

**AUDIT OF KEY FINANCIAL PROCESSES
NORTHERN ONTARIO 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, 2010
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Report presented to the Parks Canada Audit Committee meeting of November 24th, 2010.

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 of Canada Secretariat (TBS) and PCA policies and practices. The audit of the Northern Ontario Field Unit 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 the processes and controls in place at the Northern Ontario Field Unit limit the risks of non-compliance with regard to TBS and PCA policies are appropriate.

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

The audit methodology consisted of a review of relevant documents, interviews with staff of the Northern Ontario Field Unit and Ontario Service Centre and a sampling of transactions in the main financial areas. The Northern Ontario Field Unit and Ontario Service Centre were visited between June 14 and July 9, 2010.

This audit was planned and conducted in accordance with the Internal Audit Standards for the Government of Canada.

Overall, the improvements made since 2008 to the financial and administrative functions at the Northern Ontario Field Unit ensure due diligence in the application of the majority of the management processes audited. These improvements, which include clarification of duties, tightening of controls and an increase in budget monitoring, help assure senior management that the controls in place to limit the risks of non-compliance with regard to TBS and PCA policies and practices are appropriate.

However, three financial processes (telecommunications, contracting and payments to suppliers) require improvements to the current procedures to strengthen controls and increase compliance with the policies in place.

Audit reporting summary for the Northern Ontario Field Unit:

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

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

1. The Northern Ontario Field Unit Superintendent must ensure that the minutes of the meetings are stored on the shared network and are accessible by all employees.
2. The Northern Ontario Field Unit Superintendent, in collaboration with the Ontario Service Centre Director, must ensure that the logs of valid and expired delegations of authority are stored separately to reduce the work related to the verification of signature.
3. The Northern Ontario Field Unit Superintendent must ensure that a documented procedure for collecting and depositing revenue is in place to minimize risks associated with handling cash.
4. The Northern Ontario Field Unit Superintendent must ensure that the hospitality claim forms are duly completed and signed.
5. The Northern Ontario Field Unit Superintendent must ensure that documented justification is submitted to the designated administrator for all wireless device requests.

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6. The Northern Ontario 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*.
 7. The Northern Ontario Field Unit Superintendent must ensure that procedures are in place to reduce the risks of non-compliance with respect to usage of wireless devices.
 8. The Northern Ontario Field Unit Superintendent must ensure that a physical inventory is taken every two years in order to confirm the existence of the goods recorded in the ledgers.
 9. The Northern Ontario Field Unit Superintendent must ensure that proper training is provided so that inventory data is recorded in a timely manner.
 10. The Northern Ontario Field Unit Superintendent must ensure that:
 - service contract files contain a statement of work;
 - files of sole source contracts contain adequate justification;
 - file contains information required to justify the value of the contract;
 - contracts and contract amendments are signed in a timely manner and by an individual with the proper authority.
 11. The Northern Ontario Field Unit Superintendent must ensure that Local Purchase Orders (LPO) is used in accordance with the rules in place.
 12. The Northern Ontario Field Unit Superintendent must ensure that:
 - all invoices are authorized and dated correctly in accordance with section 34 of the FAA;
 - purchase orders and other commitment or authorization documents are signed and attached to the supporting documentation for the payment;
 - invoices are dated upon receipt.

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 Northern Ontario Field Unit 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 of Canada 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 Northern Ontario Field Unit and assure senior management that the processes and controls in place to ensure compliance with TBS and PCA policies and practices are appropriate.

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
- financial coding

This audit primarily covered the period from April 1, 2009, to March 31, 2010.

3. METHODOLOGY

The audit methodology involved the following activities:

- Visit the Northern Ontario Field Unit in Thunder Bay;
- Visit the office of the Lake Superior National Marine Conservation Area of Canada;
- Visit the Pukaskwa National Park;
- Visit the Ontario Service Centre office in Cornwall;
- Interviews with the managers and staff responsible for the main financial sectors of the Northern Ontario Field Unit;

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- Examination of the relevant supporting documentation, in particular the 2008 follow-up audit report, the organizational chart, the PCA signing authority delegation chart and policies governing the key financial sectors; and
 - Examination of a sample of transactions for each key financial sector, where applicable.

The sample of transactions was established on the bases of data selected using the STAR financial system. A proportional basis of selection of transactions related to the domains covered by the audit is based on the judgment of auditors.

The visits to the Northern Ontario Field Unit and Ontario Service Centre took place between June 14 and July 9, 2010. Once the on-site work was completed, our preliminary findings were submitted to the Northern Ontario Field Unit Superintendent and 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 accomplishment 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 impact on the achievement or not 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 for the Government of Canada

5. AUDIT OPINION

Overall, the improvements made since 2008 to the financial and administrative functions at the Northern Ontario Field Unit ensure due diligence in the application of the majority of the management processes audited. These improvements, which include clarification of duties, tightening of controls and an increase in budget monitoring, help assure senior management that the controls in place to limit the risks of non-compliance with regard to TBS and PCA policies and practices are appropriate.

However, three financial processes (telecommunications, contracting and payments to suppliers) require improvements to the current procedures in order to strengthen controls and increase compliance to the policies in place.

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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The organization implements the control framework 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 parties concerned 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 Northern Ontario Field Unit is under the responsibility of the DG–Eastern Canada and has approximately 62 employees. The Northern Ontario Field Unit annual operating budget for 2010-2011 is approximately \$13.4 million. The Field Unit's business plan covers a five-year period and is updated every year. It provides readers with an overview of the size of the Field Unit at various levels: area, budget, site description, number of visitors, existing infrastructures and challenges.

The Agency reviewed its risk profile, which was approved by the CEO in April 2009 and provides for the harmonization of integrated risk management with the planning cycle and report creation. The Northern Ontario Field Unit's 2010-2011 to 2014-2015 business plan reflects the risk management approach. The business plan identifies specific targets and time frames that the Field Unit has committed to respect to help the Agency meet the performance expectations set for each program activity.

The business plan is developed by a team of managers designated to collaborate with the Field Unit Superintendent and the Manager of Finance and Administration. This team can change from one year to the next to give managers the opportunity to gain experience in this field. This new way of doing things encourages managers to communicate amongst themselves to reach a consensus. Once the plan is complete, it is submitted to the Executive Management Committee and then to all employees to inform them of the general objectives to be met. The plan is also used by managers during the preparation of annual performance evaluations, more precisely, to set staff objectives. Throughout the year, the plan is available on the Field Unit's shared computer network for consultation by staff.

The Northern Ontario Field Unit has not established or documented a formal risk assessment process for all the financial processes. However, risk management is the focus of discussions when the business plan is being developed. The team responsible for the business plan takes into account the risks identified in the Agency's risk profile and sees how these risks can interact with the operations of the Field Unit. Moreover, the 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 field unit for approval by the DG–Eastern Canada.

A complete business continuity plan in case of emergencies has been developed at the Northern Ontario Field Unit. This plan informs employees of the procedures to be followed during particular events. A list of questions and answers is available to increase awareness among staff about various subjects or situations. The plan includes roles and responsibilities, the decision process in emergencies, a list of emergency contacts, security posters and various checklists available to manage particular situations. Lastly, two phone lines have been installed to provide information in emergency situations (i.e. employee availability and site closures).

Roles and responsibilities

An organizational chart was available when the May 2010 audit began and is updated on a regular basis. Recent changes have forced the Field Unit to make some modifications to the organizational structure. First, the pressure resulting from the Economic Action Plan forced management to assign a full-time manager to oversee this work. An alternate was therefore appointed for this period. Second, the Asset Manager will now have to manage staff remotely since he is now located in Sault Ste-Marie instead of Thunder Bay. He will have to manage staff remotely. Lastly, the Field Unit is currently implementing the Lake Superior National Marine Conservation Area. Offices have recently opened in Nipigon, so some changes will have to be made. It should also be noted that a position in finance is currently vacant but will be filled this year.

When they are hired, employees receive a generic job description or are informed that they have access to the description on the intranet. Specific objectives can be developed during annual performance evaluations. The HR manager uses development plans that are completed at the same time as the evaluations to schedule appropriate training and reduce training costs for the unit. For the first time, the HR manager has received all the 2009-2010 employee performance evaluations.

The recurring tasks performed by finance staff have been recorded to clearly establish the role of each employee. Because not all finance employees report to the Manager of Finance and Administration, this record is essential to officially communicate tasks and to enable managers to prepare a proper performance evaluation. This document also helps staff transition in the event an employee leaves finance.

Communication

The geographical location of the Field Unit requires staff to use various means of communication. Phone and e-mail are the preferred methods. In order to facilitate the processing of financial operations, the Manager of Finance and Administration created various tools and memory-aids, which are saved in a shared folder on the network and are therefore accessible to finance managers and staff.

The management team meets every two weeks to discuss issues, priorities and operations. In summer, the frequency is reduced to once a month. The holding and frequency of meetings help strengthen the accountability of field unit managers with regard to the common objectives to be met. A financial item is usually included on the agenda but usually deals with budgets, rather than financial policies. The meetings are held in person and the minutes of the meetings are sent by e-mail to all staff approximately three days after the meeting. The minutes are not saved on the shared computer network. Storing the data in the shared network would facilitate the access to information at all times by all employees, which would avoid confusion and misinterpretations.

General employee meetings are held by teleconference on a regular basis, approximately every two months. These meetings serve as a forum for the Field Unit Superintendent to share the organization's vision and the strategy to adopt to meet general objectives. Employees are always given time to ask the Field Unit Superintendent questions, either in group or individually.

Conference calls are held monthly for finance employees to discuss financial issues, budget allocations, budgetary pressure, operations, training, year-end procedures, etc. Moreover, additional meetings may be required, concerning the allocation of special funds or re-allocation of funds for specific projects, for example. There are no minutes for these meetings.

Recommendation

1. The Northern Ontario Field Unit Superintendent must ensure that the minutes of the meetings are stored on the shared network and are accessible by all employees.

Management Response

Agree: Three years of previous minutes have now been posted on the common drive and employees have been advised. Any new minutes distributed will indicate that they are archived on the common drive.

Control and monitoring measures

Responsibility for compliance with financial policies lies with the person who holds spending authority under section 34 of the Financial Administration Act (FAA). The revised signature specimen 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, signature specimen forms must be examined and updated yearly.

Employees must have successfully completed the on-line training course FA201 (Parks Canada financial management) to have signing authority under the FAA. The majority of managers at the field unit had completed the training. Those who had not taken or passed the course have no signing authority.

During the audit, the specimen signature form log was up to date. However, expired specimen signatures were still in the log. Some specimen signatures have been in the delegation logs for a number of years for employees who have left the Agency or are no longer performing the duties related to the specimen signatures. Storing valid and expired specimen signatures in the same log can cause confusion and complicate the audit process at the payment stage. Expired specimens should be archived and stored by the paying officer (OSC) in a separate log.

Division of responsibilities is clearly defined by the Northern Ontario Field Unit organizational structure. Expenditures are initiated in various field unit groups and are approved by the delegated manager. Once the goods or services have been received, the manager signs the invoice to confirm the receipt and authorizes the payment. Ontario Service Centre staff ensures that all supporting documents are appended to the invoices and enter the payment information into STAR. The person with payment authority under section 33 of the FAA ensures that the information is in compliance and complete before issuing payment.

OSC staff conducts 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.

All Northern Ontario Field Unit employees have access to a computer and may consult the Parks Canada intranet site to obtain information on policies and/or directives. Explanatory documents and flow charts are also available on the Field Unit network. These documents are issued for various reasons:

- New directives, policies or procedures
- Interpretation of more complex directives or policies
- Frequently asked questions and answers
- Reminders further to controls
- Forms

Budget monitoring is performed using financial reports prepared by finance staff. The data is taken from the STAR financial system and is converted into a spreadsheet for easier use. The reports are submitted to managers on a monthly basis. The managers are responsible for validating the information and making the necessary corrections. There is constant communication between managers and the Manager of Finance and Administration to ensure that budgets are monitored properly. This exercise is relatively new and is popular with managers who can now monitor expenditures more effectively. The exercise raises awareness among managers with regard to personal objectives in terms of budgets.

The interviews have shown that there are no documented procedures in place to control bank deposits and collection of revenue at points of sale. Risk mitigation measures should be put in place to ensure accuracy of revenue and staff safety. A clear documented procedure effectively identifies the controls, promotes operational consistency and facilitates learning for a new employee assigned to a task.

Recommendations

2. The Northern Ontario Field Unit Superintendent, in collaboration with the Ontario Service Centre Director, must ensure that the logs of valid and expired delegations

of authority are stored separately to reduce the work related to the verification of signature.

Management Response

Agree: Pursuant to discussions between the Finance Managers at NOFU and the OSC, the OSC will be updating their files to maintain a separate binder for current valid delegations and will archive expired delegations. NOFU has been sending a summary of current and expired delegations to OSC quarterly, and this will assist OSC with this endeavour. OSC has indicated that this will be completed by March 31, 2010. In addition, NOFU is considering the possibility of piloting the Electronic Specimen Signature Card project which should greatly improve access to this information.

3. The Northern Ontario Field Unit Superintendent must ensure that a documented procedure for collecting and depositing revenue is in place to minimize risks associated with handling cash.

Management Response

Agree: Cash handling procedures for visitor services attendants are currently documented in user manuals and safe work procedures at the sites. Procedures for finance staff, which are in place verbally at this time, will be documented by March 31/2011. Integrity of data is a challenge at one site due to antiquated equipment and campground self-registration in shoulder seasons. New POS systems (including Revenue Comptrollership Guide) are planned for Spring/2011, and together with the TB initiative on Common Business Process on revenue/Accounts Receivable (“Manage Order to Cash”), will greatly inform this process. Finance manager will integrate this material into existing processes in time for summer season and include in training for VE & Finance staff (by June/2011).

Conclusion

The analysis of the management control framework shows that the practices recently implemented at the Northern Ontario Field Unit ensure an effective management of financial processes. Only minor corrections were needed at the communication and control framework level to increase compliance with the financial policies in place.

6.2 Hospitality and food

YELLOW	Moderate Improvements Needed	Some controls are in place and functioning. However, major issues were noted and need to be addressed. These issues could impact on the achievement or not of program/operational objectives.
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The government has decided to strengthen financial controls to increase accountability and transparency in the management of public fund. Hospitality fees are one of the expenditure categories that have been specifically targeted by these tighter controls.

The Treasury Board Secretariat (TBS) *Hospitality Policy* stipulates that activities must be organized in an economical, consistent and appropriate way when it will facilitate government business or is 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 sufficiently in advance to ensure that approval is received before the activity is held.

In 2007, Parks Canada issued a new policy concerning hospitality fees in line with those of TBS. A memorandum to senior managers was also sent to support the Agency'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 up to the appropriate approval level.
- C4- Recipients of the hospitality activities are in compliance with the Parks Canada Agency.
- C5- Payment for hospitality activities respects the provisions of the Parks Canada Agency.
- C6- Transactions recorded for the food account comply with the applicable policies and do not include any hospitality expenses.

Observations

The audit team selected 37 transactions for a total of \$8,348, which represents 77% of the Northern Ontario Field Unit's hospitality expenses for 2009-2010. Moreover, we selected

six transactions recorded in the food account for a total of \$2,869 to ensure that these expenditures were not hospitality fees.

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

- 2 transactions recorded in the food account were linked to hospitality activities and should have been treated as such;
- 1 activity went ahead without pre-authorization;
- 2 activities took place whose events were not in line with the *Hospitality Policy*; and,
- 18 audited transactions showed that part C of the hospitality claim form (final authorization) had not been duly completed and signed after the event.

It should be noted that for 50% of audited hospitality activities, a list of participants was attached to the documents supporting the payment for these activities. 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

4. The Northern Ontario Field Unit Superintendent must ensure that the hospitality claim forms are duly completed and signed.

Management Response

Agree: Current internal statement of procedures (which was provided to managers and is available on the common drive) will be updated to stress the importance of the final approval stage of the payment process and will be re-distributed to staff (by December 31/2010). Compliance will be monitored by Finance Manager in conjunction with Finance staff and employees not in compliance will be notified. Managers will be advised that repeated non-compliance with policy and procedures will result in the removal of their delegated hospitality authority.

6.3 Telecommunications

ORANGE	Significant improvements required	Controls in place are weak. Several major issues were noted that could jeopardize the accomplishment of program/operational objectives. Immediate management actions need to be taken to address the control deficiencies noted.
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Park Canada's *Policy on the Use of Cellular and Other Mobile Wireless Devices* came into force on October 1, 2008. The goal is to foster more cost-effective and more appropriate use of wireless devices. With that in mind, Public Works and Government Services Canada (PWGSC) has put in place a new procurement process and a new acquisition agreement. In the past, cell phones and other devices were purchased from a large number of suppliers offering a wide range of functions and plan options. The new agreement will make it possible to reduce the Agency's usage cost. The policy establishes guidelines and official procedures for purchasing, managing and safely and appropriately using cellular and other mobile wireless devices. The policy concerns both acquisition and use of these devices.

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 services.
- C2- All acquisition requests, cancellation 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), 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 use records.

Acquisition

In accordance with the policy, an administrative authority has been designated for the Northern Ontario Field Unit: the Manager of Finance and Administration. When necessary, the request for a device is made by e-mail to the designated administrator. The 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.

When a non-standard request is made, justification is required and an exemption is obtained from PWGSC as stipulated in the policy. Confirmation of the exemption award is retained by the financial staff and is available upon request. However, these requests should have been approved by the CIO.

Interviews with the staff have shown a limited level of knowledge of telecommunications requirements. As 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 will encourage the user and manager to meet their respective responsibilities and obligations.

Usage

The policy clearly states that users must identify personal calls on monthly statements. The total amount must be identified and calculated so as 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 under their responsibility.

There are 21 wireless device users in the Northern Ontario Field Unit. The auditing of 15 monthly statements revealed that personal calls had not been identified and no total use per employee had been recorded. Moreover, managers carry out no monitoring activities aside from providing their signature in order to authorize payment under section 34 of the FAA.

The analysis of the monthly statements also indicated that:

- in 5 cases, the usage analysis could not be carried out because the supplier did not provide any details of the calls on the monthly statements. It would be appropriate to ask the supplier to provide details of the calls;
- 1 statement did not indicate a proper use of the device;
- 2 statements did not have the appropriate authorization under section 34 of the FAA.

Conclusion

Special attention must be paid to the acquisition and use of cellular phone and other mobile wireless devices in the following fields: documentation of communication needs, the identification of personal calls by users and usage monitoring by managers. Processes will have to be put in place by the Northern Ontario Field Unit in order to reduce the risk of non-compliance with the policy and ensure that the monitoring activities are being used the way they were intended.

Recommendations

5. The Northern Ontario Field Unit Superintendent must ensure that documented justification is submitted to the designated administrator for all wireless device requests.

Management Response

Agree: Finance Manager will work with CIO on statement of procedures and appropriate forms to facilitate documented justification for all new and existing wireless devices. If usage cannot be justified for existing devices, Finance Manager will recommend the device be assigned to other users, deactivated or cancelled. To be completed by March 31/2011.

6. The Northern Ontario 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: Finance Manager will implement a sign-off document, highlighting key responsibilities, for new and existing users to acknowledge that they have read and understood the policy and procedures. A copy of the Parks Canada Agency Policy on the Use of Cellular and Other Mobile Wireless Devices and our statement of procedures will also be attached for each user. To be completed by March 31/2011.

7. The Northern Ontario Field Unit Superintendent must ensure that procedures are in place to reduce the risks of non-compliance with respect to usage of wireless devices.

Management Response

Agree: Finance Manager will ensure that all Finance staff, Managers, Supervisors and wireless users are aware of the procedures (by March 31/2011). Review of

policy/process has been added to the “New Manager Finance Training Checklist” to ensure ongoing training. A list of key indicators of potentially unauthorized or inappropriate usage will be compiled and updated to assist Managers in monitoring usage. Personal use will continue to be identified by users, and accumulated charges will be documented and recovered in accordance with Policy. To be completed by March 31/2011.

6.4 Inventory

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 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 the description must be entered in the 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 the information in the STAR system. Items worth more than \$10,000 must be entered into the STAR system 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 from \$1,000 to \$10,000, attractive goods worth less than \$1,000 and goods worth over \$10,000 and whether controls are adequate to ensure compliance with policies, we applied the following audit criteria:

Items worth \$10,000 or less

- C1 Items covered by the directive and acquired after April 1, 2007, are entered in the financial system.
- C2 The separation of tasks related 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.

Items 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

Items worth less than \$10,000

Given that most of the items are purchased with an acquisitions card, the monthly log was modified in order to identify the purchased items. Finance staff are responsible for maintaining the inventory system. Bar code labels are used for all property covered under

the Policy. Once the information is gathered and the numbers assigned, the documentation is given to the administrative officer, who enters it into the STAR system's plant maintenance module. Since the departure of a Pukaskwa National Park employee, and because of a lack of training, purchasing information has not been added to STAR since April 2010.

No complete physical count to update the inventory has yet been done. Some sectors keep their inventory current and have done a physical count. Though the counts are not done regularly, they are tailored to the operational reality of these sectors. These inventory lists are maintained outside the STAR system and are not reconciled with the information entered in the system.

The separation of duties for inventory follow-up is therefore appropriate, since the inventory caretakers do not have access to data entry into the STAR financial system and do not affix bar codes. Furthermore, disposal of assets is performed by individuals assigned to that task, in the Asset Management group. An internal directive has also been developed to ensure adequate disposal of assets.

In order to validate the accuracy and completeness of the inventory, 26 items were selected from the inventory lists produced by the STAR financial system and should be located. Furthermore, the entry of various specific items identified in different sites was also audited. The results are as follows:

- 1 item could not be physically located,
- 3 items were located but did not have bar codes.

Given that identification of these items is currently under way in the Field Unit, some items have been added to the inventory but stickers have not yet been affixed. This information was corroborated through tests done on site.

Items worth more than \$10,000

There is a different process for assets worth \$10,000 and more. Purchases are almost always from project budgets, an internal order is set up in STAR to manage the budget and code the expenses. Purchases are settled to an Asset under Construction (AUC) in STAR, then once the asset is in use the AUC is settled to an asset (either existing, or a new asset is created) and the new asset costs will then appear in the system. These assets in STAR interface with AMS through a monthly update. At year end, a review of all purchases over \$10K is done to ensure that all assets purchased is properly coded and corrections can be done before year end if required.

When an item less than \$10 000 is purchased but need to be inventoried in AMS for various reasons, the manager responsible for the asset informs the asset management group and sends the information needed to create the file in the AMS. One person in that group is then in charge of keeping the inventory current and reconciling it with STAR; however, this is a relatively recent process. At this time, the Asset Management Group is

working on bringing inventory lists together in order to create a master list that will be available on the Field Unit's network and accessible by all employees. This list should be available by the end of September 2010. Thereafter, the AMS will be updated to ensure that the list is complete and that it does not contain duplicate entries or non-existent assets. The new internal directive regarding the disposal of assets also concerns the disposal of assets worth \$10,000 and more.

Note that no physical audit was conducted for property worth \$10,000 and over; the process is described on the basis of interviews only.

Conclusion

Overall, the inventory management process is off to a good start. However, efforts will have to be made to harmonize the inventory and ensure that each site has a trained employee who can enter the data into STAR. Moreover, a complete physical count would help ensure the accuracy of the inventory lists.

Recommendations

8. The Northern Ontario Field Unit Superintendent must ensure that a physical inventory is taken every two years in order to confirm the existence of the goods recorded in the ledgers.

Management Response

Agree: Low Dollar Value Inventory is now up to date in STAR. The item noted as missing has been located. Roles & responsibilities of Managers, Custodians and Finance Staff have been distributed and Finance Staff have been trained on the process of inputting newly purchased items. By December 31/2010, custodians will sign off on the validation of their assigned inventory and acknowledgement of their roles and responsibilities. Once all inventories are validated, a physical inventory is scheduled for every two years in even numbered calendar years. The next physical inventory of Low Dollar Assets is scheduled for Jan/2012 (one year from original validation) in order to strengthen the importance of the new system).

An inventory of assets over \$10K is now complete. The results will be reconciled with STAR to ensure the records are accurate by March 31/2011 (Finance Manager and Asset Administrator). Review of the asset inventory for existence, conditions and additions will be undertaken in accordance with policy.

9. The Northern Ontario Field Unit Superintendent must ensure that proper training is provided so that inventory data is recorded in a timely manner.

Management Response

Agree: Training has been provided for Finance Staff and tools have been created to facilitate the recording of new, transferred and disposed low dollar value inventory. Finance staff will provide a training session to Managers and Custodians at their sites by December 31/2010, in conjunction with the validation of inventories and acknowledgement of roles & responsibilities.

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 impact on the achievement of program/operational objectives.
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Managers are able to use various 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 the Agency can exercise stricter control of contracting mechanisms and foster more standardize 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 that exist in 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 mechanism is used.
- C7- Contracts are awarded fairly, bearing in mind the economy principle.
- C8- The nature of the work to be performed or the article 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 Northern Ontario Field Unit used the following contracting mechanisms: standing offers, purchase orders, local purchase orders (LPOs), competitive sourcing and non-competitive sourcing. The current directive requires managers to go through the Contracts Administration and Procurement Officer at the Ontario Service Centre for all

contracts and purchases over \$5,000. The officers are also available to provide training, advice and opinions in relation to contracting. Their duties include working with operations managers to develop statements of work. They help create assessment criteria and mechanisms for contracting of goods and services to ensure a rigorous, fair awarding process. Once the selection process is completed, the contract is signed by the selected contractor, and then by an Agency representative. In this way, the risk of non-compliance with the contracting policy is considerably reduced. It should be noted that the FA201 training, mandatory to obtain a delegation of authority, also covers the policy. A log of all active contracts is kept up to date for each site, making it possible to track projects and payments.

Government contracting shall be conducted in a manner that will stand the test of public scrutiny in matters of prudence and probity, facilitate access, encourage competition and reflect fairness in the spending of public funds. Generally, the Agency requests that its field units maintain a ratio of 80% competitive sourcing to 20% non-competitive sourcing. The ratio for the Northern Ontario's Field Unit for the 2009-2010 fiscal year was under 50%.

The sampling of contracts reviewed was established according to the level of risk that the contract award process could result in. In general, the contracts awarded through standing offers or purchase orders presented a low risk because most of these purchases were carried out in collaboration with an Ontario Service Centre Contracts Administration and Procurement Officer. However, it was noted that the field unit managers frequently use local purchase orders. Since this type of award presents a higher risk of non-compliance with the contract 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	24	\$50,990.76
Standing offers	1	\$15,273.30
Competitive sourcing	6	\$974,824.13
Non-competitive sourcing	7	\$44,763.60
Total	38	\$1,085,581.79

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

- 1 contract for which the statement of work, the sole source justification, explanation of costs and the contractual authority were not adequate;
- 7 service contracts were awarded without a statement of work and ratified using LPOs. In addition, one of these did not have sole-source justification and another was not adequately authorized;
- 4 contracts awarded to a sole source supplier did not have appropriate justification, including one that was not adequately authorized;

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- 1 contract was awarded that had no explanation of costs or business case in the file and that was not adequately authorized;
 - 2 contracts awarded through competitive sourcing did not have the appropriate documents on file (i.e. call for proposals, bids, evaluation guide, evaluation results, etc.), one of which was not adequately authorized;
 - 2 contracts were not signed properly by a contractual authority;
 - 2 contract amendments were signed after the fact. For one of these amendments, the amount added to the contract exceeded the delegated authority;
 - In 8 of the contracting files reviewed, an LPO was wrongly used to purchase services. In 1 case, the authority was not appropriate and one authorization was for an amount valued at over \$5,000.

The analysis of the transactions allowed us to identify that service agreements had been entered into further to an LPO instead of a service contract in proper and due form (16 files audited out of 38). These situations are directly in contravention of the directive on the use of local purchase orders. Overall, the use of local purchase orders to the detriment of other purchasing mechanisms leads to a greater number of transactions after the fact and without financial commitments.

The following table shows the summary of the exceptions found during the analysis of transactions. It should be noted that 84% of exceptions identified were for contracts under \$ 5,000, which are managed directly by the managers.

Number of exceptions found	
Compliant file	11
File with 1 exception	14
File with 2 exceptions founded	9
File with 3 exceptions founded	2
File with 4 exceptions founded	1
Total	37

One contract file has been removed from the analysis because it was the responsibility of the Atlantic Service Center.

Conclusion

The process in place to comply with the 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 is weak. The audit established that LPOs were not used properly. In addition, there is increasingly less need to use LPOs since there are other methods available (e.g. acquisition cards) that are less risky and easier for the Finance team to control. Measures should be put in place to strengthen the contract approval process and the mechanisms used by NOFU managers.

Recommendations

10. The Northern Ontario Field Unit Superintendent must ensure that:

- service contract files contain a statement of work;
- files of sole source contracts contain adequate justification;
- file contains information required to justify the value of the contract;
- contracts and contract amendments are signed in a timely manner and by an individual with the proper authority.

Management Response

Agree: Managers and staff are educated and largely compliant in soliciting competitive quotes for material purchases. It is likely that the low ratio of competitive to non-competitive contracting is a result of improper flagging of these documents in STAR and lack of proper documentation attached to files. This will be addressed, and other mitigating techniques will be implemented, as follows:

- Finance Manager will prepare a procedures document specific to contracts under \$5K, which will be distributed to all staff with signing authority and made available on the common drive (by March 31/2011);
- Statement of Work Guidelines are available on the common drive; Finance Manager will prepare a template and samples to assist Managers and place on the common drive;
- Although contract training has been administered at each of the sites in the past two years, there has been extensive turnover in staff. Finance Manager will implement a refresher training program specific to procurement under \$5K in May of every year (prior to the busy summer season) or upcoming Finance 301 on-line course may fulfill this purpose;
- Finance Manager will prepare a checklist for Finance staff to improve their understanding of documentation requirements and provide compliance monitoring and feedback. Finance staff will provide 100% verification of service contracts from Jan-Mar/2011 and ongoing random verification in risk areas thereafter.
- Managers will be reminded that repeated non-compliance will result in their financial delegations being removed.

11. The Northern Ontario Field Unit Superintendent must ensure that Local Purchase Orders (LPO) is used in accordance with the rules in place.

Management Response

Agree: Finance Manager will update our internal Purchasing Made Easy document to clarify that the use of LPOA's is for purchase of goods only, however, clarification is being sought for exceptional uses such as boat charters, or other one-time services where a statement of work is not appropriate and acquisition card is not accepted. By December 31/2010, users will be required to sign that they have read and understood existing policies and procedures. A summary of these will be attached inside each existing LPO book. Finance Manager will include ongoing reminders of policy and process for LPOA's in weekly FinTips as described in Recommendation #12. Finance staff will monitor use of LPOA's to ensure they are used in accordance with rules in place.

6.6 Payments to suppliers

ORANGE	Significant improvements needed	Controls in place are weak. Several major issues were noted that could jeopardize the accomplishment of program/operational objectives. Immediate management actions need to be taken to address the control deficiencies noted.
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The audit of payments to suppliers consists of ensuring that payments were made on time and for the right amount of goods or services received, and that people with the proper delegated authority authorized the purchases. Some accounts were targeted for this audit, namely, conference expenses, training expenses and memberships. Travel expense claims were included in the selection as well as some acquisition card statements. A selection was also made among more 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:

- C1- Policies, guidelines and procedures regarding the purchase of / payment for goods and services from suppliers exist at the Field Unit / Service Centre and they adhere to TBS and PCA policies.
- C2- Adequate training/instruction is provided 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 are matched to POs/contract specifications.
- C6- Price and quantities on invoices are in accordance with POs/contract specifications.

C7- A person with the appropriate delegated authority signs S.34 FAA.

C8- Advances and progress payments are made in accordance with the terms of the contract.

Observations

According to the description obtained, the existing process for paying suppliers appears to be sound. The responsibility of the parties involved is clear and the division of tasks is appropriate, both at the Field Unit and at the Ontario Service Centre, both of which are involved in the process.

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
Conference fees	3	1,724	5.7%
Professional dues	3	830	2.8%
Training expenses	8	15,613	52.3%
Travel costs	17	11,159	37.4%
Various accounts	2	521	1.8%
Total	32	29,847	100%

The review of the 32 selected transactions did, however, reveal the following irregularities:

- 16 transactions for which no documents signed under section 32 of the FAA authorizing commitment of funds accompanied the invoice;
- 4 processed invoices that were not date-stamped when they were received;
- 1 expenditure recorded in the books was not documented;
- 6 transactions for which spending authority under section 34 of the FAA was not adequate,
- 3 transactions for which the amount paid did not correspond to the purchase order, without accompanying explanation in the file;
- 2 transactions paid with a departmental bank account cheque whose signatory did not have valid S.33 FAA authorization. For 1 transaction, the expense incurred was not eligible under the *Directive on Departmental Bank Accounts*,
- 6 transactions for training payment that did not have the form authorizing the employee to take the training;
- 1 transaction for a service valued at over \$5,000 was paid without a service contract.

Furthermore, the date on which s.34 authorization was given was not indicated on a number of invoices. It is important that authorization signatures are dated to follow the

chronological order of the payment sequence and to ensure that the authorization is obtained promptly.

Several irregularities were also identified among travel expense claims:

- For one claim, supporting documentation for the amount paid was missing;
- There were 9 claims that did not have appropriate travel authorizations. Of these 9 cases, 6 were for travel paid to non-public servants. These travel claims should have contracts stipulating that the individual is authorized to travel or a letter authorizing him or her to travel at the government's expense.

Conclusion

Overall, the lack of rigor in the payment to supplier process at the NOFU must be corrected, specifically with respect to the documentation on files and spending authorizations. These improvements would allow for proper control of expenses and increase the level of compliance with TBS and PCA policies.

Recommendations

12. The Northern Ontario Field Unit Superintendent must ensure that:

- all invoices are authorized and dated correctly in accordance with section 34 of the FAA;
- purchase orders and other commitment or authorization documents are signed and attached to the supporting documentation for the payment;
- invoices are dated upon receipt.

Management Response

Agree: There are many training tools currently in place to assist managers and finance staff in following policies and procedures such as Finance 101 & 201 on-line courses (and upcoming Finance 301), Purchasing Made Easy and other internal procedures documents, individual follow up with non-compliant employees, and training for new Finance staff and Managers. The Finance Manager will be implementing the following additional processes by March 31/2011:

- Finance Manager will implement a refresher training program specific to procurement under \$5K in May of every year, or will utilize Finance 301 to fulfill this purpose if suitable;
- Weekly finance tips (FinTips) are now being sent to all staff – these are reminders of policies and procedures ; they are short enough for staff to absorb quickly and request further information if required; the consolidated list of all FinTips is available on the common drive for reference;

- Finance Manager will work with OSC to improve communication regarding results of monthly Statistical Sampling & Account Verification which will better inform our processes;
- Finance Manager will prepare a checklist for Finance staff (using criteria listed in Parks Canada Statistical Sampling reports) to improve their understanding of documentation requirements and provide compliance monitoring and feedback. Finance staff will provide 100% verification of A/P from Jan-Mar/2011 and random verification in risk areas thereafter.
- Instances of non-compliance will be reviewed with individuals and finance staff; Managers are will be reminded that repeated non-compliance will result in their financial delegations being removed.
- Copies of all audits and responses are distributed to all staff and are available on a common drive.

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 the financial coding has a direct impact on the accuracy of the reports produced by the system. Furthermore, the Office of the Auditor General of Canada carried out an annual audit of the Agency'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 understand of coding policies and procedures.
- C3- Compliance with the chart of accounts is monitored.
- C4- Individuals with the appropriate knowledge handle coding.
- C5- Coding is validated when entered into the SAP system (financial system).

Observations

Managers with spending authority are responsible for financial coding. When invoices are received, they are stamped and the financial code is recorded by hand or identified on the purchase orders. The chart of accounts and all the information needed to select the correct financial coding are available on the Agency's intranet site under Financial Policies. In addition, a guide on financial coding is available on the NOFU network.

Finance officers at the Ontario Service Centre are responsible for examining transactions before making payment. Financial coding is an integral part of this examination. Finance staff may occasionally find and correct coding errors. In these cases, the manager is informed by e-mail and a copy is kept with the transaction for follow-up. Information concerning recurring instances of non-compliance is sent to the Manager of Finance and Administration for monitoring.

The coding audit was performed using the sampling selected for the various financial processes, and covered 90 transactions. Only 18 general ledger coding errors were identified and these mainly involved hospitality and food. However, 11 errors were identified by Field Unit staff, who corrected them over the course of the year.

Conclusion

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

No recommendation