AUDIT OF KEY FINANCIAL PROCESSES AT

THE INFORMATION MANAGEMENT AND INFORMATION

TECHNOLOGY BRANCH, NATIONAL OFFICE

FINAL REPORT

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EXECUTIVE SUMMARY

Background

Parks Canada Agency (PCA) is conducting a series of cyclical audits of field units, service centres and the national office to review key financial, administrative and management practices. The audits focus on compliance with Treasury Board Secretariat (TBS) and PCA policies and practices. The audit of the Information Management and Information Technology (IM/IT) Branch was conducted as part of this cyclical audit program.

Objectives and Scope

The objectives of this audit were to confirm whether due diligence is being exercised in key management processes and to provide assurance to senior management that processes and controls in place at the IM/IT Branch are adequate to mitigate the risk of non-compliance to TBS and PCA policies and practices.

The scope of this engagement covered the following key financial process areas: Contracting; Use of Acquisition Cards; Expenditures for Travel; and Payments to Suppliers. The period from April 2002 to October 31 2003 was covered in this audit.

Methodology

The audit methodology included a review of relevant background documentation, interviews with National Headquarters personnel and transaction testing in key financial process areas. The audit work was carried out during the period October 29 to November 12, 2003.

Assurance Statement

In our opinion, sufficient audit work has been performed and the necessary evidence has been gathered to support the conclusions contained in this report.

Conclusion

In general, we found that due diligence is being exercised in the management processes at the IM/IT Branch over Travel Expenditures, Payments to Suppliers, and Safeguarding of High Risk Valuable Small Items and that processes and controls in place for these areas are adequate to mitigate the risk of non-compliance to TBS and PCA policies. For Contracting and Use of Acquisition Cards, we found that the due

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diligence exercised in management processes over these areas should be strengthened and that processes and controls in place for contracting and use of acquisition cards are weak in mitigating the risk of non-compliance to TBS and PCA policies.

We have identified opportunities to strengthen processes and controls in each of the key financial process areas examined to further mitigate the risk of non-compliance to TBS and PCA policies. Our recommendations addressed to the Chief Information Officer in the report are as follows.

1. Ensure that all IM/IT staff who are involved in the contracting process are fully familiar with and respect TBS and PCA contracting policies with particular emphasis on the requirements for:

   - sole source justifications;
   - a signed contract prior to the commencement of work;
   - justification of high contractor per diem rates; and
   - avoidance of the perception of contract splitting.

2. Work closely with the Acquisition Card Coordinator to ensure that control over acquisition card usage in the IM/IT Branch is strengthened by having cardholders:

   - sign a written acknowledgement of responsibilities and obligations with respect to the use of acquisition cards; and,
   - receive appropriate training with emphasis on the requirements for:
     - completing acquisition card purchase registers;
     - expenditure limits; and,
     - purchases only by the cardholder.

3. Ensure that training on travel directives and related financial coding requirements is provided to administrative staff involved in account verification and processing travel claims.

4. Ensure that evidence supporting the receipt of goods is attached to the invoice prior to payment and a copy is kept on file.

5. Continue to direct staff to keep all high value items under lock and key particularly during the lunch break, evenings and during periods of absence from work and monitor compliance to these directives.

1. BACKGROUND

Parks Canada Agency (PCA) is conducting a series of cyclical audits of key financial, administrative and management practices for all field units, service centres and the national office.

The Information Management and Information Technology Branch (IM/IT), located at the national office, provides leadership and strategic direction to the Agency in the rapidly evolving domain of informatics. IM/IT is responsible for formulating, establishing, developing and implementing the service delivery framework and the technology architecture required to guide and support the provision of a comprehensive information capability to support the operations of Parks Canada and the individuals served. The IM/IT Branch operates with an annual budget of approximately $ 6.6 million.

The audit of the IM/IT Branch was conducted as part of this cyclical audit program.

2. OBJECTIVES AND SCOPE

The objectives of this audit were to confirm whether due diligence is being exercised in key management processes at the IM/IT Branch and to provide assurance that systems and controls in place are adequate to mitigate the risk of non-compliance to Treasury Board Secretariat (TBS) and PCA policies in the following key financial process areas:

• Contracting;
• Use of Acquisition Cards;
• Expenditures for Travel;
• Payments to Suppliers; and
• Safeguarding of High Risk Valuable Small Items.

The period of audit was April 1, 2002 to October 31, 2003.

3. METHODOLOGY

The methodology included the following activities:

• Interviews with the IM/IT, Administration Support, Finance and Materiel Management and Contracting personnel in PCA and Department of Canadian Heritage (PCH) responsible for the key financial and administration process areas;

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- Review of relevant documentation including Business Plan for the National IM/IT Function, Work Plan for Sustainable IT Infrastructure, PCA Corporate Plan 2003/04 to 2007/08, Organization Charts; Minutes of IM/IT meetings, work descriptions of IM/IT management and Administrative Support Staff, PCA delegated signing authorities, PCA and TBS policies that address the above key financial process areas; and

- Examination of a sample of transactions in each of the key financial process areas.

After the field work was complete, a debriefing of our preliminary observations was provided to the Chief Information Officer.

4.   ASSURANCE STATEMENT

In our opinion, sufficient audit work has been performed and the necessary evidence has been gathered to support the conclusions contained in this report.

5.   CONCLUSION

In general, we found that due diligence is being exercised in the management processes at the IM/IT Branch over Travel Expenditures, Payments to Suppliers, and Safeguarding of High Risk Valuable Small Items and that processes and controls in place for these areas are adequate to mitigate the risk of non-compliance to TBS and PCA policies. For Contracting and Use of Acquisition Cards, we found that the due diligence exercised in management processes over these areas should be strengthened and that processes and controls in place for contracting and use of acquisition cards are weak in mitigating the risk of non-compliance to TBS and PCA policies.

We have identified opportunities to strengthen processes and controls in the key financial process areas examined to further mitigate the risk of non-compliance to TBS and PCA policies. We have outlined below in Section 6 our observations and recommendations to address these areas.

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6.   OBSERVATIONS AND RECOMMENDATIONS

6.1   *Contracting*.

Observations

The IM/IT Branch contracts using a variety of instruments including Call Ups on Standing Offers, Services Contracts, Purchase Orders, and Acquisition Cards (discussed in Section 6.2)

The responsibility for contracting is split among three organizations: PCA, PCH and PWGSC. PCA has the authority to process contracts for services up to $5,000 and procurement of goods up to $25,000. However, individuals exercising goods procurement authority over $5,000 must have taken the requisite procurement training provided by PCH. PCH has the authority to process contracts on PCA's behalf for services and for goods up to $25,000. PWGSC processes contracts for the procurement of goods over $25,000.

Our audit sample comprised 11 contracts: five goods contracts (four of which were done through standing offer call ups), five service contracts (four of which were done on a sole source basis) and one temporary help contract. We selected nine contracts from FY 2002-03 and two contracts from FY 2003-04 as the majority of contracts were in the FY 2002-03 fiscal year. The sample represents expenditures of $1.2 million.

We found that in the review of five goods contracts, there was compliance with contracting policies with the exception that the one sole source contract did not include a justification to explain why only one firm was capable of supplying the goods.

In our review of five service contracts, we found the following instances of non-compliance with contracting policies:

- one competitive service contract was signed after the contract work was completed;
- one sole source service contract was signed eight days after the commencement of work and a subsequent contract amendment to increase the contract value was signed again after the commencement of work;
- documentation for one sole source contract included evidence that could be perceived as contract splitting; and
- one sole source contract lacked sole source justification and a cost rationale on file relating to market rates despite relatively high per diem contractor rates.

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Recommendation

1.   The Chief Information Officer should ensure that all IM/IT staff who are involved in the contracting process are fully familiar with and respect TBS and PCA contracting policies with particular emphasis on the requirements for:

- sole source justifications;
- a signed contract prior to the commencement of work;
- justification of high contractor per diem rates; and
- avoidance of the perception of contract splitting.

6.2   *Use of Acquisition Cards*

Observations

There is an Acquisition Card Coordinator for acquisition cards, in Corporate Finance, who is responsible for authorizing the issuance of acquisition cards and monitoring their use.   PCA cardholders have a limit on goods procurement over $5,000 and up to $25,000 on the condition that they take the required training currently provided by Materiel Management and Contracting Directorate at PCH.

Currently there are three cardholders in the IM/IT Branch.   From our interviews, we found that:

- one cardholder was on authorized leave and their card had not been cancelled and was being used on a regular basis by other IM/IT staff for a period of time;
- there were instances of goods procurement in excess of $5K using an acquisition card where the individual had not received the required training as outlined above;
- the cardholders of the IM/IT Branch had not signed a written acknowledgement of responsibilities and obligations before receiving the acquisition card, which is required by policy; and
- the cardholders have received no training relating to acquisition card use, other than being provided with PCA's Abridged Acquisition Card Policy.

We performed a detailed review of acquisition card purchases for a sample of 10 months for the three cardholders.   We found that acquisition card policies were generally respected during the period of audit with the following exceptions:

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- purchase registers were not being completed and reconciled to Mastercard statements (purchase registers are required by TBS policy and they improve controls over acquisition card purchases and reduce the risk of lost receipts); and,
- purchases were made by individuals other than the cardholder in seven of the months tested (purchases by the cardholder only is also required by TBS policy and reduces the risk of unauthorized and ineligible purchases).

Recommendation

2.   The Chief Information Officer should work closely with the Acquisition Card Coordinator to ensure that control over acquisition card usage in the IM/IT Branch is strengthened by having cardholders:

- sign a written acknowledgement of responsibilities and obligations with respect to the use of acquisition cards; and,

- receive appropriate training with emphasis on the requirements for:
    - completing acquisition card purchase registers;
    - respecting expenditure limits; and,
    - making purchases only by the cardholder.

6.3   *Expenditures for Travel*

Observations

We selected a sample of 11 travel claims of eleven different staff members (four claims from FY 2002/03 and seven travel claims for 2003/04). From our testing, we found two claims contained coding errors (one claim coded the cost of a trip to training and one claim coded hospitality costs incurred to travel). In addition, we found minor discrepancies in some claims between expense category totals and the accompanying receipts. This may have resulted from the fact that claims did not include a completed Record of Travel Expense Form to summarize costs claimed on the Travel Expense Claim. In these cases, receipts were totalled and input into the Travel Expense Claim directly. Completion of the Record of Travel Expense Form would reduce the risk of errors in preparing travel claims, facilitate account verification, approval, and audit of travel.

In our interview with administrative staff responsible for the verification and processing of the travel claims, we learned that training had not been received with respect to the

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travel directive and the related financial coding requirements. This fact increases the risk of errors in the verification and processing of travel claims.

Recommendation

3.   The Chief Information Officer should ensure that training on travel directives and the related financial coding requirements is provided to administrative staff involved in account verification and processing travel claims.

6.4   *Payments to Suppliers*

Observations

We conducted interviews with finance and administration staff and performed testing of 14 payments related to the various contract types that we reviewed including standing offer call ups, purchase orders, and services contracts.   We found that there was compliance with the FAA and account verification policies with the exception that in eight payment files reviewed, although a "Goods Receipt" number was usually written on the invoice, documentary evidence supporting the receipt of goods, eg. receiving slip or shipping document, was not on file. The "Goods Receipt" number is produced by the financial system as a result of input at the account verification stage and may not necessarily be supported by a receiving slip or written receipt acknowledgement. The payment authority function at PCH relies on the Goods Receipt Number as proof of goods receipt.

Recommendation

4.   The Chief Information Officer should ensure that evidence supporting the receipt of goods is attached to the invoice prior to payment and a copy is kept on file.

6.5   *Safeguarding of High Risk Valuable Small Items*

We were informed that over the last 12 months, there have been incidents of theft of small high-value technology based items in the IM/IT Branch. These incidents involved the theft of four palm pilots, two laptops and a cell phone. Staff is advised to keep valuables under lock and key on a periodic basis.

The audit team was advised that the IM/IT Branch is in the process of developing an inventory of hardware and software to better track technology based equipment and software.

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Recommendation

5.   The Chief Information Officer should continue to direct staff to keep all high value items under lock and key particularly during the lunch break, evenings and during periods of absences from work and monitor compliance to these directives.

MANAGEMENT RESPONSE

Contracts

Recommendation:
The Chief Information Officer should ensure that all IM/IT staff who are involved in the contracting process are fully familiar with and respect TBS and PCA contracting policies with particular emphasis on the requirements for:

- sole source justifications;
- a signed contract prior to the commencement of work;
- justification of high contractor per diem rates; and
- avoidance of the perception of contract splitting.

Management Response:

Accepted; As part of the training plan for managers in the IM/IT group the government contracting course is a mandatory action. To rectify the book-keeping deficiencies noted, one finance officer overseas all of the procurement files for the IM/IT section.

The problem of work commencing prior to the contract being signed is often due to the type of work that is involved in the IT sector, where system down-time is unacceptable, and the ineffectively slow procurement process for contracting between PWGSC, PCH and PCA has lead to these problems. The lack of a PCA dedicated unit for contracting continues to be problematic for the IT unit. To rectify this situation the IM/IT group is putting in place standing offer agreements and strategic alliance agreements for the services portion of our IT business to ensure the rapid engagement of contracting personnel is possible.

Acquisition cards
Recommendation:
The Chief Information Officer should work closely with the Acquisition Card Coordinator to ensure that control over acquisition card usage in the IM/IT Branch is strengthened by having cardholders:

- sign a written acknowledgement of responsibilities and obligations with respect to the use of acquisition cards; and,

- receive appropriate training with emphasis on the requirements for:

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- completing acquisition card purchase registers;
- respecting expenditure limits; and,
- making purchases only by the cardholder.

Management Response:

Accepted: As the management of credit card purchases is managed through a centralized management unit in S&P a briefing on the findings of the audit has been undertaken and assurances given that all the above recommendations will be followed.

Travel
Recommendation:
The Chief Information Officer should ensure that training on travel directives and the related financial coding requirements is provided to administrative staff involved in account verification and processing travel claims.

Management Response:

Accepted: The CIO has ensured that travel directives and related financial coding are consistently being followed using all "standard" government forms.

Payment to suppliers
Recommendation:
The Chief Information Officer should ensure that evidence supporting the receipt of goods is attached to the invoice prior to payment and a copy is kept on file.

Management Response:

Accepted: To rectify this problem, one finance officer oversees all procurement file maintenance for the IM/IT section.

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