documents were missing;
 - two transactions concerning training for which the authorization form was missing;
 - seven transactions for which an amount was paid for GST even though the supplier did not have a valid GST registration number; and
 - nine transactions for which no documents signed under FAA s.32 authorizing initiation of the expense accompanied the invoice.

Of these last nine transactions, six were to pay the expenses of the external members of the Tukut Nogait National Park co-management board. As best practice and in order to facilitate payment verification and ensure due diligence in the payment of members' expenses, the field unit should keep all the generic information regarding members (i.e., letters of appointment, terms and condition of appointment, and a copy of the rate of honoraria set for the Chair of the Inuvialuit Game Council) in one place to facilitate the exercise of due diligence in the payment of members' expenses.

It was reported that in the recent past not all positions on the board have been filled, therefore meetings have been infrequent (i.e., once a year). As a result the board has not routinely prepared a budget for approval by the relevant Parks Canada official as specified in section 7 of the Tukut Nogait Agreement (i.e., submitted for approval 60 days prior to the start of a fiscal year). The budget should set out the major anticipated expenses including specifying the significant line items under "other relevant expenses" such as for example the costs of purchasing liability insurance (i.e., currently this is paid for by Parks Canada for the ministerial appointees who are not covered under the *TB Policy on Legal Assistance and Indemnification for Crown Servants*).¹ The field unit has historical information on past expenditures (i.e., honorariums, travel, accommodation and other related expenditures) to support the board in preparing a recommended budget as specified in the agreement.

Conclusion

¹ Note in our view the advisory rather than fiduciary role of the board makes it unlikely that the members will be subject to legal action related to duty of care or injury to third parties consistent with the TBS position with respect to external members of audit committees. Nevertheless, purchase of the insurance is at the discretion of the Parks Canada management supported by a documented request by the board (i.e., as part of its annual budget).

Overall, the supplier payment process at the WAFU must be strengthened, specifically with respect to the documentation in files and thoroughness in obtaining spending authorization. These improvements would allow for proper control of expenses and increase the level of compliance with TBS and PCA policies.

Recommendations

9. The Western Arctic Field Unit Superintendent must ensure that:
- all invoices are correctly authorized and dated in accordance with s.34 of the *Financial Administration Act* (FAA);
 - payments for training expenses are accompanied by the necessary authorization form;
 - purchase orders and other commitment or authorization documents are signed and attached to the supporting documentation for the payment; and
 - invoices are dated upon receipt;
 - a budget is presented annually to board members for approval.

Management response

Agree: Invoices will be correctly authorized and dated in accordance with s. 34 of the FAA. Training Authorization Form will accompany all training expenses. Authorization documents (purchase orders, requisitions) will be signed and attached as supporting documentation for payments. The TNNP co-operative management board budget will be reviewed and agreed annually.

10. The Western Arctic Field Unit Superintendent must ensure that GST is not paid to the supplier unless a valid GST number appears on the invoice.

Management response

Agree: GST will not be paid to vendors unless a valid GST number appears on the invoice.

6.7 Financial coding

BLUE	Minor Improvements Needed	Many of the controls are functioning as intended. However, some minor changes are necessary to make the control environment more effective and efficient.
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The quality of financial coding has a direct impact on the accuracy of the reports produced by the financial system. Furthermore, the Office of the Auditor General of Canada carries out an annual audit of PCA's financial statements. These statements are audited to ensure the accuracy of the data produced by the financial system.

To determine whether due diligence is exercised in the financial process for coding and whether controls are adequate to ensure compliance with policies, we applied the following audit criteria:

- C1- Coding guidelines and procedures have been developed for the field unit or service centre.
- C2- Appropriate training/instruction is provided at all levels to ensure knowledge and understanding of coding policies and procedures.
- C3- Compliance with the chart of accounts is monitored.
- C4- Coding is handled by individuals with the appropriate knowledge.
- C5- Coding is validated when entered into the SAP system (financial system).

Observations

Managers with spending authority are responsible for financial coding. Invoices are stamped upon receipt, and the financial code is recorded by hand or identified on the purchase orders. The chart of accounts and all of the information needed to select the correct financial coding are available on PCA's intranet site under Financial Policies. Furthermore, a guide on financial coding is available in hard copy from the Manager of Finance and Administration.

Finance officers are not responsible for reviewing financial coding before making payments. Financial coding is part of the verification performed by FAA s.34 authorities. Finance staff may occasionally find and correct coding errors. Furthermore, managers are asked to confirm their expenses when they receive their monthly financial reports. They can request amendments to the financial coding if necessary.

The coding audit was performed using the sampling selected for the various financial processes, and covered 75 transactions. Only six general ledger coding errors were identified, mainly involving hospitality (four of the six). It is important to properly record hospitality expenses in the ledger, because they are subjected to greater public scrutiny.

CONCLUSION

Overall, the use of financial coding is adequate. However, special attention should be paid to the breakdown of the financial codes for transactions involving hospitality expenses.

No recommendation