

**AUDIT OF KEY FINANCIAL PROCESSES
AT THE MINGAN FIELD UNIT**

FINAL REPORT

Prepared by:

PricewaterhouseCoopers LLP

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Report tabled and approved by the A&E Committee

**Her Majesty the Queen in Right of Canada, represented by
the Chief Executive Officer of Parks Canada, 2007**

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TABLE OF CONTENTS

	Page
1. EXECUTIVE SUMMARY	4
Background	4
Objectives and scope	4
Methodology	4
Statement of Assurance	4
Findings	5
Parks Canada Audit Reporting Rating System Summary	5
Recommendations	5
2. BACKGROUND	9
3. OBJECTIVES AND SCOPE	9
4. METHODOLOGY	10
5. ASSURANCE STATEMENT	10
6. FINDINGS	11
7. OBSERVATIONS AND RECOMMENDATIONS	11
7.1 Management Control Framework	11
7.2 Revenues	15
7.3 Contracting	18
7.4 Acquisition cards	20
7.5 Travel expenses	22
7.6 Financial coding	23
7.7 Payments to suppliers	24
7.8 Inventory	27

Report tabled and approved at the A&E Committee meeting on March 26, 2007

1. 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 Mingan Field Unit (MFU) was conducted as part of this cyclical audit program and took place at the Parks Canada field office in Havre-Saint-Pierre, Quebec.

Objectives and scope

The objectives of this audit were to confirm whether due diligence was being exercised in key management processes and to provide assurance to senior management that the processes and controls in place at the MFU were appropriate to ensure compliance with TBS and PCA policies and practices.

The scope of this audit included a review of the management control framework (MCF) for financial management and the following key financial process areas: revenues, contracting, use of acquisition cards, travel expenses, financial coding, and payments to suppliers. The audit covered an eight-month period from January 1, 2006, to August 31, 2006.

Methodology

The audit methodology included a review of relevant background documents, interviews with MFU staff and transaction testing in key financial process areas. An on-site visit of the MFU took place from September 25 to 29, 2006.

Statement of Assurance

Sufficient audit work has been performed and the necessary evidence has been gathered to support the conclusions contained in this report. The observations and recommendations have been made in accordance with the Audit Reporting Rating System used by Parks Canada.

Findings

Overall, we found that the MFU exercises due diligence with regard to managing acquisition cards, travel expenses and financial coding. However, the MFU needs to strengthen its practices and controls with regard to management control, contracting, and payments to suppliers. Major improvements are needed concerning revenues and inventory to ensure proper control.

In addition, we noted some instances in which the procedures were not always carried out in accordance with the policies in place. Accordingly, some processes and controls could be strengthened to improve compliance with TBS and PCA policies.

Parks Canada Audit Reporting Rating System Summary

FINANCIAL PROCESS		RATING
Management Control Framework	Yellow	Moderate Improvements Needed
Revenues	Orange	Significant Improvements Needed
Contracting	Yellow	Moderate Improvements Needed
Acquisition Cards	Blue	Minor Improvements Needed
Travel	Blue	Minor Improvements Needed
Financial Coding	Blue	Minor Improvements Needed
Payments to Suppliers	Yellow	Moderate Improvements Needed
Inventory	Orange	Significant Improvements Needed

Recommendations

The following is a summary of the recommendations made to the Field Unit Superintendent of the Mingan Field Unit.

Management Control Framework

1. The FU Superintendent should ensure that operating results and variance analyses for each section are submitted to the Management Committee and discussed at its quarterly meetings.
2. The FU Superintendent should prepare a document describing the key financial systems used and the policies in effect, and produce a flowchart to illustrate operations.
3. The FU Superintendent should review the specimen signatures for all MFU employees to ensure that the appropriate authorization has been delegated to employees based on their roles and responsibilities. These delegated authorities should be reviewed regularly to ensure that they comply consistently with the Agency’s delegation of authority instrument.

4. The Superintendent should ensure that controls are in place to ensure that the Finances and Administration Manager don't exercise the section 34 authority and the section 33 authority on the same transaction to respect a proper segregation of duties.
5. The FU Superintendent should prepare a disaster recovery plan to ensure the continuity of the field unit's operations in case of disaster.
6. The FU Superintendent should ensure that back-up copies of the data on the computer servers are made regularly and that the copies are stored securely off-site to protect the data from potential damage.

Revenues

7. The FU Superintendent should include a component on finance and administration in the three-week training course given to reception centre employees at the beginning of each season.
8. The FU Superintendent should ensure that the daily sales report generated by GestiPro are reconciled with the cash receipts (debit / credit / cash) on a daily basis.
9. The FU Superintendent should ensure that bank deposits and entries in the SAP¹ financial system are made on a weekly basis.
10. The FU Superintendent should ensure that the combination for the reception centre safes are changed at least once every season.
11. The FU Superintendent should ensure that access to the office safe is limited to individuals who need access for their work and that the combination of the safe is changed at least annually to minimize the risk of misappropriation.
12. The FU Superintendent should ensure that deposits of cash receipts collected from service fees are not be performed by the CSR responsible for the collection of cash envelopes from the reception centres. Appropriate segregation of duties should exist between the collection, reconciliation and deposit of cash.

Contracting

13. The FU Superintendent should staff the vacant contracts officer position in order to oversee the responsibilities of the contracting process.
14. The FU Superintendent ensure that the following conditions have been met before awarding a contract to a supplier:

¹ The names SAP and STAR are used equally in this report to designate the financial system.

- funds needed to fulfil the contract have been committed in SAP;
- the contract and amendments have been signed by both parties before the work begins;
- a statement of work and schedule has been placed in the file;
- the contractor's GST registration number has been recorded on each contract, where applicable.

Acquisition Cards

15. The FU Superintendent should ensure that a complete and regular analysis of the credit limit assigned to each acquisition card is performed, based on the cardholders' responsibilities at the MFU.
16. The FU Superintendent should ensure that cardholders understand the best practices with regard to acquisition cards and that explanatory documents are included in the cardholders' files.
17. The FU Superintendent should ensure that controls are in place to identify irregularities in purchases made with acquisition cards. As a result, non-eligible purchases can be identified and investigated before they are paid.

Travel expenses

18. The FU Superintendent should consider committing the funds for recurring travel expenses in the SAP financial system. Consequently, managers could monitor their travel budget more effectively.
19. The FU Superintendent should ensure that all travel is pre-authorized by the proper authority, as set out in section 34 of the FAA and the PCA travel policy.

Financial Coding

20. The FU Superintendent should ensure that the accuracy of financial coding is verified prior to making annual commitments at the beginning of the fiscal year. This practice will ensure that errors are not carried forward from one fiscal year to another.
21. The FU Superintendent should ensure that general ledger coding for transactions affecting key financial processes is determined by Finance and Administration rather than the operational sectors to ensure consistency in financial coding.

Payments to suppliers

22. The FU Superintendent should delegate the responsibility for receiving all goods to a specific storekeeper within the MFU and to one replacement, when the storekeeper is not available.
23. The FU Superintendent should ensure that the receipt slips generated by SAP for goods or services are signed by the proper authority under section 34 of the FAA.
24. The FU Superintendent should ensure that Finance and Administration checks to ensure that the GST registration number appears on the supplier invoice prior to payment.
25. The FU Superintendent should ensure that the supporting documents for expenses incurred by the Quebec Service Centre are provided to the MFU once the project is completed, with the appropriate section 34 certification by the Quebec Service Centre project manager.

Inventory

26. As a best practice, the MFU should consider performing a physical inventory count and updating its inventory lists, in order to input accurate information in the system once it is implemented.

2. BACKGROUND

Parks Canada Agency (PCA) is currently conducting cyclical audits of key financial, administrative and management practices for all field units, service centres and the National Office.

There are thirty-two field units and four service centres in the PCA. Field Units are groupings of national parks, national historical sites and national marine conservation areas that are usually located close to one another. Their proximity allows them to share management and administration resources. The service centres support the organization in a variety of professional and technical disciplines. The service centre directors and field unit superintendents are responsible for ensuring compliance with the policies, directives and guidelines issued by the TBS and PCA.

As part of this cyclical audit program, the Mingan Field Unit audit was conducted by PricewaterhouseCoopers LLP in Havre-Saint-Pierre, Quebec.

3. 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 MFU are adequate to mitigate the risk of non-compliance to TBS and PCA policies and practices. For this audit, detailed audit programs developed by Parks Canada were used for the review of the financial process areas.

The audit included a review of the management control framework (MCF) and the following key financial process areas:

- revenues;
- contracting;
- acquisition cards;
- travel expenses;
- financial coding;
- payments to suppliers; and
- inventory.

The scope of the audit covered the processes in place and operations carried out between January 1, 2006, and August 31, 2006.

4. METHODOLOGY

The methodology included a site visit to the MFU and the following activities:

- Interviews with MFU management and staff responsible for the key financial process areas;
- A review of relevant documents, including the organization chart, PCA Delegated Signing Authorities Chart, policies on audited key process areas, and various financial reports; and
- A review of a sample of transactions in each of the key financial process areas, except inventory.

After the work was completed on site, we reported our preliminary observations to the Field Unit Superintendent and to the Manager, Finance and Administration.

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

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

5. ASSURANCE STATEMENT

The audit work performed and the supporting documents gathered are sufficient to support the findings contained in this report.

6. FINDINGS

Overall, we found that the MFU exercised due diligence in its management of acquisition cards, travel expenses, and financial coding. However, the MFU needs to strengthen its practices and controls with respect to management control, contracting and payments to suppliers. Moreover, practices relating to revenues and inventory need significant improvement to ensure proper control.

In addition, we noted that some procedures were not always carried out in accordance with the policies in effect. Consequently, some processes and controls should be strengthened to improve compliance with TBS and PCA policies.

A summary of the observations and recommendations submitted to the MFU is provided in Section 7.

7. OBSERVATIONS AND RECOMMENDATIONS

7.1 Management Control Framework

YELLOW	Moderate Improvements Needed	Some controls are in place and functioning. However, major issues were noted and need to be addressed. These issues could impact on the achievement or not of program/operational objectives.
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(i) Observations

Roles and Responsibilities

Roles and responsibilities were defined and a recent organizational chart of the MFU exists. Discussions held with management confirm that actions were taken to ensure that staff members have received adequate training to complete their assigned tasks. All of the individuals who have been delegated section 34 spending authority at the MFU have completed the course entitled “Finance and Administration 101.” General job descriptions have been prepared for each position at the MFU, except for that of the general clerk, Technical Services, who handles information technology and purchasing.

The Manager of Finance and Administration forwards relevant communications to the MFU staff when the Quebec City Service Centre amends the PCA or TBS policies.

Finance and Administration Function

The Manager of Finance and Administration has been working at the MFU since May 2006 and has several years of experience with various PCA field units throughout Quebec and experience at the Quebec City Service Centre. The two accounting assistants have been working at the MFU for more than five years.

Management Committee Meetings

The Management Committee consists of managers from each sector of the MFU. The Committee normally meets at least once a month to discuss matters such as operational performance, budgeting, corporate plans, priorities and key risks. Minutes of these meetings are prepared and made available to the staff.

There is no risk management framework in place at the MFU; however, the corporate plan does include key issues and related mitigation strategies. The corporate plan for the MFU, which was initially prepared in 2003, is updated on an annual basis to reflect all changes made to the operational environment, known to management.

The budget is developed at the same time as the corporate plan, on an annual basis. The Management Committee and the Field Unit Superintendent discuss priorities for the upcoming fiscal year, and the items raised were considered during the preparation of the budget.

Financial Reporting

Finance and Administration provided managers with a budget of actual expenditures based on data contained in the SAP financial system; however, no document exists to explain the variances that are sent regularly to the Finance and Administration section. No reports were prepared to analyze the financial performance of the MFU on a regular basis. Variance and analysis reports improve control of financial performance and are part of the planning phase. As the budget becomes the established standard, it is important to compare performance against this standard and justify variances to improve control.

Documentation of Key Financial Processes

A map of financial systems used (i.e. SAP, GestiPro, Microsoft Access inventory database, etc.) to authorize, record, track and report on the use of resources does not exist. Policies and procedures concerning the key financial processes at the MFU have not been documented, and neither has a flowchart describing each process, except for one relating to the contracting process. Documenting the key processes and mapping out the financial systems would mitigate the impact of staff turnover.

Delegation of section 34 authority

In many cases, the authority levels assigned to employees and documented on their specimen signature card did not comply with the most recent PCA Delegation of Authority table. Audited purchase transactions also revealed that some MFU managers were authorizing expenses under section 34 for cost centres that were not under their responsibility.

Segregation of duties

The Manager of Finance and Administration has section 34 FAA spending authority for the Finance and Administration Section. He is the only individual with section 33 payment authority for all MFU sectors. One person should not have both spending and payment authority under sections 33 and 34, as this increases the risk of incorrect use of the MFU's budget.

The Field Unit segregated the duties of recording of expenditures and reconciliation. However, a review of the revenue process revealed that the individual responsible for receiving money was also responsible for depositing and reconciling the funds received. This lack of segregation of duties is discussed further in Section 7.2, below.

Sustainability of operations and security of assets

The MFU's office in Havre-Saint-Pierre has a modern security system which requires the use of a key and a security code to open the office in the morning and before and after business hours. Each employee has an individual security code in order to monitor staff entry and exit outside of business hours. During office hours, a security pass is needed to enter or exit by the back door of the building, and a receptionist is present in the main lobby.

The MFU does not have an established and documented disaster recovery plan or a contingency plan in case of an incident such as a fire. A disaster recovery plan would enable operations at the MFU to re-start as quickly as possible.

Data on the computer servers are backed-up monthly. However, the back-up tapes are kept in the same room as the servers, which does not protect the data should this room be damaged.

(ii) Recommendations

1. The FU Superintendent should ensure that operating results and variance analyses for each section are submitted to the Management Committee and discussed at its quarterly meetings.

Management response

We agree: Operating results and variance analyses will be submitted to the Management Committee from September to March each financial year. Managers will receive training to improve planning.

2. The FU Superintendent should prepare a document describing the key financial systems used and the policies in effect, and produce a flowchart to illustrate operations.

Management response

We agree: Given that Finance and Administration is currently being restructured, the Manager and staff members will create a reference document for all accounting operations by referring to the Parks Canada Intranet. This document will cover the financial policies and systems used. We will complete this document by April 1, 2008.

3. The FU Superintendent should review the specimen signatures for all MFU employees to ensure that the appropriate authorization has been delegated to employees based on their roles and responsibilities. These delegated authorities should be reviewed regularly to ensure that they comply consistently with the Agency's delegation of authority instrument.

Management response

We agree: Work is underway and should be completed by March 31, 2007.

4. The Superintendent should ensure that controls are in place to ensure that the Finances and Administration Manager don't exercise the section 34 authority and the section 33 authority on the same transaction to respect a proper segregation of duties.

Management response

With reservations: We recognize the risk that the current situation poses. Sufficient controls exist to ensure that the Manager of Finance and Administration does not exercise section 33 and 34 (FAA) authority for the same transaction.

5. The FU Superintendent should prepare a disaster recovery plan to ensure the continuity of the field unit's operations in case of disaster.

Management response

We agree: We recognize the importance of having an official DRP, and we will develop this plan during 2007-08.

6. The FU Superintendent should ensure that back-up copies of the data on the computer servers are made regularly and that the copies are stored securely off-site to protect the data from potential damage.

Management response

We agree: A secure area will be fitted up at 1049 de l’Escale, where server back-up copies will be stored regularly.

7.2 Revenues

ORANGE	Significant Improvements Needed	Controls in place are weak. Several major issues were noted that could jeopardize the accomplishment of program/operational objectives. Immediate management actions need to be taken to address the control deficiencies noted.
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(i) Observations

Revenues earned from services charged to visitors and staff total approximately \$80,000 per year. Approximately 75% of revenues are earned from service fees collected by the two reception centres and boat operators, and the other 25% are earned from staff accommodation revenues. This excludes revenues from the reimbursement of costs by other government departments.

The reception centres are located in Longue-Pointe-de-Mingan and in Havre-Saint-Pierre in separate buildings from the MFU offices. The reception centres are open from June to September every fiscal year. Most service fee revenues are earned during this period.

Service fees

The service fees collected are mostly admission, camping and mooring fees paid by visitors for support services and the use of facilities. Admission fees are collected by the reception centres and boat operators in the Mingan Archipelago. Visitors pay camping and mooring fees at the MFU reception centres. The Parks Canada Campground Reservation Service is not used for booking campsites at the Mingan Archipelago.

The PCA grants renewable multi-year contracts to selected boat operators in the Mingan Archipelago, and a business licence is provided for a fee. In total, eight boat operators had a contract with the PCA for the 2006 season. At the beginning of each season, each boat operator receives numbered tickets and a list of admission fees to be collected from visitors. At the end of the season, operators return any unsold tickets and remit the amount due based the number of tickets sold by price category. The MFU reviews the documents submitted by the boat operators to ensure that it is adequate and that the total admission fees collected for the season is accurate.

The software used to manage the service fees collected is called “GestiPro,” an off-the-shelf software application developed specifically for the management of campgrounds and other similar operations. This software is used independently and is not connected to the SAP financial system, cash register, debit/credit card terminal or any other system. PCA

staff members working at the two reception centres are usually seasonal employees who receive at least three weeks training at the outset of the season, but no training is offered on revenue collection and reconciliation.

Payment of service fees by visitors at the two reception centres can be made by either debit, credit (Visa, MasterCard and American Express) or cash. Personal cheques are not accepted as payment of service fees. When visitors obtain a camping permit, the reception centre employees give them the yellow copy of the permit and keep the white copy at the reception centre. Visitors confirm their departure from the Mingan Archipelago Park by returning the yellow copy to the reception centre.

Each reception centre prints out a daily sales report generated by the GestiPro system at the end of the day. The reception centre staff members have been instructed to leave a pre-determined amount in the float; the balance is to be placed in an envelope with the debit and credit card receipts. The daily sales report is stapled to the envelope, and the envelope is placed in the safe at one of the two reception centres. The reception centres are not reconciling daily sales reports with the cash receipts at the end of each business day. At the time of the audit, the safe combination codes had not been changed in more than a year.

A Customer Service Representative (CSR) from the Client Services Section collects the envelopes approximately twice a week. The CSR reconciles the cash receipts from the reception centres, including debit and credit card receipts, with the GestiPro daily sales report on a weekly basis. The representative investigates any discrepancies.

Service fees paid by either debit or credit card during the season are automatically deposited into a bank account at the CIBC Branch in Havre-Saint-Pierre. Cash payments, which represented approximately 20% of the revenues from the reception centres, are kept in the MFU safe until the end of the season, in September.

The client services representative responsible for collecting the envelopes from the reception centres and reconciling the daily sales report with cash receipts is also responsible for depositing the cash collected in the CIBC bank account. The accounting assistant records the cash receipt journal entries in SAP at the end of the season, based on the GestiPro reconciliations prepared by the client services representative and the deposit slips.

Staff rental income

The lease of PCA-owned homes in Havre-Saint-Pierre to staff members generates rental income. In September 2006, a total of five houses owned by the PCA were available for staff housing. The rates charged to PCA staff members were based on the rental rates established by Canada Mortgage and Housing Corporation (CMHC) evaluations, which were revised downward using a Public Works and Government Service Canada (PWGSC) living accommodation calculation sheet for the square footage leased to staff members.

Rental charges are deducted directly from the employees' pay and posted to a profit centre in SAP. The rental rates calculated were approved by the Manager of Finance and Administration.

(ii) Recommendations

7. The FU Superintendent should include a component on finance and administration in the three-week training course given to reception centre employees at the beginning of each season.

Management response

We agree: This training will cover the entire revenue-related process. The Manager of Finance and Administration, in cooperation with the A/Manager of Client Services will ensure that everyone understands the processes and their related roles.

8. The FU Superintendent should ensure that the daily sales report generated by GestiPro are reconciled with the cash receipts (debit / credit / cash) on a daily basis.

Management response

We agree: Finance has created a form to enable reception staff to reconcile the sales reports and cash receipts.

9. The FU Superintendent should ensure that bank deposits and entries in the SAP financial system are made on a weekly basis.

Management response

We agree: The Administrative Assistant and Supervisor will perform this work. One half day per week will be reserved exclusively for these tasks.

10. The FU Superintendent should ensure that the combination for the reception centre safes are changed at least once every season.

Management response

We agree: We understand the importance of this recommendation.

11. The FU Superintendent should ensure that access to the office safe is limited to individuals who need access for their work and that the combination of the safe is changed at least annually to minimize the risk of misappropriation.

Management response

We agree: The Manager of Finance and Administration will change the combination. Two employees will be given the combination: the reception Supervisor and the Administrative Assistant. This change will be made annually.

12. The FU Superintendent should ensure that deposits of cash receipts collected from service fees are not be performed by the CSR responsible for the collection of cash envelopes from the reception centres. Appropriate segregation of duties should exist between the collection, reconciliation and deposit of cash.

Management response

We agree: The reception Supervisor will collect the sealed envelopes. The Administrative Assistant and Supervisor will make the deposits and related entries. The Accounting Assistant will reconcile the accounts.

7.3 Contracting

YELLOW	Moderate Improvements Needed	Some controls are in place and functioning. However, major issues were noted and need to be addressed. These issues could impact on the achievement or not of program/operational objectives.
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(i) Observations

The contracting process has been mapped out, however, policies or procedures have not been implemented and documented for contracting practices. During the audit fieldwork, 15 contracts issued from January 2006 to August 2006 were reviewed. Contracts and additional supporting documents, such as statements of work, justification for sole-source contracting and evidence on file for competitive contracts were filed in separate folders. Contracts issued during the period under review were either sole-source contracts or contracts further to a competitive process in which bids were obtained.

The project manager is responsible for preparing justifications to be included in the contract files where the MFU did not go to tender. The Project Manager is also responsible for preparing the work plan to outline the specifications for services to be provided by the contractor. The contracts issued were prepared by the accounting assistant in the Finance and Administration section.

The main issue surrounding the contracting process is the inconsistency of procedures. The manager of each section is responsible for preparing and managing their own contracts, however, there is no contract coordinator to oversee the contracting process and ensure that each contract issued complies with TBS and PCA policies. It was noted that the MFU was considering adding a contracts officer to monitor the contracts issued. This individual would be responsible for determining the type of contracting vehicle that should be used for each purchase and for reviewing all contracts prior to issuance in order to ensure compliance with TBS and PCA policies. The contracts officer would also ensure that contract files contain all required supporting documentation.

The value of contracts is systematically calculated with the GST, however, none of the contracts reviewed had a GST registration number recorded in the terms and conditions. Suppliers with a contract of more than \$30,000 must provide a GST registration number as set out in section 240(1) of the *Excise Tax Act*. Where contracts under \$30,000 are issued, the employee acting as the contracts officer should ask the supplier if it has a GST registration number. This would ensure that all GST paid to a supplier is remitted to the government at all times.

The following are additional observations about the contracts examined:

- There was no statement of work or definition of requirements for two contracts issued;
- Six of the contracts reviewed did not have section 32 approval, which is required to guarantee that funding is available in the budget;
- Contract amendments were not signed by the contractor in three cases;
- In one case, a total of four payments were issued to pay for services performed by a contractor, however, there were only three invoices in the contract file;
- As discussed in the section on Management Control Framework, some contracts had section 34 approval by MFU staff who did not have had this authority, based on the Delegation of Authority Instrument.

(ii) Recommendations

13. The FU Superintendent should staff the vacant contracts officer position in order to oversee the responsibilities of the contracting process.

Management response

With reservations: The Contracts Officer position will not be filled at the Mingan Field Unit. The administrative and financial duties have been reorganized, and the Field Unit's services share resources. The Manager of Finance and Administration will develop a supervisory role with regard to the entire contracting process. Official implementation is expected on April 1, 2007.

14. The FU Superintendent should ensure that the following conditions have been met prior to awarding a contract to a supplier:
- the funds needed for the contract have been committed in SAP;
 - the contracts and amendments have been signed by both parties before the work begins;
 - the file contains a statement of work and schedule;
 - the contractor's GST registration number has been recorded on each contract, where applicable.

Management response

We agree: We understand the importance of this recommendation.

7.4 Acquisition cards

BLUE	Minor Improvements Needed	Many of the controls are functioning as intended. However, some minor changes are necessary to make the control environment more effective and efficient.
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(i) Observations

As of September 2006, there were seventeen active acquisition cards with credit limits ranging from \$500 to \$10,000. We noted that credit limits are not periodically reviewed by MFU management.

Managers are responsible for determining whether an employee within their section requires an acquisition card, based on their roles and responsibilities. When the need for an acquisition card has been identified, the manager fills out an application, which is signed by the manager and the employee. The manager is also responsible for determining the transaction limit, the daily limit and the credit limit that the employee should be given. The acquisition card coordinator (the "coordinator") submits the completed application to the Bank of Montreal to initiate the credit card process. Upon receipt of the card, the cardholder, the cardholder's manager and the acquisition card coordinator sign the declaration of responsibilities and obligations.

The signed declaration and other relevant information are kept in a binder by Finance and Administration. One of the signed declarations examined in the binder contained the incorrect MasterCard number.

When an acquisition card is cancelled, the manager of the employee's section advises the coordinator by e-mail. The coordinator accesses the Bank of Montreal Web site and cancels the card online. The coordinator and the Manager of Finance and Administration are the only employees who have access to the online credit card management site.

Acquisition card expense claims are made on a monthly basis and are based on the Bank of Montreal MasterCard statements. The statements are sent directly to the cardholder and the cardholder is responsible for providing all of the supporting documents, obtaining section 34 approvals and providing the final expense claim to the Finance and Administration section. A review of acquisition card expense claims showed that supporting documents were adequate.

In only one case, fuel was purchased for a vehicle with the acquisition card, which contravenes the acquisition card policy. In another instance, an acquisition card expense claim contained interest charges due to a late payment.

(ii) Recommendations

15. The FU Superintendent should ensure that a complete and regular analysis of the credit limit assigned to each acquisition card is performed, based on the cardholders' responsibilities at the MFU.

Management response

We agree: One individual will be made responsible for this process.

16. The FU Superintendent should ensure that cardholders understand the best practices with regard to acquisition cards and that explanatory documents are included in the cardholders' files.

Management response

We agree: A training session will be planned for all of the cardholders. New cardholders receive a form that explains best practices; they sign the form attesting to their understanding of the document. The Accounting Assistant will oversee this process.

17. The FU Superintendent should ensure that controls are in place to identify irregularities in purchases made with acquisition cards. As a result, non-eligible purchases can be identified and investigated before they are paid.

Management response

We agree: The accounts will be reviewed and non-eligible purchases will be identified. This control measure, performed by the Accounting Assistant, will also be used to identify equipment that requires an inventory number.

7.5 Travel expenses

BLUE	Minor Improvements Needed	Many of the controls are functioning as intended. However, some minor changes are necessary to make the control environment more effective and efficient.
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(i) Observations

There are no documented processes and procedures for travel claims. An accounting assistant in the Finance and Administration section is responsible for reviewing all travel expense claim prior to processing and is the sole resource for any questions involving the travel expense claims process. Changes made to travel policies, such as a change in TBS rates, are communicated to the MFU employees by e-mail. Twelve American Express cards (“AMEX”) have been issued to MFU employees. Travel advances have been provided in the past where an employee did not have an AMEX card for travel purposes.

Applications for new cards are submitted to the Quebec City Service Centre AMEX service coordinator. Once approved, the credit card is sent directly to the employee’s residence.

The MFU incorporates overall travel expenses into its budget without any detailed plans for these expenses. The MFU will prepare a detailed forecast of expenses for the first time in the 2007-08 budget, (anticipated expenses such as out-of-town training and recurring annual meetings).

A review of travel claims showed that the supporting documents were appropriate and generally complied with TBS and PCA policies. Each of the expense claims reviewed contained travel authorization and advance forms, signed by the employee and the section manager. In most cases, the travel expense claims reviewed were signed by the employee and by the appropriate manager, the TBS rates used were accurate, and the appropriate original documents were attached to the claims. The accounting assistant reviews the travel expense claims upon receipt.

The audit showed that:

- two plane tickets were not purchased using Government Travel Services (GTS); and,
- original boarding passes for flights were not included with most travel expense claims examined; this documents is deemed to be appropriate to confirm the type of flight taken by the employee.

The Field Unit Superintendent is the only individual with a “Blanket Travel Authority and Advance” for the 2006-07 fiscal year. This blanket authority allowed the Field Unit Superintendent to complete routine trips required for business purposes in the Quebec Region and to the PCA Headquarters. However, it was noted that no authorization form

was obtained for a conference the Field Unit Superintendent and the MFU managers attended. This activity was not covered under the blanket authority.

(ii) Recommendations

- 18. The FU Superintendent should consider committing the funds for recurring travel expenses in the SAP financial system. Consequently, managers could monitor their travel budget more effectively.

Management response

We agree: Although travel for the Mingan Field Unit generates a minimum of \$200 in expenses, and we aim to approve the arrangements for each travel requirement, we will establish a process enabling us to commit the funds for recurring expenses (yearly commitment).

- 19. The FU Superintendent should ensure that all travel is pre-authorized by the proper authority, as set out in section 34 of the FAA and the PCA travel policy.

Management response

We agree: We understand the importance of this recommendation. Training will be given to all employees of the Mingan Field Unit.

7.6 Financial coding

BLUE	Minor Improvements Needed	Many of the controls are functioning as intended. However, some minor changes are necessary to make the control environment more effective and efficient.
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(i) Observations

Financial coding is the responsibility of section managers and their staff. Managers have been provided with the chart of accounts to help them determine how to code the various expenses incurred within their section. The Finance and Administration section reviews the general ledger coding prior to payment to ensure the accuracy of financial coding prior to input into SAP.

The financial coding process is adequate, however, some exceptions were noted, as follows:

- The general ledger coding was included on two spending authority memorandums provided to the Quebec Service Centre, which is explained further in Section 7.7.

As a result, the expenses incurred for special projects were incorrectly coded as miscellaneous expenses by the Quebec Service Centre;

- The financial coding for an annual commitment for fuel purchases was incorrect. The error occurred because the MFU assumed that the prior fiscal year commitment information continued to be valid for the current year;
- The activity code was not included in the documents reviewed for one of the samples reviewed; and
- In three cases, the general ledger coding was incorrect, however, the impact was minor (e.g. reclassification between general ledger accounts).

(ii) Recommendations

20. The FU Superintendent should ensure that the accuracy of financial coding is verified prior to making annual commitments at the beginning of the fiscal year. This practice will ensure that errors are not carried forward from one fiscal year to another.

Management response

We agree: Implemented immediately.

21. The FU Superintendent should ensure that general ledger coding for transactions affecting key financial processes is determined by Finance and Administration rather than the operational sectors to ensure consistency in financial coding.

Management response

We agree: Because the Mingan Field Unit shares its administrative and financial resources with other services, the Manager of Finance and Administration will train the section clerks and use sampling to ensure proper general ledger coding.

7.7 Payments to suppliers

YELLOW	Moderate Improvements Needed	Some controls are in place and functioning; however, several major issues were noted that could jeopardize the accomplishment of program/operational objectives.
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(i) Observations

No policies or procedures have been developed and documented for the suppliers’ payment process. Training was given to employees by experienced staff. Starting in September 2006, Finance and Administration intends to provide each section manager with quarterly financial reports containing an analysis of budgeted expenses and actual

expenses for all cost centres, and outstanding financial commitments and accounts payable listings.

The project manager is responsible for preparing requisitions for goods and services. Local Purchase Order Authorizations (LPOAs) are not used for the purchase of goods. Services under \$5,000 are obtained through a contract or purchase order, and goods are acquired by purchase order.

Supplier invoices are sent to the MFU office where they are date-stamped and forwarded to the respective manager for section 34 approvals and financial coding. An accounting assistant is responsible to ensure that supporting documents are matched with invoices received from suppliers and that the invoices has been signed by an authorized employee. The Manager of Finance and Administration has section 33 authority and releases payments electronically on a daily basis. Where as verifications are completed by an accounting assistant in accordance with the policies on account verification and sampling.

No one in particular at the MFU has been made responsible for ensuring that goods have been received and services have been performed prior to payment of suppliers' invoices. After goods have been received, a receipt slip generated by SAP is included with the supplier invoice.

The following statement is printed at the bottom of the receipt slip: "Certified under section 34 of the *Financial Administration Act*." The current practice is to have the employee who received the goods, such as the storekeeper, sign the section 34 approval on the receipt slip. Accounting assistants are responsible for signing the receipt slip when they are informed by the section manager that the invoice is payable. However, in most cases, the employee who signs the receipt slip should not sign the section 34 approval, because that person does not have the delegated authority, pursuant to TBS and PCA policies.

A review of payments to suppliers revealed that the supporting documents attached to supplier payments were generally adequate and included the necessary documents to validate the transaction and its accuracy, such as purchase requisitions, receipt slips, invoices and contracts. There were no late payments identified in the sample tested during the audit fieldwork.

However, the following exceptions were noted:

- Invoices were approved by individuals who did not have the appropriate section 34 authority for the expense incurred;
- In one case, payment was made to a supplier for services performed in relation to a conference; however, the supporting documents provided did not include the correct authorization form approved by PCA management for the expenses incurred;

- Two payments were made to suppliers where no funds had been committed. In one case, the purchase order was completed after the supplier's invoice was received, and in the other case, the contract was finalized after receiving the invoice;
- One supplier invoice payment was made against a commitment made with another supplier; and
- In one case, the amount of GST was manually added to the total amount of a supplier invoice. Section 223 of the *Excise Tax Act* stipulates that the GST needs to be identified on supplier invoices by an amount, a rate or a statement indicating that the tax payable is included in the price. If none of these identifiers are included in a supplier invoice, the MFU should not pay the GST to the supplier.

It was also noted that two transactions selected for review related to special projects completed by staff at the Quebec Service Centre. Where a special project requirement exists, such as upgrading a fixed asset, the cost centre manager should complete a spending authority memorandum addressed to the Service Centre project manager. This memorandum allows the Quebec Service Centre project manager to incur expenses against a MFU cost centre to complete the transaction. The memorandum states that all supporting documents are to be submitted to the MFU and invoices are to contain section 34 approval by the Quebec Service Centre project manager. However, this is not currently being practiced. Supporting documents for expenses incurred are kept at the Quebec Service Centre and are not reviewed by the MFU section manager. The section managers need to review supporting documents for expenses incurred for special projects that affect their cost centres and determine whether funds spent by the Quebec Service Centre are in line with expectations.

(ii) Recommendations

22. The FU Superintendent should delegate the responsibility for receiving all goods to a specific storekeeper within the MFU and to one replacement, when the storekeeper is not available.

Management response

We agree: Each of the section clerks who make purchases will be responsible for receiving goods. In their absence, a replacement clerk from another section will handle receiving.

23. The FU Superintendent should ensure that the receipt slips generated by SAP for goods or services are signed by the proper authority under section 34 of the FAA.

Management response

We agree: The Mingan Field Unit has chosen not to sign the STAR generated slip. The Manager's section-34 FAA signature will appear on the invoice.

24. The FU Superintendent should ensure that Finance and Administration checks to ensure that the GST registration number appears on the supplier invoice prior to payment.

Management response

We agree: Implemented immediately.

25. The FU Superintendent should ensure that the supporting documents for expenses incurred by the Quebec Service Centre are provided to the MFU once the project is completed, with the appropriate section 34 certification by the Quebec Service Centre project manager.

Management response

We agree: A note was sent to the Quebec City Service Centre to ensure their cooperation in this matter.

7.8 Inventory

ORANGE	Significant Improvements Needed	Controls in place are weak. Several major issues were noted that could jeopardize the accomplishment of program/operational objectives. Immediate management actions need to be taken to address the control deficiencies noted.
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(i) Observations

We noted that the most recent detailed inventory update and physical inventory count was completed in 2004. No inventory items have been removed from the inventory listing further to the sale, breakage, loss or theft of items since that time, and only new inventory purchases have been added. Managers are responsible for the inventory in their section.

Inventory data is stored in a Microsoft Access database and is updated by an accounting assistant. Accounting assistants and the manager of each section are responsible for identifying all purchases that should be added to the MFU inventory. In September 2006, the detailed inventory list totalled \$285,000, excluding fixed assets. The database is not linked to other financial systems at the MFU.

Where it is determined that a purchase should be added to the inventory, a material management information form is completed by the section that purchased the item and is signed by the manager of the section. The information is then entered in the database by the accounting assistant. The information for each inventory item in the database includes: identification number, description, model number, serial number, make and cost. At the time of the audit, we noted that the database had not been updated since early in the 2006–07 fiscal year.

Assets in the PCA-owned houses in Havre-Saint-Pierre (e.g., appliances) are not part of the inventory. The MFU does not inspect the premises to ensure that assets held in the houses are still there when tenants change.

Promotional items sold at the service centres are stored at the end of the season in an easily-accessible warehouse at the MFU. Physical counts of promotional items are completed on an annual basis at the end of the fiscal year and are documented in Microsoft Excel. This list is used to determine the goods to be ordered for the upcoming season.

Small inventory items valued at less than \$1,000, such as digital cameras, binoculars, GPS units and USB keys are not inventoried. A large number of these items are held in a locked cabinet, and a reservation binder is used to sign them out. However, most of the employees know where the key to the cabinet is kept. A reservation binder also exists for camping supplies; however, the binder does not contain a column to identify the reason for use. Consequently, it cannot be determined whether the employees are signing out the equipment for personal use. The PCA National Office will develop a new inventory system to track low-value items. This system will be in place by April 2007.

The purchase of computer hardware is recorded in the inventory by the Technical Services section. When computer hardware is purchased, a PCA identification number is placed on each item. A user list identifying the name of the user of each item in the inventory is updated regularly. Computer hardware that is not in use by employees is kept in a locked room at the MFU office, and access is limited to only two individuals within the Technical Services section.

Fuel reserves are kept in tanks located at the Havre-Saint-Pierre port. PCA staff and boat operators have access to these fuel reserves. The number of litres withdrawn from the fuel tanks is recorded in log books. Fuel is supplied by Ultramar approximately every two days during the busy months or whenever fuel reserves are low.

Firearms held at the MFU are strictly controlled. Only one employee in the Resource Conservation section is responsible for firearms and ammunition. Access to the locked room in which the equipment is held is limited to this employee and his or her manager. Firearms are locked in one cabinet and ammunition in another, for safety.

MFU assets that exceed \$10,000 consist mainly of vehicles and other heavy equipment. The "Parks Canada Agency Policy on Accounting for Capital Assets" guide provides guidelines on the depreciation rates to use and explains the differences between a capital expense and a repair and maintenance expense. All capital assets over \$10,000 are entered in the SAP accounting system under the same identification number.

At the end of the on-site work, the auditors were informed that the Finance sector at the National Office was leading a working group to develop and implement a national user-

friendly system for low-value high-risk items, using the SAP integrated finance and materiel system. This inventory system will be operational by April 1, 2007. The field units will be required to enter only new acquisitions made after April 1, 2007. Entering current inventory is not expected to be made a mandatory exercise.

(ii) Recommendation

26. As a best practice, the MFU should consider performing a physical inventory count to update its inventory lists so that the information it records in the system, once implemented, is accurate.

Management response

We agree: Procedures have been implemented to verify current inventory and to ensure that there are no discrepancies (stolen, lost, etc.) in the Mingan Field Unit. The MFU will follow official procedures where discrepancies are identified. We hope to complete this exercise by December 2007.

The Field Unit will establish its process and ensure that National Office inventory procedures are followed by April 1, 2007