



National Audit of Operating Revenue

Leases, concessions and other revenues

Final Report

March 2012

Office of Internal Audit and Evaluation

Report submitted to the Parks Canada Audit Committee: January 17, 2013

Approved by the Agency CEO: February 7, 2013

Her Majesty the Queen of Canada, represented by
The Chief Executive Officer of Parks Canada, 2013
Catalogue #: R62-409/1-2013E-PDF
ISBN: 978-1-100-21724-6

TABLE OF CONTENTS

EXECUTIVE SUMMARY	V
1 INTRODUCTION	1
2 CONTEXT	1
3 LEGISLATIVE AND POLICY FRAMEWORK.....	1
4 OBJECTIVES AND SCOPE.....	2
5 METHODOLOGY	3
6 STATEMENT OF ASSURANCE	6
7 AUDIT OPINION.....	6
8 OBSERVATIONS AND RECOMMENDATIONS.....	7
8.1 Management Control Framework.....	7
8.1.1 Roles and responsibilities.....	7
8.1.2 Monitoring of Revenue Transactions in the financial system.....	9
8.1.3 Personnel Training, Tools and Support.....	10
8.1.4 Segregation of Duties and Internal Controls Adequacy.....	11
8.2 Compliance with Policies and Guidelines	13
8.2.1 Compliance with <i>Parks Canada User fees and Revenues Management Policy</i>	13
8.2.2 Management of Accounts Receivable	17
8.3 Accuracy of Data	18
8.3.1 Quality of Internal Financial and Non-Financial Information	19
8.3.2 Supporting Documentation.....	21
8.3.3 Cost Recovery of Certain Services.....	22
8.4 Completeness of Revenues	23
8.4.1 Effectiveness of Internal Control	23
8.4.2 Quality of Financial Information Reported Externally	24
Appendix A. Applicable Legislations and Policies.....	26
Appendix B. Recommendations Priority Rating System.....	27
Appendix C. Examples of Weaknesses in the Revenue Data Structure	28
Appendix D. Glossary.....	30

LIST OF TABLES

Table 1:	Audit Report Rating Summary.....	vi
Table 2 :	Internal Audit Recommendations Summary.....	vi
Table 3:	GL account balances as at March 31 st , 2010 divided by revenue group and selected field units (in thousands of dollars).....	4
Table 4 :	GL account balances as at March 31 st , 2010 for selected field units and for all of PCA (in thousands of dollars).....	5
Table 5 :	Audit Reporting Rating System	6
Table 6 :	Internal Audit Recommendations Priority Rating System.....	27

EXECUTIVE SUMMARY

The Parks Canada Agency (herein “PCA”) chose to conduct a national audit of its operating revenue firstly, to obtain an overview of its strengths and weaknesses or deficiencies relating to the general controls processes, so that corrective measures may be taken and secondly, to identify and share best practices within the organization for the purpose of effectiveness and efficiency. Due to the importance of PCA’s revenues as well as their diversity, it was agreed to split the audit work into three distinct phases.

This second phase of the audit of the management of revenues recorded in the 2010-2011 Risk-based Internal Audit Plan concerns three revenue sources: leases and licenses of occupation, other operating revenues and golf revenues.

The objectives of this audit consisted of determining the existence of an adequate control framework allowing accuracy and completeness of the operating revenues, as well as assuring that the management of these revenues complies with the policies and directives in effect at PCA.

The majority of the auditing procedures were applied to the revenues recorded in [STAR](#) between December 1st, 2009 and November 30th, 2010, although some of the data captured outside this period was examined in order to explain certain observed discrepancies or unusual trends.

The audit methodology included a review of all relevant documentation, interviews with staff involved in both the revenue management process and contractual agreements from selected field units as well as from the National Office, and the verification of a sample of transactions from the revenue sources included in the scope of the audit. The fieldwork was conducted between February 28th and July 15th, 2011.

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

The audit work completed has shown that there are significant deficiencies with regard to the management control framework and more specifically, regarding roles and responsibilities, transactional monitoring of revenues as well as personnel training and support of the relevant processes. Additionally, there were some lesser deficiencies noted at the level of the adequacy of internal controls. Furthermore, several areas of non-compliance with the applicable policies were identified, including pricing, discounts and management of accounts receivable.

A number of inaccuracies were found in the data, which moderately affect the quality of financial and non-financial internal information. Deficiencies were also observed at the level of evidentiary supporting documents. Finally, minor improvements are required in order to assure data integrity, by improving efficient internal controls and quality of external financial information.

Table 1: Audit Report Rating Summary

Ref.	Management Process	Rating
8.1	Management control framework	ORANGE – Significant improvements required
8.2	Compliance with policies and guidelines	ORANGE – Significant improvements required
8.3	Accuracy of data	YELLOW – Moderate improvements required
8.4	Completeness of revenues	BLUE – Minor improvements required

Below is our list of recommendations to the Chief Financial Officer, the Vice-Presidents of Operations for Eastern, and Western and Northern Canada, the Chief Administrative Officer and the Vice-President, External Relations and Visitor Experience, classified by priority, based on the rating system presented in [Appendix B](#).

Table 2 : Internal Audit Recommendations Summary

High Priority	
1.	The Chief Financial Officer, the Vice-President of External Relations and Visitor Experience and the Chief Administrative Officer must ensure that the roles and responsibilities related to leases and licences of occupation are clearly defined, assigned in the PCA policies and communicated to the involved personnel for: <ul style="list-style-type: none"> - the verification of calculations of rents, - the appropriate supporting documentation to obtain from the clients, and - the monitoring of the collection of revenues (billing process).
2.	The Chief Financial Officer, in collaboration with the Vice-Presidents of Operations for Eastern, and Western and Northern Canada, must ensure that efficient monitoring activities of financial transactions on revenues from leases, licences of occupation as well as any other operating revenues are in place in order to detect and correct poor practices in the use of the material code structure and STAR .
Moderate Priority	
3.	The Chief Financial Officer, in collaboration with the Vice-Presidents of Operations for Eastern, and Western and Northern Canada must: <ul style="list-style-type: none"> - identify specific training needs for the management of other operating revenues and revenues from leases and licences of occupation, - establish a national training plan, including the use of STAR, - develop detailed guidelines across PCA and, - establish a formal communication mechanism between the National Office staff and the financial personnel of each field unit in order to ensure adequate functional support.

5.	The Chief Financial Officer and the Chief Administrative Officer must ensure that the new system of property management allows for proper and efficient monitoring of real-estate transactions, both in terms of rent review clauses as well as invoicing and retention of documents, and that clear guidelines be developed and communicated to both functions.
6.	The Vice-President, External Relations and Visitor Experience must: <ul style="list-style-type: none"> - develop efficient methods and tools for the costing and pricing of personal benefit services in order to promote the recovery of related costs, - reinforce the mechanism for consultation with internal agents in the preparation of the periodic pricing strategy and ensure a complete representation of the concerned groups, - develop mechanisms for adequate market value evaluation of rights and privileges after considering the local conditions even for the process of national pricing and, - ensure that fees for services offered locally and applied discounts have been properly approved and are monitored.
7.	The Chief Financial Officer must: <ul style="list-style-type: none"> - establish and communicate the procedure to follow with regard to the management of accounts receivable in STAR, - implement monitoring measures to ensure that it is effectively and consistently applied across PCA and, - ensure that PCA's Policy on Accounts Receivable is fully aligned with STAR's computerized controls and modified to include the responsibilities for reporting and monitoring as well as the consequences in cases of non-compliance.
8.	The Chief Financial Officer and the Vice-President, External Relations and Visitor Experience must ensure that the materials structure in STAR for revenues other than entry fees allow for a proper coding of transactions within the field units.
10.	The Chief Financial Officer and the Chief Administrative Officer, in collaboration with the Vice-Presidents of Operations for Eastern, and Western and Northern Canada, should consider the establishment of a national, risk-based strategy for the verification of contractual clauses relating to revenues, in order to ensure the adequate and efficient monitoring of agreements based on a customers' percentage of gross revenues.
11.	The Vice-President, External Relations and Visitor Experience and the Chief Administrative Officer must develop and communicate guidelines relating to the use of PCA's fuel tanks by other organizations as well as to the pricing for such a service.
12.	The Chief Financial Officer must issue guidelines relating to the documentation and the accounting treatment of amounts received for the use of PCA's fuel tanks.
Low Priority	
4.	The Chief Financial Officer, the Chief Administrative Officer and the Vice-President of External Relations and Visitor Experience must review the current management processes of other operating revenues in order to streamline them, and allocate roles and responsibilities consistently and effectively between the functions.
9.	The Chief Financial Officer, in consultation with the Vice-Presidents of Operations for Eastern, and Western and Northern Canada, must establish monitoring activities in order to ensure that all relevant and useful financial and non-financial information important to decision-making is entered into STAR at the time of invoicing.

13. The Chief Financial Officer must elaborate and communicate a national procedure providing clear guidelines relating to the estimation of revenues accrued, adjustment entries and interest calculations on overdue accounts for the portion of rent based on a percentage of gross revenues and revenues from licenses to sell alcohol.

1 INTRODUCTION

Article 20 of the *Parks Canada Agency Act* permits PCA to spend amounts equal to its operating revenues, in a given or subsequent year. These revenues totalled more than \$111 million for the 2009-2010 fiscal year¹, representing over 15% of PCA's total cost of operations. It is therefore essential to ensure that revenue management is controlled properly and effectively to allow the PCA to continue to fulfill its mandate.

The PCA chose to conduct a national audit of its operating revenues firstly, to obtain an overview of strengths and weaknesses or deficiencies relating to the general control processes, so that corrective measures may be taken and secondly, to identify and share best practices within the organization for the purpose of effectiveness and efficiency. Due to the importance of PCA's revenues as well as their diversity, it was agreed to split the audit work into three distinct phases. The first phase which covered Entry Fees was conducted in 2008. The third one will cover the revenue generated by canals operation.

The second phase of the audit of the management of revenues recorded in the 2010-2011 Risk-based Internal Audit Plan refers to the element of stewardship of the Management Accountability Framework.

2 CONTEXT

As part of its mandate, the PCA is required to do business with several types of customers who occupy or use, in one way or another, the land, buildings, or services provided by the PCA. These customers include, among others, residents, municipalities, and other governmental organizations, businesses and non-profit organizations that have interests in PCA's territory. To manage these relationships, the PCA drafts agreements or issues licences of occupation for which it collects rents or fees. For 2009-2010, these revenues accounted for almost 17% of PCA's total revenue.

The PCA also collects fees on various services or products offered on its sites, which are grouped under the broad title *Other Operating Revenue* for the purposes of disclosure of financial results. The sources of revenue in this category include the fees collected on permits or business licences, fishing and filming permits, as well as income from the sale of products bearing PCA's image. These revenues accounted for just over 5% of PCA's total revenue for 2009-2010.

Finally, the PCA also collects fees on the activities related to the golf courses it operates. While these revenues represent only about 1% of PCA's total annual revenue, the nature and complexity of the involved processes deserve special attention.

3 LEGISLATIVE AND POLICY FRAMEWORK

The management of operating revenues from the above-mentioned sources, including the pricing of services and the establishment of rents, is framed, in one way or another, by a multitude of legislative texts and policies, for which a non-exhaustive list can be found in [Appendix A](#).

The *User Fees Act* governs the mechanisms for consultation and complaints pertaining to the modification of rights and privileges. PCA's *Policy on the Management of User Fees and*

¹ 2009-2010 Departmental Performance Report for Parks Canada Agency

Revenue (herein “*Policy on Revenue*”), on the other hand, specifies the steps to take as well as the stakeholders to be consulted, in addition to the definition of the strategic orientation regarding pricing and the management of revenues relating to services and facilities and the majority of rights and privileges. The proposed user fees are approved by the Minister in accordance with the *Parks Canada Agency Act* and published in the *Canada Gazette* as well as on the PCA website. The responsibility of PCA’s pricing program lies with the Brand Experience Directorate, under the direct supervision of the External Relations and Visitor Experience (ERVE) Directorate.

Rents and fees for the use and the occupation of land in the National Parks are set in accordance with the *National Parks of Canada Lease and Licence of Occupation Regulations* and the *Interim Policy and Operating Guidelines for Management of Real Property Administered by Parks Canada* (herein “*Policy on Real Property*”). In order to facilitate negotiations and the conclusion of agreements with merchants or residents, templates for Leases and Licences of Occupation have been developed PCA-wide by the Real Property Services for use by agents in the field units. With respect to agreements on land adjacent to historic canals, the *Federal Real Property and Federal Immovables Act* and the *Federal Real Property Regulations* apply and the *Policy on Real Property* details their interpretation.

At the time that the conditions presented in this report were observed, the *Policies and Procedures for Real Estate Services*, replacing the *Policy on Real Property*, were still in draft stage and had been sent to the field units and service centres for comments.

The *Interest and Administrative Charges Regulations* enact the guidelines regarding interest charged on overdue accounts and PCA’s *Policy on Accounts Receivable* sets out the principles, requirements and methods to exercise sufficient control over the processes related to receivables.

4 OBJECTIVES AND SCOPE

The audit aimed at providing senior management with assurance that a control framework is in place to ensure the accuracy and completeness of operating revenues and that the management of these revenues is carried out in compliance with the applicable policies and directives.

During the evaluation of the adequacy and the effectiveness of the current internal controls, the audit team deemed it pertinent to point out obvious issues of inefficiency observed even though the goal was not to explicitly provide assurance on the performance of the targeted processes.

The majority of the audit procedures were applied to revenues recorded in [STAR](#) between December 1st, 2009 and November 30th, 2010, although some of the data captured outside this period was examined in order to explain certain observed discrepancies or unusual trends.

Limitations

The computerized controls of [STAR](#) were not the subject of specific audit procedures. However, the use of the system within the revenue management processes was analyzed in terms of effectiveness and efficiency of current internal controls.

The analysis of contractual clauses of supporting documentation for revenues related to leases and licences of occupation was limited to clauses affecting the establishment of rents, their collection and verification. The purpose of the present audit was not to provide assurance on the realty services as such, but on the management of the related revenues.

5 METHODOLOGY

The audit criteria were developed in four distinct categories:

- The management control framework;
- The compliance with policies and guidelines;
- The accuracy of data; and
- The completeness of revenues.

The audit methodology included the following activities:

- Interviews with staff members involved in revenue management, both at the National Office and in selected field units;
- Review of relevant documentation, particularly, the organizational charts, training documents, laws, policies and procedures governing the revenue management processes as well as financial reports; and
- Review of a sample of transactions and their supporting documents for each of the selected field units.

The sample of field units visited was selected in order to maximize the coverage of the different accounts included in the scope of this audit and to obtain a representation of the East and West, which allowed for an accurate opinion of the control framework and management of these revenues at PCA. The table found on the next page represents the selection made from the general ledger (GL) as at March 31st, 2010:

Table 3: GL account balances as at March 31st, 2010 divided by revenue group and selected field units (in thousands of dollars)

Selected Field Units	Leases and Licences of Occupation	Other Operating Revenues	Golf Revenue	Total	East or West Ratio	PCA Ratio
Cape Breton	6.5	95.6	1038.3	1,140.4	16.2%	4.6%
Québec	446.1	16.9	-	463.0	6.6%	1.9%
NFLD W ²	481.9	24.6	-	506.5	7.2%	2.0%
SW Ontario	271.0	47.7	-	318.7	4.5%	1.3%
Central ON	1,219.1	1,281.1	-	2,500.2	35.5%	10.1%
Subtotal	2424.6	1465.9	1038.3	4,928.8	70.0%	19.9%
Total East	3,878.0	2,003.6	1,160.9	7,042.5	100%	28.5%
Hot Springs	163.5	794.9	-	958.4	5.4%	3.9%
Banff	4,023.4	440.6	-	4,464.0	25.2%	18.0%
LLYK	2,567.2	145.2	-	2,712.4	15.3%	11.0%
Jasper	4,327.3	858.7	-	5,186.0	29.3%	21.0%
Waterton	1,034.6	94.7	-	1,129.3	6.4%	4.6%
Subtotal	12,116.0	2,334.1	-	14,450.1	81.6%	58.4%
Total West	14,426.5	3,275.0	-	17,701.5	100%	71.5%
Total PCA³	18,304.4	5,278.6	1,160.9	24,743.9	-	100%

The table found on the next page shows the GL accounts included in each of the three categories of revenue covered by this audit as well as their respective balances as at March 31st, 2010 divided by field unit and for all of PCA:

² For efficiency reasons, this field unit was not visited; however, documentation was received and reviewed.

³ This corresponds to the total of the selected accounts for the field units, excluding transactions and adjustments made at the National Office.

Table 4 : GL account balances as at March 31st, 2010 for selected field units and for all of PCA (in thousands of dollars)

GL Account	Description	Total (Selected Field Units)	Total (PCA)	GL Ratio
Leases and Licences of Occupation				
10050	Utility Fees	640.6	761.0	84.2%
10079	Land Rent – Percentage of Gross	5,585.6	6,014.5	92.9%
10080	Land Rent – Fixed, including land release fees	6,229.6	7,963.9	78.2%
10082	Revenues from Concessions	1,175.5	2,528.5	46.5%
10083	Facility and Office Space Rental	908.7	1,028.4	88.4%
10084	Other Sources of Rental Income	0.5	8.1	6.2%
Subtotal		14,540.6	18,304.4	79.4%
Other Operating Revenues				
10040	Business Licences	1,371.8	1,453.5	94.4%
10060	Rights and Privileges	1,204.8	1,501.7	80.2%
10070	Other Services	754.3	1,647.9	45.8%
10092	Sale of Miscellaneous Goods	469.1	675.5	69.4%
10103	Cost Recoveries	-	-	-
Subtotal		3,800.0	5,278.6	72.0%
Golf Revenue				
10028	Golf	1,038.3	1,160.9	89.4%
Subtotal		1,038.3	1,160.9	89.4%
Total		19,378.8	24,743.9	78.3%

Fieldwork was completed between February 28th and July 15th, 2011.

Preliminary observations were presented to the Finance Managers of all the selected field units at the end of each visit.

Our observations and recommendations were made in accordance with the Audit Reporting Rating System described on the next page:

Table 5 : Audit Reporting Rating System

RED	Unsatisfactory	The current controls are not functioning or are nonexistent. Management measures must be taken immediately to rectify the situation.
ORANGE	Significant improvements required	Controls in place are weak. Several major issues have been noted that could jeopardize the accomplishment of program/operational objectives. Management measures must be taken immediately to correct the deficiencies related to the controls.
YELLOW	Moderate improvements required	Some controls in place are functioning. However, important problems, which require attention, were noted. These problems could jeopardize the achievement of program goals or operational objectives.
BLUE	Minor improvements required	Many of the controls are functioning as intended. However, some minor changes are necessary to improve the efficiency and effectiveness of the control environment.
GREEN	Controlled	Controls are functioning as intended and no further action is necessary at this time.

6 STATEMENT OF ASSURANCE

The present audit was planned and conducted in accordance to the Government of Canada's standards for internal auditing.

7 AUDIT OPINION

The audit work completed has shown that there are significant deficiencies with regard to the Management Control Framework and more specifically, regarding roles and responsibilities, transactional monitoring of revenues as well as personnel training and support of the relevant processes. Additionally, there were some lesser deficiencies noted at the level of the adequacy of internal controls. Furthermore, several areas of non-compliance with the applicable policies were identified, including pricing, discounts and the management of accounts receivable.

A number of inaccuracies were found in the data, which moderately affect the quality of financial and non-financial internal information. Deficiencies were also observed at the level of evidentiary supporting documents. Finally, minor improvements are required in order to assure data integrity, by improving efficient internal controls and quality external financial information.

8 OBSERVATIONS AND RECOMMENDATIONS

8.1 MANAGEMENT CONTROL FRAMEWORK

ORANGE	Significant improvements required	Controls in place are weak. Several major issues have been noted that could jeopardize the accomplishment of program/operational objectives. Management measures must be taken immediately to correct the deficiencies related to the controls.
---------------	-----------------------------------	---

The financial management control framework for processes associated with PCA revenue management and control includes the segregation of duties, development of policies and guidelines, complementary to the Treasury Board's policies, training and support of personnel, as well as monitoring review function. Compliance with the policies and guidelines is discussed in Section [8.2](#).

In order to determine whether the management control framework exists and is adequate to ensure the accuracy and completeness of the operating revenues, the following criteria were used:

C1	The roles and responsibilities of the employees pertaining to revenue management are clearly defined, documented and communicated to the personnel.
C2	The transactions recorded in STAR are subject to periodic audit
C3	The employees receive necessary training, tools, resources and information to support the discharge of their responsibilities.
C4	The tasks are distributed appropriately (adequate segregation of duties exists) and internal controls are adequate and effective.

A directive on revenue comptrollership for user fees has been prepared by the Chief Financial Officer Directorate on a recommendation from the report of the Audit of operating revenue – camping, entry and user fees, presented to PCA's Audit Committee in 2009. At the time of presenting this report, this directive was in its final draft and was not in effect when the conditions presented in this report were observed.

8.1.1 Roles and responsibilities

The main issue that was identified is the lack of clarity of the roles of Finance and Realty groups at the local level in the management of **Leases and concession**.

The *Policy on Revenue* privileges invoicing based on a percentage of the gross annual revenues for leases and licences of occupation. These agreements often include clauses specifying the types of revenues to be included or excluded, as applicable, for purposes of calculating rent, as well as when the final payment must be made to the field unit. The latter must then perform an audit to ensure compliance with the agreement, based on documentation and details of the calculations provided by the client.

We noted that the roles and responsibilities for the verification of rent calculations and the monitoring of the revenue collection are not always clearly and consistently distributed between the Finance staff and the Realty Services staff across the PCA. In fact, the responsibility for verifying the calculations of rent is not assigned consistently to a specific function. In some field

units, this responsibility lies with the Realty Services, while in others; the calculations are verified by the Finance group. Furthermore, in some field units, the Finance group follows up with the clients, while in others, this role is shared: communication with clients is carried out by the Realty Services, however, the responsibility of identifying delinquencies or omissions lies with the Finance group. In certain field units, there is no rigorous monitoring over the billing process.

The roles and responsibilities for control over the management of revenues from leases and licences of occupation are not clearly defined in PCA's policies. Although the *Policy on Accounts Receivable* defines the method to be adopted for the collection of overdue accounts, it does not assign accountability for monitoring of revenue collection to a particular function; especially since these amounts receivable, other than the [base rents](#), are not recorded in [STAR](#) (see [8.4.1](#)).

Similarly, the *Policy on Real Property* contains sections related to the monitoring of the compliance of rents collected with their respective agreements. However, a bridge is not clearly established between the Finance group and Realty Services, and there are no resulting tools or monitoring mechanism.

We also noted that the format of supporting documentation to be provided by the client, nor the level of assurance that may be required, for certain types of revenues (ex. revenue based on percentage of alcohol purchases) are not clearly defined and communicated (See [8.3.2](#)).

The lack of clarity related to supporting documentation and the allocation of roles and responsibilities between the two groups leads to a lack of accountability in revenue management and weaknesses in the monitoring mechanism, which does not allow for the ability to ensure timely processing of accounts receivable, compliance with contractual terms and the completeness of revenue. Finally, no matter which group performs the tasks, there is a risk that some tasks of the process are not performed correctly if they are not clearly communicated and assigned locally.

Recommendation

1. The Chief Financial Officer, the Vice-President of External Relations and Visitor Experience and the Chief Administrative Officer must ensure that the roles and responsibilities related to leases and licences of occupation are clearly defined, assigned in the PCA policies and communicated to the involved personnel for:
 - the verification of calculations of rents,
 - the appropriate supporting documentation to obtain from the clients, and
 - the monitoring of the collection of revenues (billing process).

CFOD response

Agree: The CFOD agrees to work with the lead directorates to ensure roles and responsibilities related to leases and licences of occupation are clearly defined, assigned in the PCA policies and communicated to the involved personnel. The completion date will be determined following the consultation with the lead directorates.

Phase II of the new National POS System includes a review of receivables management. Training will be provided for Finance in the verification of rent calculations and accruals,

and for ensuring the timely recording of receivables and the monitoring of the collection of revenues.

ERVE response

Agree: It is agreed that roles and responsibilities related to leases and licenses of occupation must be clearly defined. The User Fees and Revenue Management Policy (2006) is currently being revised as a result of the 2008/09 Audit on Operating Revenue and consistent with the new Parks Canada directive framework. The new user fees policy suite will include a Parks Canada User Fees Directive, a Cost Recovery Guide, Pricing Guide and a User Fees Approval Standard. The scope of the user fees policy suite will be refined to include only user fees that are subject to approval under sections 23 and 24 of the *Parks Canada Agency Act*. This revision will clarify that real property rental activities fall outside of the ERVED's roles and responsibilities.

The User Fee policy suite will be in place by October 2012.

8.1.2 Monitoring of Revenue Transactions in the Financial System

The recording methods and source data relating to revenue transactions in [STAR](#) are not subject to strict monitoring, neither by Finance Managers at the local level, nor from the National Office (NO). The audit procedures revealed that the list of customer accounts contains several duplications, and that many field units use material codes not included in the official PCA revenue data structure. Since this document changes overtime, it's important for staff in field units to receive clear communication of change in the official PCA revenue data structure.

Some field units do not calculate interest on overdue accounts in the system, and one field unit does not use the invoicing module included in [STAR](#) at all. These are all signs that a monitoring of data in order to identify poor practices is not carried out diligently.

The *Policy on Revenue* is not clear on responsibility and accountability relating to the monitoring of the quality of revenue transactions recorded in [STAR](#) or for retention of documentation. The lack of direction does not promote consistency in the use of the system, and creates confusion as to the allocation of the role in monitoring of financial transactions generated by the field units.

Given that many key controls are applied through the material codes (applicable taxes, prices), customer accounts (payment terms and interest) and the process of calculating interest (applicable rate), the failure to properly use [STAR](#) bypasses these controls, which does not ensure the completeness and accuracy of the data (See section 8.3.1 [8.3.1](#)).

Recommendation

2. The Chief Financial Officer, in collaboration with the Vice-Presidents of Operations for Eastern, and Western and Northern Canada, must ensure that efficient monitoring activities of financial transactions on revenues from leases, licences of occupation as well as any other operating revenues are in place in order to detect and correct poor practices in the use of the material code structure and [STAR](#).

CFOD response

Agree: The CFO in collaboration with the CAO and Operational VP's will ensure efficient monitoring mechanisms of financial transactions on revenues are in place by summer 2013. The monitoring strategy will leverage information capabilities in STAR with those capabilities being developed in the NIRS system (including the potential interface between the two systems). The coding working group, under the CFOD, will review and validate the material code structure for revenues to ensure it is in line with reporting requirements (refer to response to recommendation #8)

ERVE Response

As part of the material code structure review, ERVED must validate those material codes relating to sections 23 and 24 of the *Parks Canada Agency Act*.

8.1.3 Personnel Training, Tools and Support

Interviews conducted with accounts receivable clerks revealed that some of them do not have a sound understanding of the different elements contained in the sales module and the accounts receivable module in [STAR](#), and in particular, the calculation of interest, all due to a lack of adequate training. Moreover, except for the online support center of Canadian Heritage, there is no national training for the entry and management of revenue data in [STAR](#) (invoicing, interest on accounts receivable, client accounts, reports, etc.), to explain and interpret the parameters specific to the PCA (dates, coding, delays, reconciliation, etc.).

There is no comprehensive plan for defining specific training needs, both current and future of Finance officers and clerks responsible for invoicing and data entry in [STAR](#); training requirements, procedures or information are not identified using official channels of communication between the field units and the NO. Furthermore, very few specific, nationally applied guidelines for the management revenue have been derived from PCA's policies.

The current mix of training, tools, and functional support does not offer an appropriate and effective preventative control framework and does not allow for employees to be able to fulfill their responsibilities to ensure the completeness and accuracy of revenue data.

Recommendation

3. The Chief Financial Officer, in collaboration with the Vice-Presidents of Operations for Eastern, and Western and Northern Canada must:
 - identify specific training needs for the management of other operating revenues and revenues from leases and licences of occupation,
 - establish a national training plan, including the use of [STAR](#),
 - develop detailed guidelines across PCA and,
 - establish a formal communication mechanism between the National Office staff and the financial personnel of each field unit in order to ensure adequate functional support.

CFOD Response

Agree: In collaboration with the VP of Operations and CAO, the CFO will establish a National Training Plan, by March 31, 2013, based on specific training needs across the Agency. The STAR User Group will assess user training priorities.

The CFOD's new Management of Cash Standards (available on the Agency's intranet site) has been communicated and information sessions held. Comprehensive training sessions were held as waves 1 and 2 of the new national POS system were deployed. Further training sessions will be held as the remaining waves are deployed between now and March 2013.

Additional training on Receivables Management and the Agency's Accounts Receivable Policy will be provided as Phase II of the POS project rolls out in 2013/14 (refer to response provided to recommendation #7).

The CFO will continue providing functional support to the Finance Community through the quarterly conference call.

8.1.4 Segregation of Duties and Internal Controls Adequacy

The audit team wishes to emphasize that in general, an adequate segregation of the duties does exist with respect to leases, concessions and other revenues and, particularly in the management of golf revenue which involves more cash handling than the other types of revenues examined.

It is very difficult to provide a horizontal view on the adequacy of the internal controls of the various processes included in the scope of this audit, as each visited field unit has adopted its own processes and controls. Specific problems observed were discussed with the Finance Managers at the end of each visit. However, some key controls have been identified and verified PCA-wide, and Sections [8.3](#) and [8.4](#) deal with the impact of observed conditions and appropriate recommendations.

Other Revenues

Certain other operating revenue generating activities include legal requirements and/or contractual obligations, for which a number of internal controls have been established, making compliance with the processes laborious.

For example, the issuance of a filming permit generates a lot of preliminary work (proof of insurance, project analysis, application of discounts, etc.) and requires verifications throughout the project to ensure compliance with the requirements and necessitates a later follow-up to claim the goods or royalties stipulated by contract. We observed that, in many cases, the cost of the permit for the customer is zero after applying the discounts, and no subsequent follow-up is done due to the lack of resources to do so.

Similarly, the issuance or renewal of a business licence is accompanied by at least a form completed by the merchant, an invoice issued by PCA and payment processing. In the case of licences for the sale of alcohol, a verification of the fee calculations should be performed, while in the case of guiding services, certain requirements for insurance and training purposes must be completed prior to the issuance of the permit.

The processes for the issuance and management of business licences, filming permits or fishing permits implicate several roles and responsibilities, sometimes involving Realty Services or the Finance group and often the Visitor Experience group, and are not consistently distributed and allocated between the field units. Furthermore, the decentralization of affected functions does not promote consistency in practices. Each field unit has developed its own tools, procedures and systems in an attempt to meet the various legal requirements.

On the scale of PCA, this lack of consistency in the practices and sharing of information between field units causes inefficiency in the management of other operating revenues, which represents only a small fraction of total revenue of field units, but account for much of their time.

Recommendation

4. The Chief Financial Officer, the Chief Administrative Officer and the Vice-President of External Relations and Visitor Experience must review the current management processes of other operating revenues in order to streamline them, and allocate roles and responsibilities consistently and effectively between the functions.

CFOD Response

Agree: As part of the roles and responsibilities review (recommendation #1), the CFOD will collaborate with representatives from each of the functions, to ensure the current management process is streamlined with clear roles and responsibilities allocated consistently and effectively between the functions. The completion date will be determined following the consultation with the lead directorates.

ERVE Response

Agree: The ERVE Directorate will update the National Multimedia Guidelines, as part of the 2013 user fees consultations. These were originally developed in 2005 to address issues with the filming permit review and discounts. The Directorate will also assist as required in clarifying other management processes that are within its responsibilities or as requested by the CFO or CAO for processes that are within their scope of responsibilities.

Leases and Concessions

The audit team observed some duplication of documentation and effort between real-estate transactions (agreements, follow-up, etc.) and financial transactions (supporting documentation of transactions in STAR). Each group has developed its own tools to perform its tasks and follow-ups, and very few of these tools are shared. As results, some documents are found in two places, but sometimes changes to source documentation are found only in one file, as the two groups do not share a common system.

Furthermore, the current leasehold database has limited reporting capabilities, not allowing for a proper reconciliation with revenues collected. Similarly, reports on revenues generated in [STAR](#) are very rarely used for tracking and reconciliation; Finance groups have developed parallel monitoring tools.

Therefore, some monitoring activities are carried out inefficiently, and invoices are often sent late to clients. We also noted situations where a review of [Base Rents](#) had not been conducted since the signing of the agreement, sometimes dated decades ago. In addition to the risk of the potential loss of revenue, this lack of discipline may have a negative effect on the PCA's reputation.

Recommendation

5. The Chief Financial Officer and the Chief Administrative Officer must ensure that the new system of property management allows for proper and efficient monitoring of real-estate

transactions, both in terms of rent review clauses as well as invoicing and retention of documents, and that clear guidelines be developed and communicated to both functions.

CFOD Response

Agree: In coordination with the review of roles and responsibilities and streamlined management functions (recommendations #1 and #4), the new system of property management must allow for proper and efficient monitoring of real-estate transactions, both in terms of rent review clauses as well as invoicing and retention of documents, and that clear guidelines be developed and communicated to both functions.

8.2 COMPLIANCE WITH POLICIES AND GUIDELINES

ORANGE	Significant improvements required	Controls in place are weak. Several major issues have been noted that could jeopardize the accomplishment of program/operational objectives. Management measures must be taken immediately to correct the deficiencies related to the controls.
---------------	-----------------------------------	---

To determine whether the operating revenue management complies with current policies and guidelines, we used the following audit criteria:

C5	Revenues are administered in accordance with the <i>Parks Canada User Fees and Revenue Management Policy (Policy on Revenue)</i> .
C6	The accounts receivable are treated in accordance with PCA's <i>Policy on Accounts Receivable</i> and the interest rates are consistent with the <i>Government of Canada Lending Rates</i> in effect as published by the Minister of Finance.
C7	Rents and occupancy fees are determined in accordance with the regulations of <i>National Parks of Canada Lease and Licence of Occupation Regulations</i> , and the applicable policies for managing real estate.
C8	The commercial fees to merchants are charged at the rates prescribed and published in the <i>Canada Gazette</i> .
C9	The exchange rate for Parks Canada, as presented on the Intranet Finance site, is properly applied in the collection of USD funds (Other Revenues).
C10	Compliance with financial management laws, policies and authorities is monitored regularly.

The following observations are intended to present areas of non-compliance with the policies listed above. The audit team would like to mention, however, that no significant discrepancy was observed in the application of the *Government of Canada Lending Rates*, the compliance with prescribed rates published in the *Canada Gazette* and the application of exchange rates for Parks Canada.

8.2.1 Compliance with *Parks Canada User fees and Revenues Management Policy*

Pricing of Service

The *Policy on Revenue* requires that prices for [personal benefit services](#) be set to recover as much of the associated costs as possible without curtailing use by a significant number of people or compromising policy objectives established.

It was noted that this principle is not respected with regard to services related to real properties. In fact, the fees established in the *Canada Gazette* for realty documentation, which includes the time spent in negotiation and approval activities, do not cover the salary costs of involved employees. Moreover, the prescribed rates do not correspond to market rates for such services (e.g. attorney or notary fees).

Regarding municipal services, particularly in waste management, all of PCA salaries as well as certain costs associated with the use of equipment are not taken into account in determining the amounts to be charged to residents. In fact, a full cost analysis related to these services has not been conducted in several years, and some field units charge the same amount as they did 10 years ago. Furthermore, at some parks, specific rates are prescribed by the *National Parks of Canada Garbage Regulations*, and have not been amended since the entry into force of these Regulations in 1980, which does not allow for field units to recover all their costs. Some parks do not completely comply with the method of calculation prescribed by Regulations (based on volume) for lack of the means to do so, even though there is a willingness to respect the spirit of the Regulations (cost recovery).

A rigorous costing approach for [personal benefit services](#) generating other revenues is not in place, so it is very difficult to justify a price increase or even to justify the pricing that exists. Only few tools are available (i.e. TB Guide to Costing and TB Guide to Establishing the level of a Cost-Based User Fee or Regulatory Charge) for this purpose and no clear direction is communicated and implemented across the Agency.

In addition, personnel turnover makes it difficult to regroup key functions representatives in revenue generating activities during the process of pricing in the context of the *Canada Gazette*, with the result that certain groups are not consulted in the development of the periodic pricing strategy. Rates for certain services are not reviewed periodically.

Therefore, these fees are not secured so as to facilitate the recovery of associated costs, which on the one hand, goes against the spirit of the *Policy on Revenue*, and on the other hand, can result in financial losses and have repercussions on the quality of services offered.

Pricing of Rights and Privileges

The *Policy on Revenue* requires that prices for **rights and privileges** be set to obtain a fair economic return for taxpayers based on market value or reasonable approximations. The required fees for water sampling in the National Parks are established at the national level. The same applies for the required fees for the operation of a business in the National Parks (business licences), although they are approved for each specific site.

In some cases, the required fees for water sampling are well below provincial requirements (e.g. Alberta and Ontario). Furthermore, it was noted that for certain locations, where the operation of a business could be lucrative (e.g. Banff), the fees are far below their market value, while for other areas (e.g. Waterton Lakes), the amount payable may be a deterrent for doing business on the site.

Rights and privileges fall under [national pricing](#), while their market value varies greatly from province to province and even from one place to another. Moreover, the fees published in the *Canada Gazette* include all the applicable taxes, which, despite the conformity of this practice, may cause a variation of the revenue actually collected by PCA of nearly 10% (for example, Alberta vs. Quebec). In fact this practice set the based value of the right or privilege granted

differently from one province to another which can lead to a perception of unfairness from a taxpayer point of view and also create loss of revenues for the Agency.

Consequently, the spirit of the *Policy on Revenue* is not respected regarding the assurance of an equitable economic return to taxpayers. As well, potential revenues are lost, which necessarily reduces the capacity of the field units to offer services and facilities to its clients.

Change of fees and Application of Discounts

The *Policy on Revenue* allows field unit Superintendents to develop pricing proposals for ministerial approval, for services, rights and privileges that are **not normally** available in the National Parks, National Historic Sites and National Marine Conservation Areas or otherwise contain offers or unique levels of service.

It was noted that services are sometimes offered on an ad hoc or periodic basis to merchants or residents and generate operating revenues that do not fit within any of the categories of services normally offered in the National Parks or townsites. These activities typically involve employees and equipment of the PCA, and costing methods, especially wage costs, and the pricing that results are established locally. No documentation was available to the effect that these fees have been subject to ministerial approval.

The *Policy on Revenue* states that discounts will be granted in order to achieve public policy objectives that are identified on a corporate basis or revenue generation objectives that are set out in sustainable business plans and approved by the Minister. These discounts are also published in the *Canada Gazette*. The policy also allows for field unit Superintendent to develop pricing proposals for ministerial approval to reduce the national fees during the off-seasons when the level of services is reduced accordingly, such is the case with golf activities.

Like any pricing of rights, privileges and services, the discounts offered must be formally approved prior to being applied. The review of transactions relating to golf revenue revealed that unauthorized discounts had been applied, although the justifications received appeared to have been in line with the spirit of the *Policy on Revenue*.

The returns on activities related to a golf course are influenced by several environmental and economic factors, which are often out of the managers' control. Consequently, they are called upon to react quickly to unexpected events that can vary the demand of services. Although some discounts, in the form of a percentage rebate or period based (ex. peak season or shoulder season), are already published in the *Canada Gazette*, management feel the need to apply additional discounts to respond to extraordinary situations, such as the major deterioration of the course following a flood.

Although the application of discounts can have a positive impact on attendance on the site, the PCA has a legal obligation to a fair and equitable pricing of services, met with the help of a formal mechanism for ministerial approval. Consequently, not complying with the prescribed mechanism can undermine the credibility of the PCA in its ability to manage user rights.

In order to facilitate the provision of pricing incentives, the PCA has recently developed a pricing flexibility tool supporting the guidelines for the approval of targeted measures, which are limited in time, by the delegated authorities. This tool was officially available in January 2011, following the delegation of authority by the Minister to the PCA, under Article 30 of the *Parks*

Canada Agency Act. This measure was not, therefore, in effect when the transactions review was performed.

A monitoring mechanism for other operating revenue is not in place to challenge fees and discounts for certain services provided locally and to ensure that the establishment of pricing follows the normal process of ministerial approval. Moreover, the *Policy on Revenue* does not clearly stipulate the roles and responsibilities for monitoring and oversight. Thus, there remains a risk that the PCA is not authorized under *the Parks Canada Agency Act*, to demand such fees or grant such discounts, which could undermine public confidence.

Recommendation

6. The Vice-President, External Relations and Visitor Experience must:
- develop efficient methods and tools for the costing and pricing of personal benefit services in order to promote the recovery of related costs,
 - reinforce the mechanism for consultation with internal agents in the preparation of the periodic pricing strategy and ensure a complete representation of the concerned groups,
 - develop mechanisms for adequate market value evaluation of rights and privileges after considering the local conditions even for the process of national pricing and,
 - ensure that fees for services offered locally and applied discounts have been properly approved and are monitored.

ERVE Response

Agree: As part of its user fee policy suite renewal, ERVED is preparing guidelines and tools that will assist with the costing and pricing of personal benefit services. The proposed Cost Recovery Guideline is currently being reviewed by the Pricing Working Group and will provide direction on the level of appropriate cost recovery of services depending on the degree of public good or personal/commercial benefit bestowed on the user. A costing tool is also in development that will assist in determining costs to be recovered.

The user fees policy suite will also include a new Pricing Guideline that provides direction on market based pricing, national pricing, local pricing and the proposed approach for Consumer Price Index adjustments.

The User Fee policy suite will be in place by October 2012.

The ERVE directorate will strive to ensure that communications regarding future fee proposals will be circulated to diversified networks. Each field unit superintendent is, however, accountable for ensuring that the proposals submitted by their field unit are comprehensive and reflect the range of services provided.

The ERVED endeavours to monitor prices and discounts to ensure that they are approved and legal. It is not, however, feasible to monitor or audit the fees that are charged at all locations to ensure compliance. To ensure that all staff have the awareness and knowledge required to ensure that fees are properly priced, approved and discounted, the ERVED will

develop a webinar training course aimed at appropriate staff in the national office and field units. The training is planned for the fall of 2012 and will be repeated on a regular basis for the convenience of the targeted audience.

8.2.2 Management of Accounts Receivable

PCA's *Policy on Accounts Receivable* requires the field units to use the sales and distribution module found in [STAR](#) for the recording of data on debtors. Furthermore, this policy provides the methods to use when creating customer accounts, receipt of payments, interest calculations on overdue accounts and collection of amounts owed. This policy comes from the Chief Financial Officer Directorate.

Some field units do not invoice using [STAR](#) but an independent invoicing system, and others do not invoice customers in advance, sales being recorded only once payment is received. These conditions were especially observed for revenues from business licences.

Several field units do not register their accounts receivable in [STAR](#) in a timely manner, and, consequently, any interest cannot be calculated properly using the system. Furthermore, a computerized control in [STAR](#) grants a grace period of 15 days for the payment of accounts, making it impossible to calculate the interest at the 34th day, as required by the policy.

In general, the supporting documents required by the policy are readily available. However, for sales based on a percentage of gross revenues (leases and licences of occupation) or the percentage of alcohol purchases (licences for the sale of alcohol), the documentation is often incomplete to validate the accuracy of the data (see [8.3.2](#)).

The policy requires that field units adopt a consistent method and process for the collection of overdue accounts. Although the majority of the field units have an informal process in place (rule of thumb or way of doing for years), this process is rarely formally documented.

All the Finance Managers do not enforce the *Policy on Accounts Receivable*, each field unit having developed its own invoicing process and accounts receivable management. The audit did not identify evidence demonstrating that the NO performs a functional monitoring at this level. The policy is otherwise silent regarding the level of responsibility in terms of accountability and monitoring, and does not mention the consequences in the event of non-compliance.

The accounts receivable module in [STAR](#), including the interest calculation process, contains several computerized controls allowing for an effective and efficient management of accounts receivable: proper calculation of interest rates, account statements to be sent to clients, monitoring system of accounts by age, etc. The failure to properly use [STAR](#) violates the policy, leads to ineffective internal control and inefficient management of overdue accounts.

This has an impact on the available financial information and on the estimation of bad debts (see [8.3.1](#) and [8.4.2](#)). Interest revenues are also lost, however, more importantly, these practices do not respect the equity principle advocated by the PCA. The two principles invoked by the policy, effective and efficient internal controls and accurate information for decision-making purposes, are not respected.

Similar observations made with respect to the Audit of operating revenue – camping, entry and user fees in 2008 were the subject of a recommendation and management action plan. However, it seems that actions taken did not correct reported deficiencies.

Recommendation

7. The Chief Financial Officer must:
- establish and communicate the procedure to follow with regard to the management of accounts receivable in [STAR](#),
 - implement monitoring measures to ensure that it is effectively and consistently applied across PCA and,
 - ensure that PCA’s *Policy on Accounts Receivable* is fully aligned with [STAR](#)’s computerized controls and modified to include the responsibilities for reporting and monitoring as well as the consequences in cases of non-compliance.

CFOD Response

Agree: The CFOD’s new Directive on Revenue Comptrollership for User Fees clarifies the importance of Revenue Management. Specifically, Receivables must be recorded in the financial system (STAR) - Sales and Distribution Module, at time of invoicing. Interest on overdue accounts must be charged in accordance with Regulations.

The PCA Policy on Accounts Receivable will be reviewed and revised during the Phase II of the POS Project (2013-14).The policy will align with STAR’s computerized controls, modified to include clearly assigned responsibilities, and include a monitoring and evaluation process.

In the interim, additional focus on the management of receivables will be undertaken as national POS training continues.

8.3 ACCURACY OF DATA

YELLOW	Moderate improvements required	Some controls in place are functioning. However, important problems, which require attention, were noted. These problems could jeopardize the achievement of program goals or operational objectives.
---------------	--------------------------------	---

In order to determine if the financial process regarding the management of operating revenues is adequate to ensure the accuracy of financial data, we used the following audit criteria:

C11	Transactions are coded and recorded accurately in STAR and in a timely manner, to support accurate and timely information processing.
C12	The revenue data is reconciled with deposits, and amounts received are in compliance with the existing agreements.
C13	Income accounts do not contain any transactions that are not revenue and accounts receivable do not include amounts that will not be collected.

The audit team would like to mention that there is no evidence that the observed inaccuracies may significantly affect the fair presentation of PCA’s financial statements, as included in the Departmental Performance Reports and the Public Accounts of Canada. Furthermore, no

significant unusual trends were observed regarding the reconciliation of revenue with the deposits.

8.3.1 Quality of Internal Financial and Non-Financial Information

The *Policy on Revenue* requires that a code be assigned to each service, right or privilege for which there is an approved fee, and used in Point of Sale System and in the Sales and Distribution module in [STAR](#). For this purpose, the Chief Financial Officer Directorate, in collaboration with the Direction of Brand Experience, is responsible for maintaining and communicating the structure of the revenue materials to be used for the recording of transactions in the systems.

The current revenue data structure does not allow for a coding at the same level as the *Canada Gazette* or other applicable policies for revenues subject to this present audit.

For example, for revenues relating to leases and licences of occupation, it is currently impossible to differentiate the types of realty documentation produced, since only one code is available (see [example 1 in Appendix C](#)). For business licences in parks, a single general code is assigned, which does not allow for the capture of data by permit category or the differentiation of revenues from alcohol sales, which requires a more rigorous monitoring process (payments of amounts due at variable dates) than the issuance or renewal of other types of business licences. Consequently, it was noted that certain field units use obsolete material codes still present in [STAR](#) in order to better respond to their needs (see [example 2](#)). With respect to golf revenues as well as multimedia and filming fees, several codes are missing to identify any applied discounts.

Furthermore, it is impossible to differentiate the leases from the licences of occupation, which, however, contain different legal requirements. For revenues from adjacent lands to the historic canals, the prescribed codes do not allow for the classification of transactions in a way to obtain relevant information that properly reflects the nature of the reported revenues, or the calculation used to establish the rent rates or the fees when applicable (see [example 3](#)).

Many efforts have been made over the last few years to update the material codes relating to entry and recreational fees, which represent over 70% of PCA's annual revenues. However, it seems that for other type of revenues, the same level of care was not taken, leading the field units to make a personal interpretation when choosing the applicable material codes for each of their transactions.

In terms of invoicing, few of the field units record the breakdown information on quantities and prices, preferring to simply indicate a global amount based on the supporting documentation received. This condition is due, partly, to a lack of appropriate codes allowing for this type of detail and, partly, to the fact that revenue reports from [STAR](#) are not used for purposes requiring the input of such information.

Consequently, the coding of revenue transactions for these accounts lacks consistency across PCA, which, in general, prevents the generation of detailed, relevant and reliable reports for decision-making efforts based on these revenues and more specifically, for the development of sound financial projections. Although very few errors were detected regarding the general ledger accounts associated with these items, the fact remains that several of the computerized controls pass through material codes, as mentioned in section [8.1.2](#), and that any misuse of these codes greatly diminishes the effectiveness of internal control. Furthermore, this situation disables any

efficient monitoring of the compliance required fees with the *Canada Gazette* or any other applicable laws.

Recommendations

8. The Chief Financial Officer and the Vice-President, External Relations and Visitor Experience must ensure that the materials structure in [STAR](#) for revenues other than entry fees allow for a proper coding of transactions within the field units.

CFOD Response

Agree: The Chart of Accounts Working Group, under the CFO, as part of Phase II of their coding review, will work with Finance, Strategy and Plans Directorate and ERVED to ensure a valid material code structure is in place for other revenues by **March 31, 2014**.

ERVE Response

Partially Agree: The ERVE Directorate will work with the CFO to ensure that the materials structure related to fees approved under sections 23 and 24 of the *Parks Canada Agency Act* and published in the Master List of Fees (Canada Gazette) are adequately reflected. The CAO should be responsible for identifying any material structure changes related to leases and licences of occupation as required.

9. The Chief Financial Officer, in consultation with the Vice-Presidents of Operations for Eastern, and Western and Northern Canada, must establish monitoring activities in order to ensure that all relevant and useful financial and non-financial information important to decision-making is entered into [STAR](#) at the time of invoicing.

CFOD Response

Partially Agree: With the development of the CFOD's Directive on Revenue Comptrollership for User Fees, the use of the Agency's financial system STAR for the recording of all revenues is mandatory. The appropriate material code must be used along with quantity and price.

An assessment of the financial system STAR must first be undertaken to assess what financial and non-financial information can be entered into STAR at time of invoicing before monitoring mechanisms are developed. The Realty system (NIRS) must also be assessed as an alternative to the capture of non-financial information in STAR.

It was noted that it is currently impossible, with information registered in the different systems of the PCA, to accurately determine the number of clients who conduct business with the PCA as well as the extent and nature of each client's activities. For example, although all the necessary data can be contained in the various source documents, both on paper and electronically, it would be impossible, using [STAR](#) and the leasehold database, to generate a report on the activities of any specific client conducting business with several field units or having more than one business, which would educate us, for example, on the total collected revenues from this client or on the type of activity conducted in the parks. This information could only be found through time consuming and extensive research, collection and analysis of paper and electronic files conserved in the different field units.

The lack of integration of the current systems, as well as the deficiencies in the methods of recording financial transactions previously mentioned, do not allow for the extraction of relevant and reliable information on the commercial activities taking place on our sites.

Consequently, the opportunity is lost to have access to precious information for strategic decision making and risk management, leading to improvement of PCA's competitive positioning while identifying potential pressures due to the development of commercial activities that could harm ecological and commemorative integrity objectives, and development of connection to place.

It should be noted that the development of a National Integrated Realty System (NIRS), whose official launch is planned for 2014, was in progress when the above-mentioned conditions were observed.

As a best practice, the Chief Financial Officer and the Chief Administrative Officer should examine the possibility of establishing an integrated strategy for the collection and the analysis of PCA customer information, other than visitors, and ensure that the NIRS promotes such an implementation.

8.3.2 Supporting Documentation

For revenues from leases and licences of occupation, the income collected is generally consistent with the agreements, which are available at the field units. Leases and licences of occupation based on a percentage of gross revenues generally require that financial statements be provided in order to support the amount acquitted. However, it is not a requirement that these financial statements be audited, unless specifically requested by the field unit superintendent. In the specific case of agreements based on a percentage of gross revenue, the documentation provided by the clients is not always sufficient to ensure that the received amounts are correct.

Although, in general, a clause regarding the right of inspection or verification is included in the agreements, it is very rare that the field units enforce it. No periodic audit of financial statements was conducted in the last few years.

Similarly, for income from the percentage of purchased alcohol, it is very rare that the documentation supporting the calculation of the amount received is sufficient to ensure the accuracy of the amount. In the best cases, the documentation received was limited to a global spreadsheet showing the total purchases for each category of alcoholic beverage attached to the cheque or sent by email.

Although the *National Parks of Canada Lease and Licence of Occupation Regulations* require that holders of licences for the sale of alcohol keep records of all their alcohol, wine and beer purchases, nothing indicates in what form this data should be recorded, nor the level of assurance that may be required (for example, the statement of expenditure extracted from the financial statements of the business). The definition of adequate supporting documentation to obtain from the clients and the responsibility to ensure compliance is addressed in Roles and Responsibility section (8.1.1).

This lack of rigorous monitoring mechanisms of agreements fosters a lax environment of control, leaving room for abuse by the clients in question, which contributes to the increased risk of loss of potential revenue for the PCA and the inequitable treatment of clients. This element will have an even greater impact in the future with PCA's strategic direction and policy favouring the

conclusion of agreements with customers based on a percentage of gross revenues for their commercial leases and licences of occupation.

Recommendation

10. The Chief Financial Officer and the Chief Administrative Officer, in collaboration with the Vice-Presidents of Operations for Eastern, and Western and Northern Canada, should consider the establishment of a national, risk-based strategy for the verification of contractual clauses relating to revenues, in order to ensure the adequate and efficient monitoring of agreements based on a customers' percentage of gross revenues.

CFOD Response

Partially Agree: Roles and Responsibilities (as per recommendation #1) must be clearly defined prior to the establishment of a national risk based strategy for the verification of contractual clauses relating to revenues. The Realty system must also be considered as a mechanism for documenting and verifying contractual clauses related to revenues. This information can be communicated to those involved to ensure compliance.

8.3.3 Cost Recovery of Certain Services

Given that several PCA sites are located in remote areas, it is not uncommon that certain field units are equipped with fuel tanks for their many vehicles. For the sake of convenience, these field units sometimes offer the use of their fuel tanks to other governmental agencies that themselves require vehicles in order to carry out their mandate, as is the case for the Royal Canadian Mounted Police (RCMP).

The process of managing this activity varies widely from one field unit to the other and poses several challenges. The approach to cost recovery tends to lean towards a recovery of costs associated with the delivery of this service. However, the current practices of establishing these costs do not ensure a fair and equitable recovery. Although the cost of the fuel to be recovered is based on the actual volume used, an additional amount, varying with the volume of fuel, is collected, in order to cover handling costs. The reviewed documentation as well as discussions with the Finance staff involved in the process did not yield sufficient information to confirm the reliability and accuracy of the undertaken calculations.

Furthermore, the manner in which this data is entered into [STAR](#) differs from one field unit to another. These transactions are treated as income in various general ledger accounts and a manual journal entry, in some cases, is entered to transfer the amount into the appropriate expense account. The transactions and the supporting documents reviewed did not permit the audit team to be able to issue a conclusive opinion on the adequacy of the used accounting methods.

There are no guidelines regarding the issuance of such services, even though they take place in several PCA sites. No consistent guidance across the PCA is issued regarding the types of organizations that are eligible for this service, the appropriate pricing methods or the documentation and accounting requirements.

There remains a risk that PCA's operations revenue and their fuel expenditures are overstated, which could have an impact on financial projections as well as on management decisions. Furthermore, it is possible that the information provided on fuel purchases to the Treasury Board

Secretariat for the development of the annual report on the implementation of the *Alternative Fuels Act* is incorrect, overstating the amount of fuel actually used by the PCA.

Recommendations

- The Vice-President, External Relations and Visitor Experience and the Chief Administrative Officer must develop and communicate guidelines relating to the use of PCA's fuel tanks by other organizations as well as to the pricing for such a service.

ERVE Response

Agree: ERVED completed a new user fee policy suite which applies to all applicable services and cost recovery activities. Directorate staff is available to provide advice on the pricing of local services such as the use of fuel tanks.

- The Chief Financial Officer must issue guidelines relating to the documentation and the accounting treatment of amounts received for the use of PCA's fuel tanks.

CFOD Response

Agree: The CFO will develop and communicate by **March 31, 2013** a Directive on the appropriate documentation required and the accounting treatment for recoveries from the sale of PCA consumable supplies.

8.4 COMPLETENESS OF REVENUES

BLUE	Minor improvements required	Many of the controls are functioning as intended. However, some minor changes are necessary to improve the efficiency and effectiveness of the control environment.
-------------	-----------------------------	---

In order to determine whether the financial process is adequate to ensure the completeness of the operations revenues, we used the following audit criteria:

C14	All amounts received are recorded as revenues in STAR.
C15	All anticipated revenues are recorded as accounts receivable in STAR.

The audit team wishes to emphasize that no significant discrepancy was observed regarding the recording of amounts collected as revenue in [STAR](#). Furthermore, nothing indicates that observed omissions regarding accounts receivable could significantly affect the fair presentation of PCA's financial statements, as included in the Departmental Performance Reports and the Public Accounts of Canada.

8.4.1 Effectiveness of Internal Control

Revenues determined by a percentage of gross revenues, for rents, and by the percentage of alcohol, wine and beer purchases, for business licences, are not recorded as accounts receivable. In fact, these revenues are recorded only when payment is received and it often is the case that these payments are received late. In general, interest fees are not invoiced to clients for these overdue amounts, except in rare exceptions when the recovery delay has exceeded twelve months and at which time the interest accrued was calculated manually.

The exact amounts of such transactions are not known in advance, that is to say, when the client account should have been created, and there is no global guideline across the PCA on the appropriate procedures to follow in order to ensure compliance with the *Policy on Accounts Receivable* regarding the use of [STAR](#) and the interest calculations. Discussions with employees responsible for the recording of accounts receivable revealed that a computerized control in [STAR](#) limits the data entry to 30 days preceding the current date, making it impossible to automatically calculate the interest charges. Furthermore, it was observed that there is no efficient and reciprocal monitoring mechanism between Realty Services, which is responsible for the conclusion of agreements and the Finance group, which is responsible for the receipt of payments, regarding the accuracy and the completeness of payments collected.

In addition to generating a loss of interest revenue and encouraging an inequitable treatment of PCA's clients, this situation renders the monitoring of overdue accounts, at best, inefficient because the use of an external process to [STAR](#) becomes necessary and often ineffective since payments not received could remain undetected. Furthermore, the impact is even greater since the [Base Rents](#) are not regularly and periodically reviewed (see [8.1.4](#)), ensuring that the portion of rents determined by a percentage of gross revenues represents a growing proportion of total revenues collected for these agreements.

8.4.2 Quality of Financial Information Reported Externally

The majority of leases and licences of occupation contain two payment dates, April 1st and October 1st, with respect to [Fixed Rents](#) or [Base Rents](#). These dates provide a good match between the amounts invoiced and the amounts to be recognized in the current fiscal year. However, some exceptions were noted for which no adjusting entry has been recorded.

As previously mentioned, the portion of rents determined by a percentage of gross revenues and licensing revenues for the sale of alcohol are not recorded as accounts receivable in a timely manner, and the related revenue is generally recognized in the subsequent fiscal year. However, some field units have adopted a local procedure to estimate these revenues at year-end and make adjusting entries as needed to adjust the applicable general ledger account and the balance of the customer accounts.

There is no national procedure regarding the estimation of revenues based on a percentage of gross revenues or the sale of alcohol as well as the adjusting entries at year-end.

The lack of consistency in the current practices does not allow for an adequate estimation of customer accounts and of bad debt at year-end and the principle of separation of accrual periods is not always respected in the recognition of these revenues.

The development of the NIRS (8.3.1), planned for 2014 create an opportunity for management to seek for improvement of processes related to revenue management, more specifically with the interface between realty and finance in order to strengthen the effectiveness of internal controls and the quality of information.

As a best practice, the Chief Administrative Officer, in collaboration with the Chief Financial Officer, should explore the possibility that the computerized controls from the NIRS allow for a proper management of accounts receivable and revenues in [STAR](#) regarding the interest calculations on delinquent accounts and a separation of periods appropriate for the recognition of revenues from leases and licences of occupation, and more specifically when these are based on a percentage of gross revenues.

Recommendations

13. The Chief Financial Officer must elaborate and communicate a national procedure providing clear guidelines relating to the estimation of revenues accrued, adjustment entries and interest calculations on overdue accounts for the portion of rent based on a percentage of gross revenues and revenues from licences to sell alcohol.

CFOD Response

Agree: Year End guidelines are communicated for the estimation of accrued revenues. These guidelines are available on the Finance National Intranet. The guidelines will be improved by **March 31, 2013** to provide additional examples of accrued revenues (percentage of gross revenues), adjustment entries and interest calculations on overdue accounts.

Appendix A. APPLICABLE LEGISLATIONS AND POLICIES**Laws and Regulations**

Parks Canada Agency Act

Financial Administration Act

Canada National Parks Act

User Fees Act

Federal Real Property and Federal Immovables Act

Federal Real Property Regulations

National Historic Parks General Regulations

National Parks General Regulations

National Parks Domestic Animals Regulations

National Historic Parks Wildlife and Domestic Animals Regulations

National Parks Building Regulations

National Parks Lease and Licence of Occupation Regulations

National Parks Water and Sewer Regulations

National Parks Signs Regulations

Interest and Administrative Charges Regulations

National Parks Garbage Regulations

National Parks Business Regulations

Treasury Board policies, guidelines and standards

Policy on Management of Real Property

Directive on Receivables Management

Appraisals and Estimates Standard for Real Property

PCA Policies

Parks Canada User Fees and Revenue Management Policy (Policy on Revenues)

Policy on Accounts Receivable

Interim Policy and operating guidelines for Management of Real Property administered by Parks Canada (Policy on Real Property)

Appendix B. RECOMMENDATIONS PRIORITY RATING SYSTEM

Table 6 : Internal Audit Recommendations Priority Rating System

Priority	Condition
High	Management should initiate immediate action to address the comment.
	1 Major internal control weakness
	2 Major policy or procedure exceptions
	3 Significant risk exposure
	4 Major financial exceptions – loss, misstatement, errors, fraud
	5 Significant law or regulatory violations
	6 Significant potential opportunity – revenue, savings, efficiencies, improvements
Moderate	Management should initiate timely action to address the comment.
	1 Substantial internal control weakness
	2 Substantial policy or procedure exceptions
	3 Substantial risk exposure
	4 Substantial financial exceptions – loss, misstatement, errors, fraud
	5 Substantial law or regulatory violations
	6 Substantial potential opportunity – revenue, savings, efficiencies, improvements
Low	Management should initiate reasonable action to incorporate a plan to address the comment in the normal course of business.
	1 Minor internal control weakness
	2 Minor policy or procedure exceptions
	3 Limited risk exposure
	4 Minor financial exceptions – loss, misstatement, errors, fraud
	5 Minor law or regulatory violations
	6 Limited potential opportunity – revenue, savings, efficiencies, improvements

Appendix C. EXAMPLES OF WEAKNESSES IN THE REVENUE DATA STRUCTURE

Example 1

Material Codes Available in the Revenue Data Structure – Realty Services (Non-Specific)	Types of Realty Documentation Fees in the <i>Canada Gazette</i> (July 9, 2010)
21064 - Realty – Documentation	Assignment of Lease/Licence of Occupation
	Consent to Financing Agreement
	Renewal of Lease/Licence of Occupation
	Surrender of Lease/Licence of Occupation
	New Lease/Licence of Occupation
	Permit for the Supply of Water
	Amending Agreement
	Letter of Undertaking
	Sublease/Sublicence of Occupation
	Easement
	Court Order
	Processing of Death Certificate
	Etc...
21063 - Realty - Services	Research Conducted on Behalf of the Public, per hour (one hour minimum)
	File or Information Search, per hour (one hour minimum)
	Any Other Realty Transaction Certificate or Document

Example 2

Material Codes Available in the Revenue Data Structure - Business Licences (Parks)	Extract from the <i>Canada Gazette</i> for Business Licences (July 9, 2010)	Examples of Material Codes used by Field Units (available in STAR)
21196 – Business Licences-Parks	Alcohol, Sale of	8407 - Liquor Percentage
	Spirits and Wine (% of the gross value purchased annually)	9468 - Wine & Spirit Purchase - 3% of Gross
	Beer Only (% of the gross value purchased annually)	9467 - Beer Purchase - 2% of Gross
	Automatic Machine - Each Business	21196 - Business Licences-Parks
	Contracting (General) by a	
	Resident Contractor	
	Non-resident Contractor	
	General Merchandising – Each Business	
	Grocery Store – Each Store	
	Guiding – Each Guide	
Etc...		

Example 3

Material Codes Available in the Revenue Data Structure for Land Rental	Rents for Canals – Uses (as per the <i>Policy on Real Property</i>)
21118 - Percentage of gross 21119 - Rental - Fixed - GST 21120 - Land release fees 21121 - Revenue from Concessions 21122 - Rental - Fixed – Tax Exempt	Residential and cottage lease or licence of occupation
	Commercial lease or licence of occupation
	Utility lease or licence of occupation (except Bell Canada installations)
	Commercial water lots
	Access lot
	Road right-of-way
	Bell Canada installations
	Pay telephones (at the request of Bell Canada)
	Pay telephones (at the request of Parks Canada Agency for safety or emergency purposes)
	Licence of occupation for swimming raft, dock, mooring buoy or wharf not within the boundaries of a water lot licence
	Licence of occupation for a water ski jump
	Licence of occupation for a boathouse
	Causeway
	Non-profit
	Etc...

Appendix D. GLOSSARY

Fixed Rent: Rent stipulated in the lease or licence of occupation, whose annual amounts are known in advance. These rents are generally payable in two annual payments on fixed dates.

Base Rent: Minimum rent paid on leases or licences of occupation, based on a percentage of the client's gross revenue. The amounts of Base Rent, as with Fixed Rent, are generally known in advance and payable in two annual payments on fixed dates.

Personal and Commercial Benefit Services:

As defined in the *Policy on Revenue*, they primarily include:

- Services and facilities provided onsite to visitors, including the mitigation of related impacts
- Outreach programs that are customized to meet the specific interests of groups and individuals
- Highway and water management services and facilities to the extent that they support visitor use
- Municipal services and facilities that support visitors' use of national parks, and residents' use of national park communities
- Management and administrative that is related to the delivery of the preceding
- Support of businesses for commercial activities (e.g. equipment support and technical assistance for commercial film productions)

STAR: Integrated financial and material system used by the PCA.

National Pricing

The proposed fees for services as well as the fees for rights and privileges normally available in the National Parks, National Historic Sites and National Marine Conservation Areas (NMCA) are established at the national level. The rights that fall under this category for the purposes of this present audit include:

- Rights relating to timber extraction;
- Permits for water supply;
- Rights regarding fishing;
- Business Licences;
- Land Rentals;
- Realty documentation fees;
- Film and photography fees; and
- Multimedia fees.